



HARNESSING THE POTENTIAL FOR GREEN GROWTH IN KUWAIT

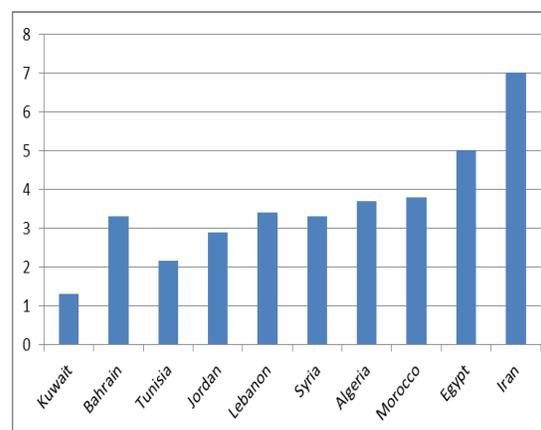
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Introduction: Like many countries in the Middle East and North Africa (MENA) region, Kuwait faces considerable environmental challenges due to air pollution, increasingly scarce water resources and deteriorating arable land. As the problems associated with climate change intensify, governments and countries need to respond with more creative and wide ranging policy responses in order to safeguard the standards of living for future generations. While the challenges faced by countries like Kuwait are formidable, they also present an exciting opportunity for diversifying an oil-based economy through green growth initiatives.

The Cost of Environmental Degradation Report: Part of the motivation behind the World Bank's Cost of Environmental Degradation report prepared in partnership between the World Bank and the Environment Public Authority in Kuwait (EPA) is to highlight the path to efficient resource allocation by properly costing the externalities that affect the economy. By using the tools of

economics to analyze the impacts of environmental degradation and climate change, the report hopes to highlight the positive incentives for good environmental practices, and in particular illustrate how difficult challenges present opportunities to diversify the economy through green growth, and generate sustainable jobs and income for future generations.

Fig. 1: Costs of Environmental Degradation in Selected Countries (% of GDP)



Oil Dependence and Kuwait: Oil dependence is a major challenge for Kuwait. Currently oil revenues are the primary source of foreign exchange revenue and wealth creation, accounting for around 95% of total export earnings.² The Middle East has some of the highest fuel subsidies in the world, and fossil fuel consumption subsidies are valued at \$2,786.6 per person per year in Kuwait,

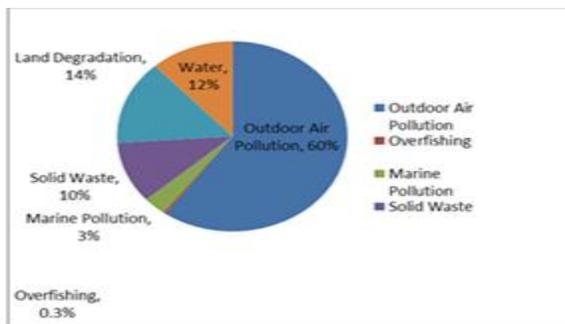
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² 'Kuwait, Country Analysis Brief', IEA, July 2011

currently the highest rate worldwide³. This presents a serious obstacle in terms of economic diversification and green growth. Fatih Birol, chief economist at the International Energy Agency (IEA) comments that, "Worldwide, we have \$500 Billion in fossil fuel subsidies and 50 per cent of that is in the Middle East...It is extremely challenging to have such big subsidies and achieve renewable energy targets...If you want renewable industry to grow and on the other hand, you have fossil fuel subsidies, they are not complementary".⁴

This artificially low price of oil distorts economic choices made by policy makers and businesses on the utilization of natural resources, leading to a mismatch between the economy's endowment base and its use. The abundance of Kuwait's oil endowment has led to an economy heavily dependent on one resource and a tendency to underestimate other development channels. This stems in part from failing to take into account the economic costs of environmental degradation and properly value Kuwait's other sources of natural capital. The result of this misallocation of resources has been pollution-related health problems, declining per capita water resources, loss of arable land, deteriorating coastal zones and vulnerable marine resources.

Fig. 2: Share of Costs of Degradation by Sector



³ International Energy Agency, World Energy Outlook 2011, Energy Subsidies, <http://www.iea.org/weo/subsidies.asp>
⁴ <http://www.worldenergyoutlook.org/pressmedia/quotes/2/index.html>

Benefits of Costing Environmental Degradation: The purpose of the Cost of Environmental Degradation report is to raise awareness of the degree and consequences of environmental degradation. By placing a monetary value on the losses incurred through the misallocation of resources, for example through the loss of working hours or the amount of growth foregone, such studies aim to foster a more holistic approach to government planning which incorporates long term sustainable development and climate management into investment planning. Through better information on the nature and impact of environmental degradation, the report hopes to raise awareness among stakeholders about climate change and its consequences.

