GREEN economy

Briefing Paper

Poverty Reduction

Overview

Continuing with business-as-usual is not an option in a world of increasing environmental scarcities, growing economic uncertainty and inequalities, and the continued existence of widespread poverty. The Millennium Development Goal of halving extreme poverty is still far from reach despite decades of economic growth and efforts for poverty eradication.

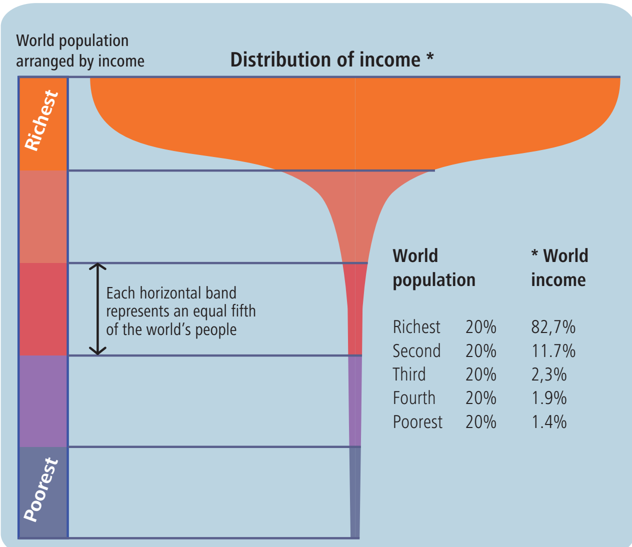
The recent financial, food and economic crises have brought new setbacks in the fight against poverty. Although the causes of these crises vary, at a fundamental level they all share a common feature: the gross misallocation of capital into economic sectors and activities that led to accelerated depletion of natural resources and ecosystems on which the poor depend, inter alia, for their businesses and wealth creation opportunities.

Initiatives aimed at greening the economy in different parts of the world have shown to improve growth of GDP, especially the GDP of the poor, quality and quantity of jobs, and stocks and flows of natural capital. UNEP research suggests that an investment scenario of allocating 2 per cent of global GDP to greening economic sectors will produce a higher global GDP, compared to business-as-usual scenario – within only 10 years.

A package of green investments coupled with policy reforms aimed at making growth socially inclusive offers economically viable options to reduce poverty and hunger, and address challenges of climate change and degradation of natural resources, while simultaneously providing new and sustainable pathways to economic development and prosperity.

The share of the poor in global GDP is marginal and is reduced with the erosion of natural capital.
The well-known champagne glass of global GDP (Figure 1) shows that the share of the bottom 40 per cent of the population in global wealth remains less than 5 per cent.[1] It is this segment of humanity which overwhelmingly lives on small farms, coastal areas and around forests, and depends on natural capital for their livelihoods, nutrition, health, employment, income, wealth creation opportunities as well as a safety net. Degradation of natural resources creates a poverty trap, which leads to a reinforcing loop of further degradation and worsening poverty.

Figure 1. Distribution of global income.



Natural capital is essential for sustainable economic development and accounts for a quarter of wealth created in the low income countries[2] (Figure 2). Any reduction

[1] UNDP Human Development Report, 1992. *Global Dimensions of Human Development.*

[2] World Bank Report, 2006. *Where is the Wealth of Nations?*

UNEP defines a **green economy** *as one that results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities.*

in stocks of natural capital and flow of ecosystems services negatively affects the well-being of the poor disproportionately and leads to growing inequalities.

The dominant consumption pattern of affluent societies is a major stress on natural resources. A report by Zero Waste Europe shows that the world extracts 50 per cent more raw materials today than it did in 1980; yet 80 per cent of this is consumed by the wealthiest 20 per cent of the population.[3] Meanwhile, other reports estimate that the 3,000 largest corporations in the world are responsible for USD 2.2 trillion worth of negative environmental externalities per year, impacting the poor who disproportionately bear the costs for this environmental degradation (www.trucost.com; PRI and UNEP FI, 2011; TEEB, *The Economics of Ecosystems and Biodiversity*, 2012).

