



# Final Report

## GREEN GROWTH AND PRIVATE SECTOR DEVELOPMENT: STOCKTAKING OF DCED EXPERIENCES

for the Donor Committee on Enterprise Development Green Growth Working Group

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The Donor Committee for Enterprise Development

## ***DISCLAIMER***

*The report does not represent the official views of the DCED or its member agencies.* Comments are welcome and should be sent to the DCED at [Admin@Enterprise-Development.org](mailto:Admin@Enterprise-Development.org).

## ***ACKNOWLEDGEMENTS***

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The Donor Committee for Enterprise Development (DCED) is a gathering of 23 funding and inter-governmental agencies working for sustainable poverty alleviation through development of “the private sector” – the businesses, small and large, that provide the bulk of employment and economic prosperity worldwide.<sup>1</sup>

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<sup>1</sup> <https://www.enterprise-development.org/organisational-structure/working-groups/overview-of-the-green-growth-working-group/>

## PREFACE

Achieving green and inclusive growth will need a strong alliance between governments, the private sector and civil society. Recent trends – such as the emerging threats of climate change or the outcomes of the Rio+20 conference – have leveraged the worldwide demand for green growth approaches to sustainable development. The Rio+20 conference clearly acknowledged that the private sector needs to be a key part of this solution. Development agencies working in the field of private sector development can foster new approaches for green and inclusive growth in their work and support for emerging and developing economies.

The Donor Committee for Enterprise Development (DCED) formed a Green Growth Working Group (GGWG) in 2011 as a response to the emerging interest in linking green growth concepts with in Private Sector Development strategies (PSD). The DCED Green Growth Working Group aims to support donors in their efforts to enable the private sector to generate environmentally sound, resource efficient and climate friendly growth whilst contributing to overall development goals such as poverty reduction and job creation.

This report takes stock of environmentally sound, resource efficient and climate friendly PSD initiatives among DCED members. The report informs a longer term process of developing guidance for implementing green growth in different areas of PSD. It also offers policy makers in developing countries the various experiences in and tools for designing and implementing inclusive and green PSD programs.

The report is the result of knowledge sharing among the members of the working group, and across other DCED working groups, to facilitate policy coherence in the approaches taken across the different thematic foci of DCED members and to guide future work of the group. The report also aims to inform a wider audience of the activities of the agencies involved and how they can best contribute to universal development that is green and inclusive.

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# LIST OF ABBREVIATIONS

ABPP	African Biogas Partnership Programme
AFD	The Agence Française de Développement
BDS	Business Development Services
BMZ	The Federal Ministry for Economic Cooperation and Development
CIC	Climate Innovation Center
CSA	Climate Smart Agriculture
CSR	Corporate Social Responsibility
Danida	Danish International Development Agency
DCED	Donor Committee for Enterprise Development
DFID	Department for International Development
DGIS	Directorate General for International Cooperation
EC	European Commission
ESCO	Energy Service Company
EX-ACT	EX-Ante Carbon Balance Tool
FAO	Food and Agriculture Organisation of the United Nations
FLEG	Promotion of Green Economic Development
GEF	Global Environment Facility
GGF	Green for Growth Fund
GGWG	Green Growth Working Group
GHG	Greenhouse Gas
GIZ	The Deutsche Gesellschaft für Internationale Zusammenarbeit
IDRC	International Development Research Centre
IFC	International Finance Corporation
ILO	International Labour Organisation
KfW	Kreditanstalt für Wiederaufbau (A German government-owned development bank)
KOICA	Korea International Cooperation Agency
MEET-BIS	Mainstreaming Energy Efficiency through Business Innovation Support
MfFA	Ministry for Foreign Affairs
MSE	Micro and Small Enterprise
MSME	Micro, Small and Medium Enterprises
MTI	Market Transformation Initiative
Norad	Norwegian Agency for Development Cooperation
OECD	Organisation for Economic Co-operation and Development
PAGE	Partnership for Action on Green Economy
PPP	Public Private Partnerships
PSD	Private Sector Development
PSDP	Private Sector Development Programme
RTAP	Rural Transit Assistance Programme
SDC	Swiss Development Cooperation
SEQS	Social and Environmental Quality Standards
Sida	Swedish International Development Corporation Agency
TNC	Trans-national Corporation
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNIDO	United Nations Industrial Development Organisation
UNITAR	United Nations Institute for Training and Research
WWF	World Wildlife Fund

# EXECUTIVE SUMMARY

In recent years, it has been increasingly recognised that much of current economic growth is environmentally unsustainable. It is widely agreed that economic growth should aim for improving the quality of life in the short run, without undermining it in the long run.

