

Sector: Cities

Specific Areas: Finance and Governance

Focus: What needs to be done

Financing the Green Economy

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In this paper, it is argued that there has to be a change in attitudes and consumption patterns to realistically transition to a green economy. Moreover, for the first time in human history, the majority of the world's population now reside in cities and urban areas. Much of this change therefore has to begin and take place within cities. Financial instruments such as carbon offsetting now exists. But these alone cannot be relied upon to finance the transition. It is demonstrated that until prices of traded goods, particularly fossil fuels, food and shelter inputs reflect the true green cost- for example carbon, energy and water content then there will be no significant shift in demand towards products, attitudes and lifestyles that embrace a greener economy. This means that financing the transition can come from the change in demand in the market place. Initiatives such as the banning of plastic bags and the use of energy efficient light bulbs can make a difference, but will only succeed if we extend these to basic needs. The paper will conclude with an estimation of the gap of existing patterns of consumption with that for products produced and priced in a green economy.

Introduction

Historically, global finance has supported and prospered from carbon based economies. Much is at stake in the years of investment in infrastructure, capital, and lifestyles that depended on cheap fossil fuels. Decades of Carbon Dioxide emissions primarily from fossil fuels, have been singled out as the largest contributor to climate change through the Green House effect. The very nature of global climate change and pollution of the atmosphere and oceans is seen as a tragedy of the commons. This means that countries, who contributed little to carbon emission and other environmental insults, can in fact face severe dilemmas from virtual loss of small islands, their home, through sea level rise, to severe changes in weather pattern that affect food production and supplies of water.

Other important longstanding environmental issues have not been receiving the required attention and hype. These are for example: ensuring adequate supplies of water for the world's population; need for improved sanitation and treatment of sewage; urgent attention to solid waste disposal and the need to recycle materials such as plastics; atmospheric pollution in cities; pollution and overfishing of the world's oceans; the increasing dependence of energy to sustain cities and urban life styles; the artificially low cost of fossil fuels that provide little incentive for developing renewable energy; and undervaluation of environmental goods and services, especially in the context of the impact of mining and other primary production operations.

The impending expiration of the Kyoto Protocol Agreement has seen a frenzy of activity towards environmental activism and championing for urgent action to address Climate Change. The evolution and development of institutions through collective action on the front to combat Climate Change will continue to be a challenge. While dialogue has been on-going for years, recent discussions dominated by the developed world have focused on measures to internalize the consequences of carbon emissions, with little agreement on a way forward. While discussions will continue in Mexico in the latter period of 2010, the stark reality is that moving towards a green economy must necessarily mean quickly weaning the world economies from the dependence on cheap fossil fuel-crude oil, natural gas, and coal; as well as support for natural sequestration of carbon. However, the former is unlikely to happen until these resources are fully exhausted. The latter seems dependent on the paradox of supporting continuing emissions through carbon trading and /or downright direct assistance from wealthy carbon based economies.

Nonetheless, these are exciting times and there are many opportunities for reform of world economies, especially in times of recession. Transitioning to Green Economies is now more a reality as global finance is at it wits' end in comprehending the more immediate impact of the ongoing global financial crisis. For many, it is simply a matter of recapitalizing for business as usual or pondering how to weather the impact of a double-dip.

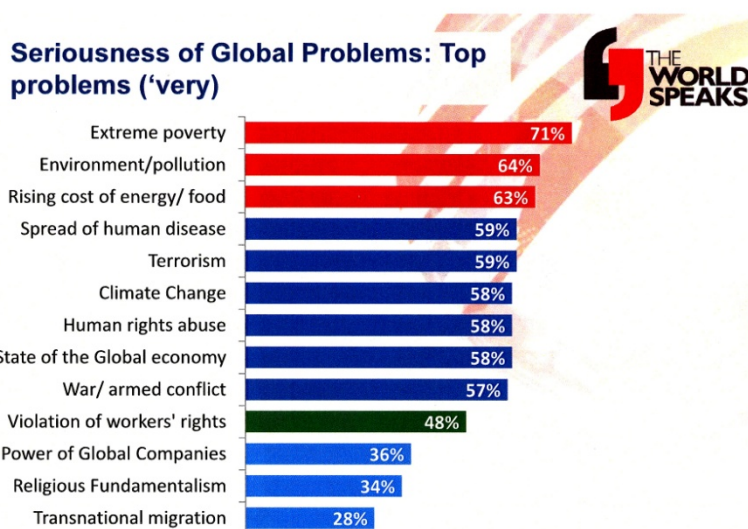
The volatile trading of crude oil over the last two years has demonstrated that consumers' preferences will shift to respond to relative price of gasoline or petrol. But challenges still abound. There exist huge discrepancies in exchange rates, subsidies and the way valuations and price negotiations are undertaken for commodities. Positive outcomes of the Copenhagen discussion are the idea of reducing our carbon foot print and the need to develop renewable energy supplies. The increased demand for less carbon intensive, lower energy goods and services will resonate in the market place, if prices are competitive. Greater emphasis should now be placed on getting prices right and a re-examination of the way we value commodities. In this regard, consideration of carbon and energy inputs and of discriminating between renewable verses non-renewable energy inputs on the basis of environmental impacts.

