



The Donor Committee for Enterprise Development

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## Economic Policy for Green Growth

*The DCED Green Growth Working Group (GGWG) aims to generate and share knowledge, and raise awareness, on private sector contributions to green growth. This document, developed by the GGWG under the auspices of GIZ, is part of a series of fact sheets that introduce different green growth approaches and illustrate relevant development agency activities. They also aim to spur further engagement and in-depth discussion on green growth issues and with the GGWG. For further information, visit the GGWG's page on the DCED website at [www.Enterprise-Development.org/page/ggwg](http://www.Enterprise-Development.org/page/ggwg), or contact the DCED at [aarons@Enterprise-Development.org](mailto:aarons@Enterprise-Development.org).*

### The Challenge

Economic policy covers a wide range of measures to design a conducive framework for economic growth, sustainable development and poverty alleviation. It is increasingly recognised that it needs to reconcile economic, social, and environmental objectives, to meet the needs of current as well as future generations. An economic policy for green growth allows public authorities to boost private sector development and to generate income opportunities, while decoupling economic growth from resource consumption, environmental degradation and greenhouse gas emissions.

Green economic policy needs ensure that the environmental impacts caused by production and consumption are reflected in the prices of goods and services (internalization of external costs). Indeed, green growth requires a variety of conditions at the individual and policy levels to change behaviours towards environmentally friendly consumption and production patterns. Hence, economic policy is of key importance to realise the transition towards a green economy while generating green jobs in climate- and environment-friendly sectors.

### The Response

By introducing green economic policies, institutions in partner countries can translate developmental and environmental objectives into coherent policy strategies. In drafting green growth policies, the considerable experiences gained by the [DCED](#)'s member agencies can serve as an orientation. Development partners are supported in fostering green growth with a country-specific policy mix of market-oriented incentives as well as information-based and regulatory policy-instruments. Among others facets, **advisory services** include simulating and assessing the multidimensional effects of policy measures and integrating stakeholders into reform processes. In particular, the advisory services for green economic policy include:

- Support for the development of coherent **green development and reform strategies**, e.g. in designing sound eco-industrial policies to combine different policy instruments or in facilitating the participation of stakeholders.
- Guidance regarding ex-ante impact assessments, selection and implementation of **instruments**, including market-based, regulatory and/or information-based mechanisms. Optimally, governments should consider market-based instruments as a least-cost policy instrument, which spur technological innovation.
- Guidance in **analysing** the potential economic, environmental and social **effects** of a chosen policy mix, as well as in designing compensatory measures for adversely affected parts of the population.
- Support for the introduction of **statistical databases** that capture environmental impacts, as well as for the collection of environmental and social data. Environmental monitoring and reporting systems should be established to identify violations and to assess whether policies have been effective over the long-term.
- Compliance promotion, such as education and outreach, are an important feature of enforcement and compliance regimes. Additionally, planning and implementation of **trainings** concerning economic policy and study trips to facilitate the exchange of experience as well as the access to international networks and knowledge.
- Capacity development for the utilisation of specific instruments, e.g. **environmental fiscal reforms** (including eco-taxes and socially acceptable phasing-out of environmentally harmful subsidies).

## The Results

The alignment of economic policy with environmental objectives is a crucial precondition to achieving sustainable economic and social development. Green economic policy can **decouple economic growth from resource consumption** and contributes, thus, to resource conservation and **resource efficiency**, while lowering levels of **emissions** and **waste**. As to individual enterprises, appropriate economic policies can stimulate energy or water savings in the production process. Consequently, green economic policies can help to secure the supply of natural resources, promote technological innovation and enhance the **competitiveness of the local private sector**. Thereby, such policies help to **alleviate poverty**, for instance by creating employment opportunities in environmentally sustainable sectors as well as in the field of green technologies (**green jobs**). The protection of ecosystems through economic policy is especially essential for the poor, as their **income** and **health** often depends on ecosystem services. Moreover, green economic policy accounts for **fiscal stability** in a country, since financial losses as a consequence of environmental degradation can be prevented or moderated, while **revenues** can be generated from environmental taxes.

## The Example

**Vietnam** is the first country in Southeast Asia to introduce an environmental tax on fossil fuels, chemicals/pesticides and plastic bags. After a two-year consultancy by **GIZ**, the Vietnamese **Ministry of Finance** proposed a bill that will enter into force in 2012. The tax is expected to decrease national **CO<sub>2</sub>-emissions** by approximately 7.5% or 9 million tonnes, while generating **tax revenues** of around EUR 1.5 billion/year. GIZ services included (economic, environmental, and social) policy impact modelling, training seminars and study

tours, as well as the provision of expertise on tax design and implementation by experts from German federal ministries<sup>1</sup>.

It is important to note that the key challenge for policy makers in promoting the greening of industries is being able to combine policy instruments to achieve an optimal mix that promotes sustainable production and consumption outcomes, whilst operating within the bounds of political, cultural, and social constraints (UNIDO, 2010). Under UNIDO's Green Industry Initiative, a policy gap-analysis was carried out for Vietnam. Vietnam's policy mix is largely dominated by a traditional command-and-control regulatory system. However, information based instruments also play a significant role, particularly around public disclosure.

Despite the prudent efforts by the Government to introduce a comprehensive range of environmental policies with supporting institutional arrangements, the pressures on the environment and infrastructure services in Vietnam continue to mount. Even with the comprehensive range of national strategies and plans to better link the environment and development needs, there are still constraints in the integration, implementation and enforcements of policies. Furthermore, Vietnam seems to appear to lack the technical capacity to adopt and absorb green technologies effectively. Another serious problem is the inadequate infrastructure for waste and water management, particularly given the country's rapid growth and urbanization. Notwithstanding, Vietnam's progress towards a sustainable green economy should be regarded as a considerable advance in the right directions, despite some persisting obstacles.

## Lessons Learned

Generating green growth requires **coherency** among different policy areas (e.g. in industrial and fiscal policy). Economic policy to a great extent determines the competitiveness of the private sector. Overall, economic policy can change the framework conditions and **incentive structures** for the economy, thereby ameliorating **investment decisions** by producers as well as consumers in favour of the environment. The approach taken requires **political commitment** at the macro-level, but allows for significant **economy-wide results**. **Key players** for stimulating green growth through economic policy are ministries of economy, of finance, of planning, and of trade and industry.

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