The private sector is the primary engine of economic growth in most countries, and will therefore have a critical role in promoting environmental sustainability. Donor agencies can also play a supporting role. Encouragingly, environmental considerations are included in an increasing number of donor interventions related to promoting economic growth. There is also a large and growing portfolio of private sector development (PSD) interventions that specifically aim to support the transition to a green economy.

For this stocktaking assignment, DCED member agencies were invited to share information on some of their green PSD projects. The 120 intervention examples that were shared<sup>2</sup> illustrate that development agencies address a wide range of themes and use a diverse set of approaches in their promotion of green growth.

This is partly because there is a variety of factors and drivers influencing companies' decisions to make green investments or change practices towards environmentally friendly behaviours. Cost savings, market/buyer requirements and CSR can encourage companies to take up green business operations and investments. The financial sector can enable these investments, and also support entrepreneurs with green business ideas. Governments can promote green growth, through regulation or awareness raising. Donor programmes typically try to influence one or several of these green growth drivers. The diversity of approaches also stems in part from the diverse aspirations of donors and interventions. There is no single, commonly agreed definition of "green and inclusive growth", which likely reflects the relatively short existence of the concept. Indeed, both the concept of green growth and approaches to it are still very much in an experimental stage – hence research and capacity development is currently ongoing within many DCED member agencies.

Key approaches taken by DCED member agencies can broadly be distinguished into four categories. A large number of initiatives for green market and value chain development (or "creating green growth") exist in tandem with targeted approaches focussing on improving the resource-efficiency and environmental practices in MSMEs or multinational corporations, ("greening growth"). Agencies typically also support these efforts with access to finance initiatives and reforms to public policy that take a green perspective. It appears that most agencies acknowledge the relevance of each of these approaches, with some looking for active synergies by building broader platforms to convene stakeholders. Some early lessons are emerging on what may constitute risks and good practices for many of these approaches; several agencies have also developed a number of practical tools which can support the design and implementation of programmes using these approaches.

However, there are steps that can be taken by donors to make their green private sector development interventions more effective. The current diversity in aspirations can lead to complementary outcomes. Interventions which exploit the green growth opportunities existing within current framework conditions are matched with interventions which aim to change these very conditions to reach different, i.e. greener, development paths over time. Yet in this light it is important for donors to clarify their long term aspirations for separate short term interventions,

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<sup>2</sup> AFD, BMZ/GIZ/KfW, Danida, EC, FAO, Finland MfFA, IDRC, IFC, ILO, The Netherlands MfFA, OECD, Sida, UNDP and UNIDO have submitted projects for this review

and consider the potential trade-offs which may follow from these interventions whilst seeking opportunities to maximise ‘win-win’ scenarios. Another key example, where the DCED GGWG could have a significant role, is in the sharing of organizational models between members. Green growth approaches and tools are currently adopted in many areas within DCED member agencies, but there is little understanding of how to coordinate these efforts. The DCED GGWG may also be well positioned to play a role in the process of development of joint guidance for monitoring and evaluation, which would both improve the quality of green growth interventions and strengthen the concept of green growth itself.

# INTRODUCTION

A multitude of initiatives, networks and organisations have adopted the concept of ‘green growth’ in recent years, in particular following the 2012 Rio+20 Conference on Sustainable Development. New and innovative concepts and approaches to green growth have been designed and tested in the field. In this context, the GGWG decided to contract an external organisation to take stock of different members’ environmentally sound and climate friendly private sector development initiatives over the past three years. The objective of this stocktaking report is to provide insight into the main trends related to green private sector development, identify different approaches to green growth in PSD initiatives, and point out emerging lessons.

