

INCLUSIVE WEALTH REPORT 2022

Executive Summary





Report Directors

Shunsuke Managi, Distinguished Professor at Urban Institute, Kyushu University, Fukuoka

Pushpam Kumar, Senior Economic Advisor, United Nations Environment Programme, Washington D.C.

Authors

Edward B. Barbier, Professor at the Department of Economics, Colorado State University, USA

Shuning Chen, research fellow, Urban Institute, Kyushu University

Barbara M. Fraumeni, Research Associate at National Bureau of Economic Research, USA and Professor at Central University for Finance and Economics, China

Moinul Islam, research fellow, Urban Institute, Kyushu University

Pushpam Kumar, Senior Economic Advisor, United Nations Environment Programme, Washington D.C.

Robi Kurniawan, research fellow, Urban Institute, Kyushu University

Gang Liu, research fellow at Statistics Norway, Norway

Shunsuke Managi, Distinguished Professor at Urban Institute, Kyushu University


Xiangdan Piao, research fellow, Urban Institute, Kyushu University

Yogi Sugiawan, research fellow, Urban Institute, Kyushu University

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Jianto Xu, Boya Distinguished Professor of Economics, Peking University

Executive Summary

World leaders increasingly believe the time has come to move beyond GDP. At their 2018 meeting in Canada, G7 heads recognized that GDP is “insufficient for measuring success.” In the same vein, the UN Secretary-General wrote in 2021 that “it is time to collectively commit to complementary measurements.”

The Common Agenda of the UN clearly seeks to provide compelling need to move beyond GDP and supplement it with measures like natural capital in the measurement of progress. The Stockholm+50 also brings strong mandate to measure the progress and sustainability better.

Among the handful of credible alternatives to GDP is inclusive wealth. Inclusive wealth measures the assets that underpin human well-being: natural, human, social, produced and financial capital.

Measuring inclusive wealth is key to driving sustainable investments across all policy areas. As the 2021 review of The Economics of Biodiversity noted, judging “whether the path of economic development...is sustainable” requires nations to adopt “inclusive measure[s] of their wealth”.

The World Bank, the OECD and the World Economic Forum agree. Decision-makers must focus on increasing wealth, and not simply GDP, if they want to ensure well-being in the 21st century.

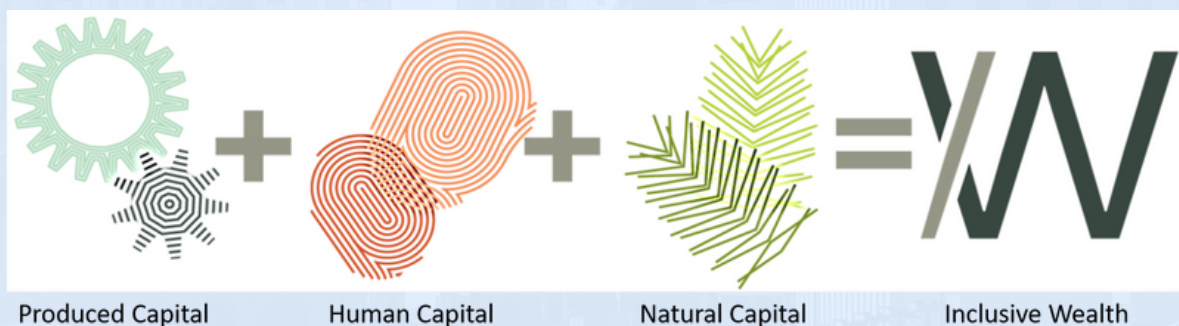
Inclusive Wealth Index

UNEP's Inclusive Wealth Index is an opportunity to define the COVID-19 recovery in terms of sustainable development, the Paris Climate Agreement, and the Beyond GDP movement.

The Inclusive Wealth Index measures changes in wealth, not just the level of wealth. This enables policymakers to assess their countries' wealth stocks, and the direction of their flow, at any given moment enabling them to manage their economies sustainably.

The Inclusive Wealth Index incorporates natural, human and physical capital into a measure of wealth. This includes the following:

- Natural resources and ecosystem services (including air quality, biodiversity, and climate systems);
- Human health, skills, and education levels; and
- Produced or manufactured infrastructure (e.g., transport, housing, utilities and information and communications technologies).





