At a glance

+ Rapid growth is necessary to achieve the urgent development needs of the world’s poor. But growth will be unsustainable in the long run unless it is both socially inclusive and green—the latter by ensuring that the earth’s natural assets are able to adequately provide the resources and environmental services on which human well-being depends.

+ Inclusive green growth requires tackling political economy constraints, overcoming deeply entrenched behaviors and social norms, and developing innovative financing instruments to change incentives and promote innovation—and thus address the market, policy, and institutional failures that lead to the overuse of natural assets.

+ Greener growth is necessary, efficient, and affordable. It should focus on what needs to happen in the next five to ten years to avoid getting locked into unsustainable paths and causing irreversible environmental damages. Green growth also requires better indicators to monitor economic performance. National accounting indicators like comprehensive wealth—including natural capital—help us determine if growth is sustainable in the long run.

The challenge

Over the last 20 years, economic growth has lifted more than 660 million people out of poverty and raised the income levels of millions more, but growth has often come at the expense of the environment. A variety of market, policy, and institutional failures mean that the earth’s natural capital tends to be used in ways that are economically inefficient and wasteful, without sufficient reckoning of the true social costs of resource depletion, and without adequate reinvestment in other forms of wealth. These failures threaten the long-run sustainability of growth and progress made on social welfare. Despite the gains from growth, 1.3 billion people still do not have access to electricity, 2.6 billion have no access to sanitation, and 900 million lack safe, clean drinking water. In other words, growth has not been inclusive enough.

Developing countries have viable options other than to “grow dirty and clean up later.” Much that is useful can be done now: clean air and water and solid waste management are basic needs, and many environmental policies enhance productivity and poverty alleviation. While poor countries must focus on meeting basic needs and expanding opportunities for growth, they need not do so at the expense of unsustainable environmental degradation. Furthermore, environmental performance does not automatically improve with income, so policy action is needed anyway. Finally, it may be impossible or prohibitively expensive to “clean up later,” either because of irreversible environmental damages like the loss of biodiversity, or because “lock-in” will make subsequent shifts to more environmentally benign structures and processes extremely costly.

The future we want

Well-designed inclusive green policies improve social welfare, taking into account not only present but future generations. Yet policy makers are naturally concerned with the potential trade-offs and costs, as well as the potential co-benefits, of green policies for near-term growth and employment. Careful case-by-case analysis will be needed to find optimal strategies. There is, however, considerable evidence that near-term costs can be minimized through the use of well-designed regulations and market-based policy instruments that promote least-cost ways of protecting the environment. Green growth can then provide a pathway to more sustainable development that reconciles the urgent need for sustained growth with the imperative of avoiding lock-in to unsustainable growth patterns and irreversible environmental damages. Green growth is not
anti-growth; rather, it represents a change in how we manage economies to reflect a broader conception of what constitutes effective and sustainable growth.

The ability and willingness to value natural capital underpins the transition to greener growth. Environmental assets—water, land, air, ecosystems, and the services they provide—represent a significant share of a country’s wealth. Just like physical and human capital, natural capital requires investment, maintenance, and good management if it is to be productive and fully contribute to prosperity. In order to accurately measure progress toward greener growth, countries will find it useful to implement comprehensive wealth accounting and valuation of ecosystems alongside more conventional measures like gross domestic product.

There is no single green growth model. Green growth strategies will vary across countries, reflecting local preferences and contexts. Any single set of “best practices” should be imported with care. Nonetheless, all countries, rich and poor, have opportunities to make their growth greener and more inclusive without slowing it.

How do we get there?

Greening growth requires policies that are, on their own terms, good for growth and the environment, such as reforming energy subsidies or trade barriers that protect pollution-intensive sectors. Greening growth may entail politically difficult reforms in the patterns or pricing, regulation, and public investment, and it calls for complex changes in behaviors and social norms. Importantly, green growth requires knowing when to go for the politically expedient rather than the economically optimal.


1. **Tailor national inclusive green growth strategies to a country’s circumstances**, with an emphasis on maximizing local and immediate benefits and avoiding lock-in. Optimal solutions will differ across countries with varying degrees of institutional capacity, transparency, accountability, and civil society capacity.

2. **Promote efficient and sustainable decision-making by policy makers, consumers, and the private sector.** The use of pollution charges and other market-based instruments are important because they stimulate efficiency and spur innovation. An array of complementary approaches will be needed to nudge individuals toward better behaviors and to unleash the power of the private sector.

While we are still far from accurate pricing for ecosystem services, they are clearly valuable. Natural assets should be systematically incorporated into national accounts. Neglecting natural capital, like neglecting human and physical capital, is bad economics and bad for growth.

3. **Meet up-front capital needs with innovative financing tools.** Given the scarcity of fiscal resources, governments and multilateral financial institutions must work urgently to increase the role of the private sector in green investment. Private-public partnerships are crucial to address market barriers to business practices and decisions that lead to profitable commercial outcomes while creating environmental and/or social value.

Ultimately, much of what is needed in order to green growth is good growth policy, which aims to get prices right and fix markets, address coordination failures and knowledge externalities, and assign property rights. But green growth policies are no panacea for structural shortcomings in an economy: environmental measures cannot offset macroeconomic instability for structural shortcomings in an economy: environmental measures cannot offset macroeconomic instability, distorted labor markets, poorly regulated financial systems, or business environments.

While greener growth can be made affordable, achieving a green economy overnight cannot. Rapid shifts would entail much slower growth, at least in the short to medium run. Conversely, avoiding a brutal transition is a strong incentive to start acting now.

References and suggested readings


WAVES (Wealth Accounting and Valuation of Ecosystem Services). Available online at http://go.worldbank.org/1FM01NZU00.


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