DCED member agencies were requested to submit a selection of ten green growth projects. Projects were submitted by the following agencies:

- |                      |                               |                |
|----------------------|-------------------------------|----------------|
| • <i>AFD</i>         | • <i>Finland MfFA</i>         | • <i>OECD</i>  |
| • <i>BMZ/GIZ/KfW</i> | • <i>IDRC</i>                 | • <i>Sida</i>  |
| • <i>Danida</i>      | • <i>IFC</i>                  | • <i>UNDP</i>  |
| • <i>EC</i>          | • <i>ILO</i>                  | • <i>UNIDO</i> |
| • <i>FAO</i>         | • <i>The Netherlands MfFA</i> |                |

The 120 intervention examples that were shared by the above agencies<sup>3</sup> are not a representative sample of green PSD work. They do however illustrate the breadth of themes and the wealth of innovative approaches that are being applied in the field of green growth. Information submitted on the projects varied from one-page summaries or website descriptions, to full project documents. A more detailed analysis of the type of project received can be found in Annex 2 of this report.

Structure:

The *first chapter* of the report sets the scene by considering how a ‘green growth’ approach differs from other private sector development strategies of DCED members. The chapter also introduces the main terms and definitions that are used in the remainder of the report, and outlines the approach taken to the stocktaking exercise.

*Chapter two* provides an overview of the key dynamics in the field of green growth which emerged from review of the 120 interventions from 14 member agencies that were submitted.

The *third chapter* of the report provides maps the different approaches to achieving green growth which are being taken by DCED member agencies, and provides emerging lessons related to these.

The *fourth chapter* explores the tools which have been made available by DCED member agencies for green growth programme assessment, design and results measurement.

*Finally*, the main conclusions are summarized and recommendations are made.

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<sup>3</sup> The following member agencies have not submitted projects for this study: Canada DFATD, ATA, DCED, IFAD, MasterCard Foundation, Norad, SDC, UNCTAD.

# 1. SETTING THE SCENE: DEFINITIONS OF KEY CONCEPTS

Although ‘green growth’ has been adopted as a key priority of many DCED member agencies, its definition is not always clear. As a first step, this chapter considers how a ‘green growth’ approach differs from other private sector development (PSD) strategies of DCED members, and introduces the main terms and definitions used in the remainder of the report.

## Private sector development initiatives

Private sector development comprises the many approaches that promote access to higher incomes, employment, products or better services for the poor through private businesses – large and small. Typical approaches include reform of the business enabling environment, market and value chain development, or partnering with individual companies. More detailed explanations of these approaches can be found on the DCED’s [‘Private Sector Development Approaches’ Knowledge Portal](#).

## Green Growth

Climate change, environmental degradation and resource scarcity will—and already do—put business models, jobs and economic growth increasingly at risk. Thus, a business-as-usual scenario represents a major threat to reducing poverty and achieving economic development in the long term. Green Growth approaches aim to harness the benefits of continued economic development while preventing further damage to natural resources, and adapting to changing conditions; all DCED member agency definitions of Green Growth share this concept.

However, there are also notable divergence points:

- Some agency definitions include a stronger emphasis on the transition to a **green economy**. Danida for example defines green growth as “*the process by which the current economy can make the transition to a sustainable green economy.*”<sup>4</sup> In many cases, agencies define a green economy as the ultimate goal of green growth. The definition of a green economy, according to the European Commission, is “*an economy that can secure growth and development, while at the same time improving human well-being, providing decent jobs, reducing inequalities, tackling poverty and preserving the natural capital upon which we all depend*”<sup>5</sup>.
- A second variant introduces the theme of **inclusiveness** to the definition of a green economy. The definition of inclusive growth, according to the OECD, is “*economic growth that creates opportunity for all segments of the population and distributes the dividends of increased prosperity, both in monetary and non-monetary terms*<sup>6</sup>, fairly across society”<sup>7</sup>. Poorer segments in society are likely to suffer disproportionately from climate change, environmental degradation and resource scarcity. While many green business options have the potential to foster and sustain broad-based growth, some agencies such as SDC and Danida<sup>8</sup> stipulate that this does not happen automatically. Inclusive green growth approaches explicitly look at ways to achieve this.