Inclusive Wealth Assessment 2022

The Inclusive Wealth Report 2022 is the fourth in the inclusive wealth series of the United Nations Environment Programme (UNEP). This latest report further confirms that the wealth economy approach, applied through the Inclusive Wealth Index, provides policymakers with essential knowledge for making informed decisions towards sustainable economic development.

The Inclusive Wealth Index is UNEP's flagship metric in response to the global call to move beyond GDP. The Inclusive Wealth Report 2022 undertakes a comprehensive global assessment of the inclusive wealth of 163 countries for 1992–2019. Following previous iterations (UNU-IHDP and UNEP, 2012; 2014; Managi and Kumar, 2018), the Inclusive Wealth Report 2022 adds an explicit focus on the nexus between inequalities and natural assets, highlighting that the loss of nature impacts rural and poor communities in developing countries most directly, and most acutely.

The analyses provide a clear foundation for governments to deliver all of the Sustainable Development Goals (SDGs) in a coherent and inclusive manner, meet the Paris Climate Agreement, safeguard biodiversity, and build forward from the global Covid-19 pandemic.

The report highlights how inclusive wealth – incorporating natural, human and produced capital – is a sophisticated measure for assessing national and global development and economic progress.

By mapping the inclusive wealth levels of 98 per cent of the global population, this report presents unequivocal findings that:

- Global inclusive wealth has increased globally by almost 50 per cent in the 30 years since reporting began; however,
- This increase has cost us more than one quarter of our natural capital during this same period; moreover,
- Per capita inclusive wealth has actually dropped, unable to keep pace with soaring population growth
- Rising income inequality is correlated with the exploitation of marine fish resources for some emerging economies countries;
- A non-uniform relationship between inequality and natural capital stocks is observed in developed countries.



Inclusive Wealth in the Sustainable Development Agenda

Economic development since the industrial revolution has ushered in an era of improvements in the human condition. Life expectancy, literacy rates, the empowerment of women and marginalized peoples, and the spread of ideas, people and cultures have all been made possible by the accrual and use of wealth. However, despite this remarkable improvement in economic health, worrying economic, social, and environmental trends require urgent action. Recent years have seen an unprecedented destruction of planetary health, a resurgence of populism and social unrest, spiralling inequalities in health, skills, and opportunities, and a growing sense of dissatisfaction with democracy. Combined, these mounting environmental, social, and institutional pressures threaten to undermine more than a century's worth of progress.

The Sustainable Development Goals (SDGs) of the United Nations 2030 Agenda for Sustainable Development were developed in response to these trends, but the Covid-19 pandemic has, in part, undermined progress towards them by exacerbating many of the existing challenges and inequalities faced by society. However, the pandemic has also highlighted our capacity to mobilize assets to address global challenges. If allocated properly, public investment can help support a sustainable, inclusive, resilient, and prosperous recovery in all parts of the world.

Building capacity and resilience after the Covid-19 pandemic requires investment in vital assets that can underpin a sustainable 21st century, and calls to 'build back better' are now widespread. But in practice, this requires building back differently.

The core ingredients of economic prosperity are known as capital assets – human, natural, and produced – and these comprise an economy's inclusive wealth. Inclusive wealth focuses on the stocks of underlying assets that generate income flows. Although in the short-term income can actually be increased by overconsuming capital, this reduces productive capacity over time. It is this change in productive capital stocks that can be monitored by inclusive wealth measures. This is pertinent not only to the sustainable development of national economies but also to ensure the delivery of the SDGs.

The 2022 Inclusive Wealth Report outlines in no uncertain terms how the absolute wealth of countries is changing, and how the composition of that wealth, in terms of capital stocks, is also changing – and not necessarily on a sustainable pathway.

We encourage all policymakers to embrace this information and to apply it in policy solutions to ensure that the welfare of future generations is as high as that of their own.



Data developments

The Inclusive Wealth Framework ensures that sustainability does not require all types of capital to increase in order for wealth to increase. In this framework, capital is substitutable – a decrease in one type of capital can be compensated for by an increase in another. For example, reducing the stock of fossil fuels to drive economic growth can be compensated for by an increase in e.g., human capital – quality of education and health care.