The Process of Preparing the Report: The report was prepared through a consultative process with a series of meetings and workshops held together with the EPA (Environment Public Authority) in Kuwait and relevant authorities. These helped refine the conclusions of the report and disseminate its findings among the wider academic and policy community. The team also held constructive meetings with the SCPD (Supreme Council for Planning and Development) with the aim of incorporating the findings of the report into the planning process at an earlier stage to maximize the impact of policy recommendations. To this end, the SCPD expressed an interest in World Bank assistance to set up a Natural Wealth Accounting in Kuwait in order to capture the environmental costs in the budget planning process in their next 5 Year Development Plan.

Green Growth and Kuwait: It is important to emphasize that better management of natural capital is not simply a matter of imposing restrictions on existing industries, but also generating economic opportunities for green growth. The report lays out the economic

argument for several forms of green growth. In Kuwait's case, one example would be to change the current technological cycle and standards of water desalination to reduce energy intensity, curb air pollution and impact positively on the marine ecosystem. A good chance for investment in green economy in Kuwait also exists in introducing improvements in the solid waste segregation, collection and disposal practices and better recycling mechanisms for the recovery of valuable materials. Another example is the sustainable management of regional fisheries. Allowing fish stocks to recover in Kuwait would revive the flagging fishing industry, generate tourism revenues and help Kuwait rediscover its fishing heritage. There is also the restoration and enhancement of Kuwait's underground watershed services. Currently, Kuwait's heavily subsidized water supply has led to extensive use of water for agriculture and the growth of water intensive manufacturing. This depletes Kuwait's aquifers, its one truly sustainable water resource. The proper pricing of the long term economic costs of aquifer depletion would make the artificial recharging of groundwater resources an economically sound proposition. Such a policy would mitigate the long term costs of groundwater depletion, but would also help generate jobs, ranging from monitoring and evaluation of groundwater resources to designing and implementing the recharging of aquifers.

Better Management of Natural Resources in Kuwait: A variety of market, policy, and institutional failures mean that many countries fail to use their natural capital in ways that are economically efficient, and neglect the true social costs of production and resource depletion. Overcoming these requires a combination of different measures to enhance the management of human and natural capital. Policymakers will need to align policies, economic incentives and governance in order to overcome entrenched attitudes and short-term

economic thinking. In this respect, the report's focus is really about correcting market and governance failures that undermine economic systems. An example of this is the \$1 trillion to \$1.2 trillion currently being spent worldwide on environmentally harmful subsidies for fossil fuel, agriculture, water, and fisheries. Green growth is affordable because many green policies pay for themselves directly, and the others make economic sense once externalities are priced and eco-system services are correctly valued.

Table 1: Channel through which green policies can contribute to growth

Channel	Questions	Possible priorities
Increase in production factors (human, natural, and physical capital)	Which categories of capital (physical, natural, human) are important in limiting economic growth or in reducing population welfare?	Increasing transportation (and export) capacity, improving secondary education and population health
Enhanced efficiency (correcting market failures to move closer to the production frontier)	What are the greatest inefficiencies in the economic systems?	Reducing urban congestion and energy costs, increasing energy supply reliability, increasing employment of young qualified workers
Outward movement in the production frontier (correcting innovation and dissemination market failures to be able to produce more with less)	What are the obstacles to innovation and to innovation adaptation and dissemination?	Improving worker skills and property right protection, reducing entry costs for innovative firms, improving access to capital
Increases in economic resilience	Is the economy particularly vulnerable to exogenous shocks such as commodity price volatility, natural disasters, or competitor innovations?	Diversifying the economy, reducing energy intensity and dependency on imported energy, reducing vulnerability to large-scale disasters, improving food security
Increases in the job content and poverty reduction of growth (moving toward "inclusive growth")	What are the major problems in the labor market and poverty reduction, and why have they persisted up to now?	Reducing rural or urban poverty, mitigating ethnic segregation, fighting poverty traps, improving access to capital for the poor

(Source: Inclusive Green Growth, World Bank Report, 2012)

The Cost of Environmental Degradation report represents the first step in this process. Improved indicators that go beyond measuring short-term economic growth are vital if countries like Kuwait are going to achieve growth that is sustainable in the long run. These indicators themselves rely on better data collection and environmental monitoring on a national and regional level on which to base the

economic analysis of environmental impacts. Improved data collection is one of the most important factors that can improve effective allocation of resources. Kuwait's EPA has established the Environmental Monitoring Information System of Kuwait, eMISK, which gathers authenticated environmental data and information about Kuwait⁵. This enables policy makers to decide among competing investments and policies, and allocate scarce financial and human resources in a manner that maximizes social welfare in the long term. The ultimate goal is for countries like Kuwait to begin to incorporate cost of natural capital into decision-making, which will constitute a major step towards realizing the promise of green growth and shifting the economy of Kuwait onto a more sustainable path.

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⁵ For more see: (www.emisk.org)