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<sup>4</sup> [Danida, A Greener World for All, NEC Strategy, 2013](#)

<sup>5</sup> [Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions Rio+20: Towards the Green Economy and Better Governance, 2011](#)

<sup>6</sup> Non-monetary terms include educational attainment, health conditions and employment opportunities, which have become important determinants of growth and well-being.

<sup>7</sup> [OECD Workshop on Inclusive Growth, 2013](#)

<sup>8</sup> [Danida Green Growth Guidance Note, 2014](#)

- Most definitions do not explicitly mention **biodiversity**, but a small number explicitly stress the importance of its preservation as part of natural capital.

Many DCED members interviewed as part of the stocktaking expressed that their agency has not (yet) established a formal definition of green growth. Various reasons for this were articulated, ranging from reluctance to introduce new concepts to agencies not having reached internal agreement on the definition.

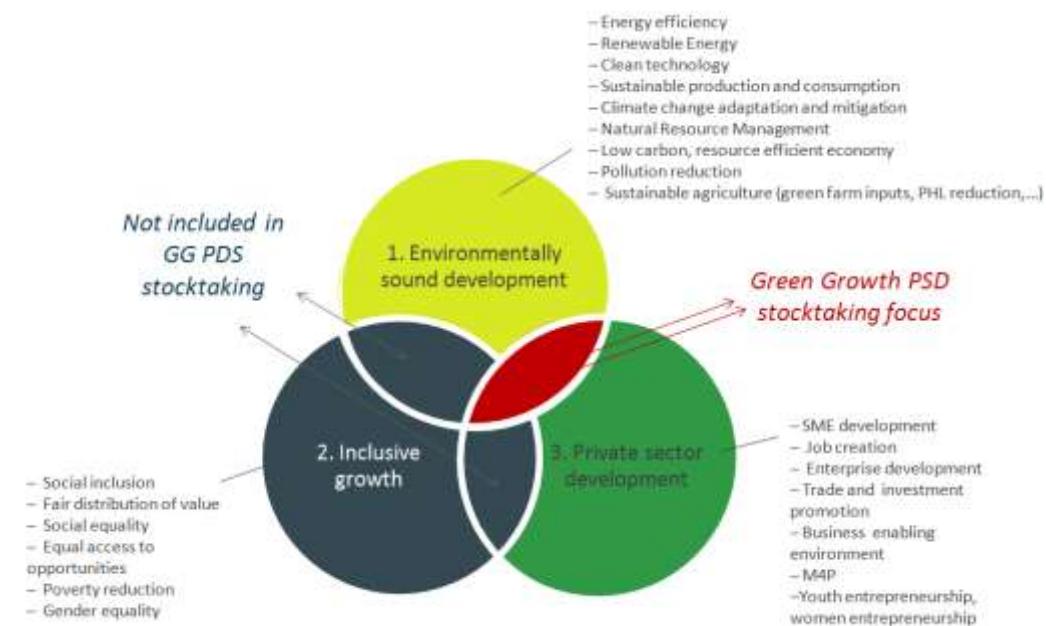
In the interest of setting clear parameters for this stocktaking, **this report uses the OECD definition of green growth** as published in the 2011 report “Towards Green Growth”:

*Green growth means fostering economic growth and development while ensuring that natural assets continue to provide the resources and environmental services on which our well-being relies. To do this it must catalyse investment and innovation, which will underpin sustained growth and give rise to new economic opportunities<sup>9</sup>.*

The figure below illustrates the working definition used in the report. The red circles indicate the two categories of interventions that are being classified as green growth following the working definition, namely;

- private sector development that is environmentally sound, and
- private sector development that is environmentally sound and focuses on inclusive growth.

**Figure 1: Graphic representation of Green Growth definition for the stocktaking**



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<sup>9</sup> [OECD Towards green growth, 2011](#)

## 2. DYNAMICS OF GREEN GROWTH

This chapter provides an overview of the key dynamics in the field of green growth which emerged from analysis of the 120 interventions, from 14 member agencies, that were submitted. It describes the drivers which can encourage the private sector to operate in a more environmentally sustainable manner and which can be influenced by donor agencies; the different roles of private sector actors in green growth projects; and the different aspirations of donor agencies when implementing green growth projects. The positioning of green growth within donor agencies is also discussed.