Historically, natural capital has been under-priced (Barbier, 2015). The consequence of this is that the economic gains from depleting natural capital have been insufficient for commensurate investments to be made in human and physical capital. This has resulted in over-exploitation of natural capital.

To address this, the Inclusive Wealth Report (IWR) 2022 focuses on the distribution of natural capital at regional levels, and allows for variations in natural capital growth to be understood in terms of geopolitical differentiations. The report uses the World Bank classification of countries to compare regional differences and makes a separate analysis of the Group of 20 (G20) economies.

This report also investigates whether the inclusion of natural capital in the wealth accounts of nations significantly affects existing wealth inequality estimates. Multiple databases measure natural capital and its link to wealth inequality of the G20 countries – selected on the basis of their commitment to promote inclusive and sustainable economic growth, yet home to over half of the world's impoverished people. Inequality measures utilize data from the inequality-adjusted Human Development Index, inequality in income statistics, data on the loss in HDI due to inequality, and the Gini Index.

The analyses now include 163 countries, an increase from 140 in the previous editions of the IWR, with all countries in Africa now covered. Consequently, it now incorporates all major economies on all continents, accounting for 98 per cent of the world's population.

Natural capital is composed of renewable and non-renewable capital. Renewable capital stock includes fisheries, forests and agricultural land. Non-renewable natural capital is captured as three energy sources and 11 mineral resources. Moreover, both the market values – those that have a defined economic value – and the non-market values for ecosystems – those for which an estimate needs to be made as to their value as they are not traditionally sold in the market place – are captured. For the first time, this report takes into account blue carbon emissions, i.e., carbon stored in – or released from – marine and coastal ecosystems.



The estimation of human capital has also developed from previous Inclusive Wealth Reports. Both education and health are incorporated. However, human capital is now calculated separately for male and female populations, and estimations of education levels are made on expected years of schooling rather than the, previous, mean years of schooling. This enables explanation of the length of time a population is in school, which better confirms the size of the working population.


A key benefit of the Inclusive Wealth Reports is that they provide an ongoing analysis of changes in countries' wealth over time. This report, the fourth in the series, now provides 30 years of data and analysis on changes in countries' natural capital stock, human capital and produced capital, as well as providing a global analysis of how these have changed in tandem with population growth.

What the Data Show

Since 1990, the baseline of all Inclusive Wealth Reports, growth in absolute inclusive wealth has been positive for most countries. This is reflected by a 49 per cent increase in total global inclusive wealth in that time period. Only eight countries out of 163 showed negative growth: Cambodia, Chile, Ecuador, Iceland, Myanmar, Peru, and Somalia. However, this seemingly positive result is tempered when world population growth is considered. The global population has increased by 2.4 billion people (from 5.3 billion to 7.7 billion) in the same period, and taking this into account, global inclusive wealth per capita has dropped by 5 per cent.

Moreover, the growth in absolute inclusive wealth has resulted in a loss of natural capital. This report shows that from 1990–2019, the world's natural capital diminished by more than 28 per cent – over 1 per cent per annum. Decreased natural capital and more people to share it amongst results in a smaller share per person. Consequently, natural capital has dropped by over 50 per cent per capita during the same time period. This decline is a key factor in the 5 per cent decrease in per capita inclusive wealth globally: natural capital decline negatively affected the growth of inclusive wealth per capita in 151 of the 163 countries analysed.

The main driver in inclusive wealth growth was produced capital. Per capita produced capital increased by over 90 per cent globally in the last three decades. However, in terms of absolute contribution to inclusive wealth, human capital, rather than produced capital was the most important factor. Human capital accounted for well over half of total global inclusive wealth in 2019; whereas natural capital only accounted for 18 per cent.



The Middle East and North Africa showed the greatest growth in human capital, nearly tripling between 1990 and 2019. South Asia, sub-Saharan Africa, Latin America and the Caribbean all at least doubled their human capital in this time. In high-income advanced economies, with a high level of human capital per capita, education was the main factor behind increased human capital. In low-income countries, population growth was the main driver.

The cost of ongoing climate change – as the cost of global CO₂ emissions – is also estimated in this analysis. Carbon emissions from fossil fuel energy and from deforestation are both considered. Carbon damage losses occurred in 115 of the 163 countries, with the most significant impact on wealth in Bangladesh, Djibouti, Ethiopia, India, Ireland, Lesotho, Mali, Rwanda, Sri Lanka, and Uganda.