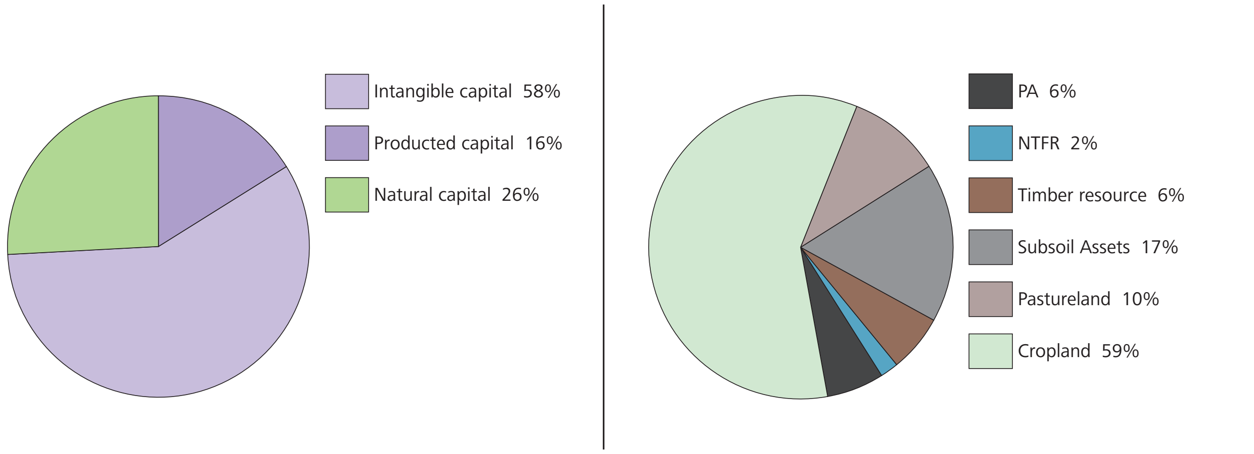
Opportunities for poverty reduction and economic growth with green economies

Competitive poverty reduction and economic growth returns from green economy investments. Environmental improvements are consistent with wealth creation and GDP growth. The UNEP Green Economy Report estimated that projected GDP growth will be larger under a green investment scenario than under a business-as-usual scenario (Figure 3). The following sectoral examples demonstrate this win-win relationship.

Greening agriculture reduces poverty and hunger, while building natural capital stocks. Greening the small farms through sustainable farming practices could be the most effective way to increase food availability, reduce poverty, increase carbon sequestration and water efficiency, and at the same time link marginalized farmers with international supply chains. Based on the extensive review of data from Africa and Asia (Pretty et al., 2006, *Agroecological Approaches to Agricultural Development*), it has been demonstrated that use of green farming methods (such as integrated pest management, integrated nutrient management, low-tillage farming, agro-forestry, aquaculture, water harvesting, livestock integration, nitrogen fixing crops, etc.) resulted in productivity increases of 59 to 179 per cent. Studies have estimated that for every 10 per cent increase in farm yields, there has been a 7 per cent reduction in poverty in Africa; and more than 5 per cent in Asia.

Carefully crafted social safety nets build natural resources and reduce poverty. A good example comes from India's National Rural Employment Guarantee Act

Figure 2. The share of natural capital in the total wealth of low income countries



Source: *Green Economy Report*, UNEP, 2011.

[3] Zero Waste Europe, 2009. *Overconsumption? Our use of the world's natural resources.*

UNEP launched its **Green Economy Initiative** *in 2008, and is currently supporting over 20 countries around the world in their transition towards a green economy.*

2006, a social protection and livelihood security scheme for the rural poor that invests in the preservation and restoration of natural capital. It takes the form of a public work programme, guaranteeing at least 100 days of paid work per year to every household that wants to volunteer an adult member. Investment in 2010 amounted to over USD 8 billion, creating 3 billion workdays and benefitting 59 million households. Of these investments, 84 per cent was invested into water conservation, irrigation and land development, creating long-term livelihood opportunities for farmers.

Investing in the provision of clean water and sanitation services benefits the poor. Lack of safe drinking water and sanitation has high socio-economic and environmental costs. Time and resources spent on buying or carrying water, and unhygienic conditions, are major causes of sickness and disease, especially for the poor. The lost employment days and health expenditure resulting from these diseases add to the economic burden. Investment in water and sanitation is a basic necessity for sustaining a healthy and economically active life, and is a necessary pre-condition to progress and prosperity.

Investing in renewable energy is a cost effective option for reducing energy poverty. The current energy system is both unsustainable and highly inequitable, leaving 2.7 billion people dependent on traditional biomass for cooking. Renewable energy solutions and supportive energy policies promise to make a significant contribution to improving living standards and health in low-income areas, particularly in rural areas. Some of the approaches which are cost effective solutions include modern forms of biomass and off-grid solar photovoltaic, with low operating costs and flexible small-scale deployment options. Successful models have been developed, including in Least Developed Countries, to cover the initial investment costs.

Making tourism greener can support local economy and help reduce poverty. Involvement of local communities in the travel and tourist industry has the potential to stimulate pro-poor growth. The extent of benefits to local communities and poverty reduction depends largely on the percentage of tourism needs that are locally supplied, such as products, labour, tourism services, and increasingly 'green services' in energy, water efficiency and waste management. Tourism is human-resource intensive, employing 8 per cent the global workforce. Greening of this sector is expected to reinforce its employment potential, safeguard natural stocks, while fostering green growth and poverty reduction.

