



LEARNING LESSONS

To Foster Inclusive Growth, Tackle Inequality and Climate Change

Although not immediately obvious, perhaps the best way to enhance adaptability to the impacts of climate change is to reduce economic inequality. This is because the poor are hit first and hardest when the intense storms and drought of climate change strike, and improving access to assets, opportunities, and institutional capacity will therefore help them better respond and cope.

In other words, because the distribution of the impacts of climate change is skewed towards those with the least economic capacity to cope, and the poor often slide into deeper deprivation as a result of environmental shocks, responding to climate change requires reducing inequality.

To be sure, no one is immune to climate change. And reducing economic disparity is certainly not the top-of-mind, nor the only approach to responding to its ravages. Yet, these two defining challenges of our age—rising inequality and greater climate change risks—most imperil efforts to make economic growth more inclusive.

Even more worrying is that the two forces threaten to reverse decades of poverty reduction and make the inclusive growth agenda a distant goal.

Climate Change, Poverty, and Inequality

Rising inequality is not a new development issue. What is different now is the greater urgency in many countries, given the growing challenges of climate change, to narrow the widening divide between the rich and the poor.

In Indonesia, rising inequality exacerbated by climate change risks has slowed poverty reduction efforts considerably, notes the new study *Indonesia: Country Partnership Strategy Final Review Validation, 2012–2014* by the Independent Evaluation Department (IED) at the Asian Development Bank (ADB). Had inequality remained stable, and holding everything else constant, the country's poverty headcount ratio in 2014 would have been 3.6% rather than 11.3%, the study estimates.¹

Rising inequality is mainly driven by worsening urban deprivation. In 2010–2014, average urban deprivation accounted for 3.2 points of the 5.2 percentage-point increase in Indonesia’s Gini index, the study finds. Deteriorating urban conditions are in part due to congestion that forces the poor to live in danger-prone areas. The country’s poor urban areas are prone to floods and other disasters, making them highly susceptible to the impacts of extreme weather.

A year after one of the world’s most powerful storms, typhoon Haiyan, ravaged the Philippines, its lingering effects had pushed 1.5 million more Filipinos into extreme hardship, living on less than \$1.25 a day. Nearly 6 million people lost their jobs in the aftermath, most of them retailers, service crew, coconut farmers, and fishermen. Such income loss leaves them even more vulnerable should another extreme weather event hit.

In one country after another, climate change frequently threatens to offset decades of gains in poverty reduction. Moreover, disaster impact is more intense when combined with pre-existing inequalities—making the poor especially vulnerable. A transformative policy mix, focused on fiscal interventions and climate-resilient infrastructure, is therefore needed to reduce both inequality and vulnerability to climate change.

Fiscal Policies to Reduce Inequality and Confront Climate Change

Social protection and emergency assistance programs can improve the poor’s capacity to respond to natural calamities or food and fuel price volatility. Social safety nets, particularly those whose benefits are conditional on improvements in education or health outcomes, can make impoverished households and individuals more adaptive to external shocks, especially the adverse impacts of climate change.

But for these interventions to be effective, they must be properly designed and targeted to address pre-existing inequalities that worsen during disasters. In Indonesia, the removal of fuel subsidies is expected to address inequality and reduce climate change risks. A 30% increase in gasoline prices reduced the Gini index by 0.15% as richer households disproportionately benefited from these subsidies, the IED validation estimates. Removing subsidies reduces the absolute income difference between poor and non-poor households—with the larger loss of welfare in richer households.

The elimination of fuel subsidies is expected to bolster environmental sustainability by



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encouraging the diversification of Indonesia's energy mix into renewable energy sources. The country needs to expand its energy portfolio with a focus on hydropower, solar, and geothermal energy, the validation notes. These investments could also generate employment, promote energy security, and ensure environmental sustainability.