On a global scale, Latin America and the Caribbean have lost more natural capital than any other region. Five countries – Barbados, Chile, Ecuador, Peru and Trinidad and Tobago – have lost more than half of their natural capital since 1990. Accordingly, Latin America and the Caribbean's share of natural capital has fallen to less than 15 per cent of the global total. It is clear that the excellent economic performance of the G20 countries has been made at the expense natural resources, with most countries showing a decrease in natural capital. The biggest loss in natural capital came from Japan, with a natural capital loss of 70 per cent through over exploitation of fisheries and forests and high depletion of natural gas and oil.

This report also analyses changes in the welfare of countries as a reflection of progress towards the 17 SDGs. It achieves this by applying three different measures of environmental impact as follows:

- net environmental impacts associated with SDGs 11–15 (the environmental SDGs);
- natural resource depletion as a share of national income; and
- per capita natural capital change.

The analysis finds that gains from 2000 to 2019 associated with meeting the SDGs are often accompanied by adverse environmental impacts and natural capital depletion. These gains are especially correlated with reduced losses associated with SDGs 11–15. This suggests that long-term progress towards the SDGs will hinge on improved management of natural capital and the environment in emerging market and developing economies.

The report further analyses the dynamics of inclusive wealth and inequality and investigates whether the inclusion of natural capital in the wealth accounts of nations significantly affects existing wealth inequality estimates. By applying an analysis framework across multiple databases of natural capital assessments, the report measures natural capital and its link to the wealth inequality of the G20 countries (Barbier, 2017).

The G20 countries were selected for this study due to their commitment to promoting inclusive and sustainable economic growth, good availability of data, and that over half of the world's impoverished populations reside in these countries.



Key Findings

Key findings include the following:

- Germany and France have observed a positive trend in renewable natural capital growth specifically, paired with a high Inequality-adjusted Human Development Index;
- Saudi Arabia and South Africa share the high growth trend in renewable resources but have a significantly lower Inequality-adjusted Human Development Index;
- Some developing countries (India and Indonesia) show proportionality between income inequality measures and a decline in marine fish resources; while
- Argentina and Mexico show the reversed pattern;
- The Gini Index (a measure of statistical dispersion that represents income or wealth inequality within a nation or a social group) has improved in the Germany, Indonesia, and the United States, but a depletion in their non-renewable natural capital is occurring in parallel;
- Mexico and Argentina have decreased the Gini Index (lessened the gap in inequality), while experiencing a declining stock of non-renewable natural capital;
- Many other countries show varying relationships between inequality and natural capital.

The significant variation in these relationships between countries highlights the need for a statistical model to be able to form a robust conclusion on these dynamics.

The report concludes that the exploitation of natural capital is a key driver of global inequality. To ensure their participation in global value chains, market pressures force resource-rich and particularly rural areas of low- and middle-income countries to use and deplete their natural capital at a much faster rate than can be supported by their institutional capacity and natural renewal rates. As a result, under-pricing and extreme exploitation of natural capital encourage wealth inequalities in many natural resource-abundant countries. These inequalities disproportionately impact the poorest and most marginalised communities, in particular women and girls.

The report further recommends policy solutions that prioritise sustainable natural capital management to address the root causes of global inequalities and to achieve the SDGs. Analysis of the G20 countries' natural capital and inequality conditions strongly suggest that it will only be possible to achieve the SDGs by focusing on the environmental risks that result from different economic development pathways.



Conclusion

The Inclusive Wealth Report 2022 highlights changes in the relative proportions of different capital types over time. Although some countries have managed rapid accumulation of human capital and productive capital with relatively minor depletion of natural capital, most have significantly depleted their natural capital in achieving growth. This indicates that countries need to consider their developmental pathway individually, as substitutability between types of capital may not be equitable between countries. It also further highlights the enormous utility of the Inclusive Wealth Index for government policymakers. Application of the Inclusive Wealth Index enables individual governments to understand at a fine-grain level how they are utilizing their country's wealth, and the long-term consequences of any particular growth strategy. This will enable nuanced and accurate policymaking to target the chosen developmental pathway for individual countries.