The way forward

Rapid economic and ecological transformation is needed if the world is to better serve the poor and hungry, address the challenges of global warming and loss of ecosystems and biodiversity, while achieving a sustainable and equitable economic development and avoiding what could be termed a global natural capital bankruptcy.

A move towards a low-carbon, resource-efficient, and socially inclusive green economy holds clear benefits to local communities and for reducing poverty. However, a transition away from business-as-usual requires targeted policies and investments, including changes in behaviour, policies and investment trends, to catalyze the shift towards a more progressive distribution of benefits.

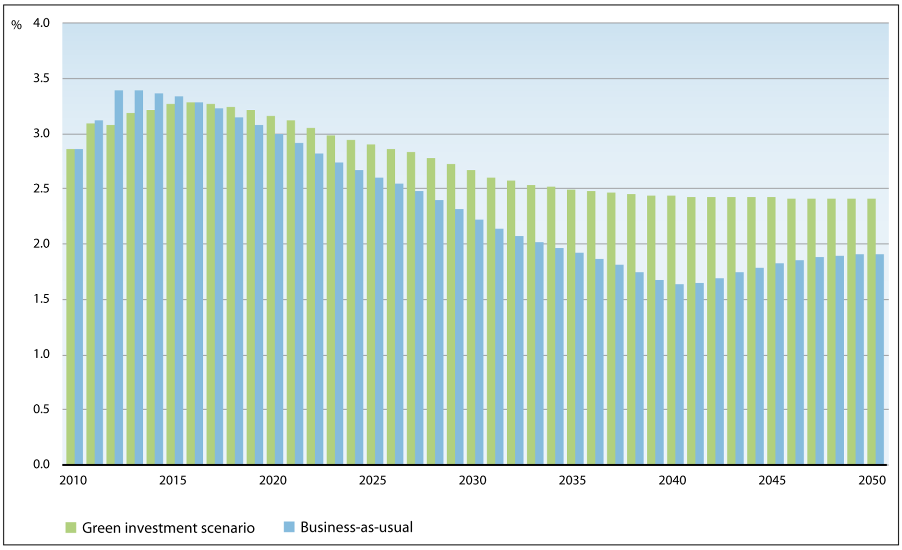
Important areas of action are: environmental fiscal reform for poverty reduction; support for natural resource based small and medium farms and enterprises; aligning efforts to build natural capital with produced and intangible capital; improving access to microfinance and micro insurance; promoting green investments; correcting market failures; better access to domestic and international markets for the poor; institutional and organizational innovations; and, raising awareness of the benefits that greening holds for poverty alleviation.

What UNEP is doing

UNEP is playing a key role in informing and supporting the global political agenda on green economy and poverty reduction along with providing technical assistance and advisory support to countries. The UNEP Green Economy

The **Green Economy Report**, *published by UNEP in 2011, makes a compelling economic and social case for investing two per cent of global GDP in greening 10 central sectors of the economy.*

Figure 3. Projected trends in annual GDP growth rate. (Source: Modelling in *Green Economy Report*, UNEP, 2011)



Report has identified a range of enabling conditions and targeted investments in natural capital and ecosystems services that could stimulate income streams, improve livelihoods and well-being for the poor, while at the same time spurring larger economic growth, resource efficiency and employment generation.

Currently, UNEP is undertaking several initiatives to advance knowledge and understanding of linkages between green economy transformation and poverty reduction. These include:

- A joint UNEP-IFAD initiative that aims to contribute new knowledge and analytical understanding to the Rio+20 Conference on the interface between smallholder farms, food security and the environment.
- A joint UNEP-UNDP report on reducing poverty through green economy which will inform national policymaking processes about the solutions and opportunities offered by green economy transformation.
- A paper by the Poverty and Environment Partnership (PEP), of which UNEP is a member, on opportunities and policy challenges in linking poverty reduction and green economy, which will be launched at the Rio+20 Conference.
- A UNEP Report on Avoiding Future Famines: Strengthening the ecological basis of food security through sustainable food systems, to also be launched at Rio+20.
- Contributions to the work of the OECD Development Assistance Committee's Network on Environment and Development (EnviroNet) and its Task Team on Green Growth and Poverty Reduction.
- Inputs for the poverty-related work of the Green Growth Knowledge Platform (GGKP).
- Technical assistance through UNEP's Green Economy Advisory Services to more than 20 countries, of which most have significant proportion of population living below poverty line.

For information:
UNEP DTIE
Economics and Trade Branch
11-13, chemin des Anémones
1219 Châtelaine / Geneva
Switzerland
T: +41 (0)22 917 82 43
F: +41 (0)22 917 80 76
E: gei@unep.org
www.unep.org/greeneconomy