This means that we should see greater scrutiny on goods that are transnational and calls for an assessment of these goods along the supply or production chain. Recent papers on this topic, for example, Morimoto 2009, can provide valuable insights in these areas. Fair trade is also a good starting point that should be endorsed for a wider range of products that emphasize low carbon and low energy and renewable energy inputs. The implication is that as a prerequisite for transitioning to a green economy, a new way of valuing goods is essential where values or pricing reflect the true environmental costs.

The Green Economy and Global Issues

It is reiterated here that while carbon trading schemes may play a role in transitioning to a green economy, many have underestimated the impact of a change in attitudes and preferences towards greener products. Getting prices right is one thing, however it is the relative signals that they convey that is important. While preferences are expected to change based on fundamentals in the market place, consumers have concerns that needs to be addressed in the Green Economy. A recent survey conducted by Globescan for the BBC encompassing 23 countries, indicated (as shown below) that overall the major issues of concern were Extreme Poverty, Environment/ Pollution, Rising Costs of Energy/ Food and Spread of Human Disease. No doubt the latter influenced by the Pandemic of H1N1, this also tying with

concern with Terrorism and Climate Change. These results clearly demonstrate that while we need to address poverty (the top priority) these have to be environmentally friendly and by extension supportive of a green economy.



While technological developments will undoubtedly play an important part here in addressing some of these issues, there are some existing technologies which, given the right signals in the market place and of course appropriate pricing of resources would certainly make a difference. Case in point is the electric car. One of the first viable electric cars (now seen in a museum in Denver, Colorado), was built 100 years ago and it ran better than petrol models of that era. In fact it was banned from races with petrol

models as it was faster and more reliable. The car in question relied upon rechargeable batteries that were easily built at that time. It is simply a reexamination of products like these, with healthy growth in demand as we shift preferences towards greener products that we will then truly move to a greener economy. Already there are strides in this direction as seen in the 2010 Dubai exhibition for the unveiling of the electric motor cycle- Quantya Strada, and the Tesla Roadster.

Future Demand- Narrowing the Gap

More than half of the world's population now reside in urban areas and trends are for more growth in this direction. This means that we can expect that the clarion call for change through this new demand will be generated in cities and urban areas. Side by side with this demand must be a re-engineering of the institutions of governance that address basic needs, with more emphasis on meaningful participation of the people who these changes are meant to target. There must also be a greater emphasis on making people more self reliant. Failure to act in this direction will continue to lead to decay, increased urban crime and poverty and failed states as like in Haiti and elsewhere. The implication is that the results of the Globescan survey of 2009 needs to be clearly articulated in any discussion on the environment, whether this is on climate change or for addressing basic needs issues.

Assuming that these governance issues are addressed, then at the Basic Needs level, fundamental issues such as sanitation and sewage treatment can go a long way in making a difference. This is certainly true for cities and urban areas. A healthier natural environment increases the capacity for more environmental services. In practical terms, sanitation and recycling, greater access to toilets and sewage treatment (especially) in the third world will make a big difference to reducing environmental pollution and will increase the capacity of the environment to provide more and a higher level of environmental services. Singling out access to toilets, the World Toilet Organization has estimated that 2.5Bn of the world's population do not have access to proper sanitation and toilet facilities. Much of the reluctance for

individuals adopting toilets stemmed from traditional taboos, and the cultural norm of using the natural environment. These taboo barriers are being broken, especially in cities, and the result is increasing demand for proper sanitation and sewage treatment. Demand for these services must necessarily mean financing for these interventions. These interventions at the basic needs level and the finance that facilitates the process will transition to a Green Economy. This example can be applied to housing, food production, and the use of renewable energy. Clearly, addressing the gaps in basic needs as well as shift in attitudes and preferences will dictate the path where the Green Economy will become more relevant.

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