### 2.1 Drivers of private sector investments

For private sector actors to dedicate time and resources to operating in a more sustainable manner there has to be a clear business case demonstrating the payoff of these actions. The following section elaborates on the key drivers for private sector investment in green growth identified in the stocktaking and that can be influenced by donor agencies. As shown in Figure 7, these can broadly be categorised into four types of drivers: 1) the business, 2) the market, 3) finance and 4) government policy.

Figure 2: Drivers of Green Growth



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#### 2.1.1 Business-level drivers

Green growth can have its own **business rationale** based on the economic benefits a green investment may provide to a business, in the short or long term. Many projects reviewed put forth a business rationale for investments in green technologies or products such as investments for energy and water efficiency, sustainable land use and forestry, and recycling and waste management.

Within the business rationale there are two key aspects that the stocktaking suggests are the most important to businesses, namely (i) cost savings, and (ii) corporate social responsibility considerations.

### **Cost-Savings**

There are myriad opportunities for businesses to **save costs through implementation of resource efficiency measures**. Many investment opportunities in clean(er) technology and even relatively simple behavioural changes have a short payback time and proven economic benefits. For example, the MEET-BIS project in Vietnam, funded by EU SWITCH Asia programme, assists suppliers of energy efficient technologies (such as solar water heaters, energy efficient lighting, variable speed drives) in reaching SMEs in specific sectors. The IFC Lighting Africa off-grid solar initiative similarly develops markets that will make affordable solar lighting accessible to people who are not connected to grid electricity as an alternative to more expensive fuel-based lighting.

### **CSR**

Corporate Social Responsibility (CSR), defined as the responsiveness of businesses to stakeholders' legal, ethical, social and environmental expectations, has generally been a pragmatic response to consumer and civil society pressures. These have mainly been focused on trans-national corporations (TNCs) serving markets in the North, but often operating in countries in the South. However, the business community is also increasingly recognizing the strategic value of being more responsible and beginning to align products and business relationships accordingly, in particular through supply chains. In addition, there are enterprises that promote green products or services as part of their core business. To businesses that recognise the importance of corporate social responsibility for long-term profitability, CSR considerations create an internal business case or driver for the private sector to invest in green growth.

There are several other donor-funded projects that work on strengthening the business case for sustainability by engaging with top executives at transnational companies to develop new green approaches and insights. Other projects have focused on encouraging various private sector actors to come together and develop a longer term vision on sustainability issues related to a specific business sector or supply chain. This '*platform approach*' is further elaborated on in Section 3.1.2.

#### *2.1.2 Market Drivers*

Secondly, **markets** can be a key driver for businesses and producers to improve their green performance. Buyer demand can produce positive market incentives, such as premium prices on certified products. Negative market incentives may also exist, such as 'naming and shaming' companies, or excluding suppliers that cannot adhere to minimal social and environment management standards defined by a buyer or an industry.

In the projects that were part of this review, market incentives were important drivers in a selected number of sectors or supply chains. In these sectors and supply chains, there is growing consumer awareness and also increasing realisation among international brands and traders of the importance of sustainable practices for the long-term availability of natural resources. These developments are taking place in sectors such as agriculture and tropical timber and in international textile and garment chains. Green supply chain management initiatives are also emerging around consumer goods, metals and electronics.

Some of the green growth interventions reviewed focus on creating awareness around green issues and the business case for sustainability with stakeholders, including consumers, governments and businesses. These interventions often focused their awareness raising efforts on European stakeholders and had a second component working with stakeholders on the supply end – including farmer cooperatives, NGOs and local governments – to build knowledge and capacity in green approaches and standards.

#### *2.1.3 Financial drivers*

The **financial** sector can be a driver for change, or indeed a barrier to it. **Access to finance** for clean energy or clean production technology is still quite limited, often due to a lack of

experience or technical/sector competence on the part of financial institutions; one major implication is that this can prevent SMEs from being able to invest in such technologies. Yet microfinance institutions, commercial banks and development banks are increasingly aware of the importance of ***environmental performance***. These institutions recognise the business risk of financing unsustainable operations and often require that their clients not only comply with government policies, but also with voluntary codes of practice and international best practices.