In the Philippines, the government's conditional cash transfer program, Pantawid Pamilya Pilipino Program, improved health outcomes and increased school participation among children 6–14 years old, according to IED's thematic evaluation study on ADB's Support for Inclusive Growth. While the long-run impacts of the program on poverty have yet to be analyzed, it is expected to improve the employability of the poor, enhancing their resources and capacity to respond to environmental shocks. This is crucial for this country, where direct damages of natural disasters cost more than 0.5% of gross domestic product every year. The inclusive growth study noted that improvements are needed in the program's targeting system.²

In Viet Nam, where poverty is concentrated among ethnic minorities, a properly-targeted safety nets scheme is needed to prevent deprivation among poor ethnic minorities residing in remote, mountainous areas, IED's inclusive growth study notes. In the event of natural calamities, these isolated people are further cut off from basic services, reducing their already limited access to education, health and basic infrastructure services.

Climate-Resilient Infrastructure

A conventional approach to climate change adaptation, improving the capacity of infrastructure to withstand its impacts, meanwhile, is crucial to ensuring that the people, especially the poor, remain connected to health facilities and markets when natural calamity strikes.

In Indonesia, as elsewhere, climate-resilient urban infrastructure is particularly needed. As 65% of the country's population is expected to live in urban areas by 2025, from roughly 50% now, urban deprivation is highly likely to increase. As a whole, rapid urbanization causes

overcrowding and resource degradation that severely strains the provision of public services, including infrastructure. Urban congestion limits the urban poor's access to formal employment and consequently renders them vulnerable not only to job loss and short-term income losses, but environmental shocks as well.

Transport and water infrastructure in Indonesia needs to be designed to withstand extreme flooding or water shortages, the IED validation study on the Indonesia country program notes. Drainage systems, particularly in urban areas, need to be designed to account for extreme rainfall. For flood protection, sea-walls, levees, emergency underground water tanks, and barrages should be constructed, the validation adds.

In Tajikistan, ADB supported a three-phased approach to building climate-resilient infrastructure: post-disaster operations, disaster prevention, and climate change adaptation. With 93% of its territory mountainous, Tajikistan is prone to climate change-induced floods and droughts and its people most vulnerable to climatic risks reside in remote areas.

In the first phase of post-disaster operations, ADB helped to restore infrastructure such as roads, riverbanks, irrigation systems, water supply networks, power distribution lines, and telephone lines in the aftermath of landslides and other calamities. ADB also helped reinstate public services in irrigation, drinking water, and energy supply. The second phase concentrated on disaster prevention at the local level involving physical and non-physical measures.

The third phase involved a centrally derived approach new to the country. The objective was to streamline climate change adaptation into Tajikistan's development efforts and activities. While some progress has been made in this area, concerned government ministries have differing views on how to address climate change risks. Tajikistan's energy sector development and operational plans offer a case in point. The plans assume that water flows will not change over an extended period of time even though glacial water is expected to decrease because of climatic risks. Moreover, the climate change agenda is not viewed

as an urgent development challenge at Tajikistan's local level. The same is true for local governments in Papua New Guinea, where climate change is expected to add to the country's fragility. At the local level, awareness of climatic issues is still low as climate change is a relatively new agenda for Papua New Guinea's government. The institutional and financial commitment of the Pacific country's government to address climate change is still weak.

Widening disparities and increased climatic shocks undeniably retard progress on inclusive growth. The poor are on the frontline of climate change and inequality pushes them beyond their capacity to respond to environmental shocks. To foster inclusive growth, concrete action encouraging sustainable and equitable growth is imperative.

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Endnotes

¹ The study used SUSENAS 2010 and 2014 for these estimates. SUSENAS is Indonesia's National Socioeconomic Survey.

² Using the 2009 Family Income and Expenditure Survey, the Philippine Institute for Development Studies (2013) and Fernandez and Olfindo (2011) showed that about 72% of the beneficiaries belong to the poorest 20% of the population.

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