#### *2.1.4 Government as Driver*

International regulations, such as the EU regulations on traceability of agricultural produce or energy efficiency targets for certain industries, incentivise businesses to invest in greener operations. National policies, such as tax rebates for energy efficiency, are also important in moving businesses towards greater resource efficiency. Most green growth projects have a component that supports governments in the development of green growth strategies, which are elaborated on in section 3.1.3.

**Some interventions tackle different drivers of green growth simultaneously, while other focus on a single driver – as further elaborated in section 3.**

## **2.2 The role of the private sector in change**

This section of the report looks at the different roles the private sector plays in green growth interventions, and the types of private sector actors that are typically encouraged to take on various roles.

#### *2.2.1 Role of the private sector in green growth interventions*

The role of the private sector varied greatly within the green growth projects that were surveyed. Businesses may be buyers or suppliers of green technologies or services, but can also act as green business enablers and influencers of policies and (informal) rules. In other words, a business can take the role of a market actor, a market enabler or a market influencer.

**Table 1 : Role of the Private Sector in Green Growth interventions**

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#### ***Green market actor:***

Procure green products and services; produce and/or sell green products and services;

#### ***Green market enabler:***

Provide infrastructure, BDS, information, finance or related services that enable green markets;

#### ***Green market influencer:***

Lobby and influence policies;

Influence, underwrite and implement voluntary standards

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Source: Exclude

#### *2.2.2 Type of private sector actors*

In addition to playing a wide range of roles in green growth projects, the types of businesses involved varied greatly in terms of size, age, capacity, capital base, and other variables. All these factors influence businesses' ability and willingness to invest in green growth.

The main types of businesses encountered in the stocktaking were

- ◎ Large corporations
- ◎ Micro, small and medium enterprises (MSMEs) as green technology and service suppliers (including start-ups)
- ◎ MSMEs as buyers of green technology and services

### **Large corporations**

One cluster of green growth interventions reviewed partnered with multinationals. In these cases, companies were typically to adopt environmentally sustainable practices, for example through the development of voluntary standards or introducing new measures to green their supply chains. Corporations were also engaged as technical experts, and as channels for reaching and disseminating information to farmers or consumers. Another recorded benefit of partnering with corporations was that it often increased the visibility of interventions<sup>10</sup>.

### **MSMEs as green technology and service suppliers**

A second cluster of interventions focuses on new business opportunities for MSMEs as suppliers of green technologies and services. This includes demonstration projects; clean technology business incubators such as the InfoDev Climate Innovation Centres; and supply chain development projects such as the African Biogas Partnership programme. Business opportunities for *green services* include offering new or adapted business development services or enabling energy service companies to offer financing in combination with green technologies.

### **SMEs as buyers of green technology and services**

A third cluster of projects focuses on SMEs as buyers of green technologies and services. As explored above, a key element of these projects is demonstration of the business case – often the cost savings to be gained from incorporating energy efficiency measures into business plans. Other incentives may include business continuity, as green technologies and services may make them more equipped to respond to climate change and extreme weather, or better able to fulfil buyer or government requirements with respect to sustainability.

## **2.3 Aspired change**

The drivers for green growth and private sector actors which donors engage with in green PSD interventions is affected by the type and level of change to which they aspire. This section of the chapter highlights the differences and commonalities in aspirations of donors which emerged from the stocktaking, related to:

- Economic growth or environmental protection as the entry point of an intervention
- Types of socially inclusive effects that can be achieved with green growth PSD interventions
- How far green growth interventions aim to work towards a green economy

### *2.3.1 Economic growth or environmental protection – what is the entry point?*

While some projects' core objective is to promote PSD in ways that adapt to or mitigate climate change, other projects take environmental protection as the entry point and aim to preserve natural resources without limiting economic growth. Although both approaches will lead to greener growth, their foci and values are very different.

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<sup>10</sup> More information on observed benefits and limitations of partnering with large corporations are elaborated on in section 3.1.2

### **Box 1: Example: Economic Growth vs. Environmental Protection as entry point to programme design**

An example of a project that is primarily focused on *economic growth* is the GIZ Private Sector Development Programme (PSDP) in Egypt, which aims to create jobs by supporting SME growth and innovation capacity. The project document posits that PSD can only be sustainable when resource efficiency is promoted. The project combines support to PSD with measures to raise awareness of practical measures companies can take to improve their resource efficiency. The project also supports the introduction of selected green technologies to the market.

An example of a project where the starting point was *environmental protection* is the intervention of AFD in the Congo Basin (Central African Republic, Cameroon, Congo, and Gabon). The rationale of this project is to transform forest exploitation practices to sustainable forest management based on a tool called the “sustainable forest management plan” (FMP). This tool, which incorporates a 30-year logging contract between the concession holder and the state, conforms to conservation standards for forest ecosystems and addresses the social and economic aspirations of the state, local communities and concession holders. According to the external evaluation, the intervention marked a fundamental shift in the area of forestry management: states and loggers employed new skills and resources (managers, management consultancies), and used negotiation and consultation among major stakeholders (forest administrations, local communities, NGOs, private sector, etc.) to identify local needs and introduce processes and tools for planning and evaluation.

Read more:

<https://cuiip.clustermappinginitiative.org/en/directory/psdp-egypt-egyptian-private-sector-development-programme>

<https://www.afd.fr/en/ressources/do-forest-management-plans-and-fsc-certification-help-avoid-deforestation-congo-basin>

When projects rely on collaboration among diverse partners, the harmonisation of the initial goals, assumptions and expected outcomes at project inception is of key importance (see also Box 2). Mutual understanding of different stakeholder perspectives can be of critical importance to identifying the set of potential win-win scenarios.

### **Box 2: Evaluation of Market Transformation Initiative (MTI)**

The MTI is a global initiative of the World Wildlife Fund (WWF) for transforming markets towards greater sustainability of natural ecosystems and diversity, which receives support from Sida. MTI engages with actors along supply chains for 15 different commodities seen as critical for environmental and natural resource protection worldwide. The MTI works to initiate, develop and improve standards for more sustainable production, while also supporting key producers of each commodity to certify their production and encouraging major buyers to buy certified products. The MTI also works with producers to build their capacity and prepare them for certification.

Despite the MTI’s clearly defined goals, the evaluation found that the key partners, WWF and Sida, have different expectations concerning the results that the initiative will achieve. Sida has an expectation that MTI will contribute to Sweden’s development goal of improving living conditions for people in poverty. WWF has a long-term emphasis on environmental conservation. As such, the main focus of MTI is the promotion of the certification systems, and its main interest is in the resulting environmental benefits. Social and human rights impacts are assumed to result indirectly from the certification processes.

Source: [Evaluation of the Market Transformation Initiative \(2014\)](#)

It should be noted that amongst the green growth interventions reviewed in this stocktaking there were many projects where economic and environmental objectives are very well integrated, delivering a win-win outcome in which both environmental and economic objectives are being achieved. Equally, however, environmental protection programmes such as the work of AFD featured above may be linked to economic growth processes, but cannot necessarily be

considered as working towards private sector development. It is useful to map these programmes for a fuller understanding of work towards a greener economy, but the core focus of the Green Growth Working Group is green private sector development.

**Figure 3: Economic growth versus environmental protection**



Source: Adapted from "Het echte groene groei boekje", Triple E, March 2014

### 2.3.2 *Green and Inclusive Growth*

A number of 'green' projects have a *specific focus on creating employment and income opportunities for the poor or disadvantaged groups*. The green growth component of these interventions often relates to job creation in resource efficient and low-carbon sectors, developing markets for environmentally sustainable products and creating awareness of resource efficient practices that result in improved wellbeing and/or cost savings for the target group. It is important to note that, as in the case economic vs. environmental starting points, a focus on inclusivity may mean a trade-off in terms of environmental impact and vice-versa.

#### **Box 3: Interventions with Explicit Focus on Inclusive and Environmental Outcomes**

There was an explicit focus on both green *and* inclusive activities for 41 of the interventions reviewed (34% of the overall review). Examples of green and inclusive interventions include:

- **Youth employment in resource-efficient brickmaking:** The ILO's Youth Employment for Sustainable Development project in Kenya engages youth unemployment in public works. The aim of the project is to create and develop some 130 micro and small enterprises (MSEs) owned by young men and women who will be trained in labour intensive infrastructure development and maintenance as well as the use of resource-efficient cobblestone paving and "do-nou" brickmaking technologies.
- **Water partnership for clean textiles:** The "Bangladesh Water PACT: Partnership for Cleaner Textiles" initiative seeks to bring about sustainable, positive environmental change for the Bangladesh textile sector, its workers, and surrounding communities, and to contribute to the sector's long-term competitiveness. Whilst the textile sector is a pillar of the Bangladesh economy – in 2012 revenues of around \$21.5 billion contributed nearly 80% to export earnings and created jobs for nearly 4 million people – it is also one of the leading contributors to the country's water scarcity and pollution challenges.
- **Access to clean energy:** Through the UNIDO/UNEP/GEF project, 'Renewable energy-based electricity generation for isolated mini grids in Zambia', three rural mini grids based on solar, biomass and small hydro power technologies are being set up to enhance national manufacturing capacity based on renewable energy technologies. Partnerships have been stimulated through the involvement of communities, investors and businesses. At the same time, the project is contributing to the establishment of a legal, institutional and policy framework to promote further deployment of renewable energy. Access to energy enables the spread and uptake of information and communication technology in rural areas, thereby providing a green solution for bridging the digital divide, i.e. ensuring universal access to modern technologies.

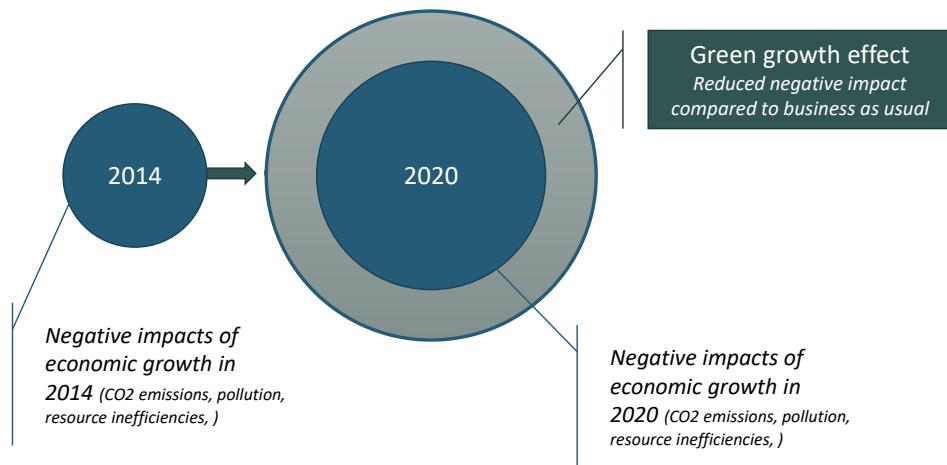
### 2.3.3 *Transition to a green economy*

A third point of divergence which emerged in the stocktaking is related to the degree to which projects aspire to effect a transition to a green economic system. Some interventions exploit the green growth opportunities that exist within current framework conditions through mitigation and adaptation, whilst others aim to change these conditions to reach different development paths. For example, the Partnership for Action on a Green Economy (PAGE), a joint programme by UNEP, ILO, UNDP, UNIDO and UNITAR, has a clear long term vision of sustainable

transformation of national economic structures in 30 countries. Page aims to: “*shift investment and policies towards the creation of a new generation of assets: clean technologies, energy and resource efficient infrastructure, trade-driven growth that promotes environmental protection and social inclusiveness, well-functioning ecosystems, a skilled labour force with green jobs driven by strong institutions and good governance.*” It is important to highlight that these different types of interventions are complementary, in helping to create greener growth both now and in the future.

In either case, it is also important to realise that green growth interventions have a green effect compared to the business-as-usual scenario but do not necessarily offset negative environmental impacts of economic growth, as illustrated in the figure below.

**Figure 5: Green growth compared to business-as-usual – a rough illustration**



## 2.4 Green Growth within the DCED GGWG organisations

Commitment to green growth continues to grow amongst DCED member organisations. However, the theme is often spread over different departments of these organisations. The GGWG members who participated in the stocktaking all expressed the opinion that the themes of green growth and private sector development are both relevant to multiple departments in their organisation.

Development cooperation departments that make funding decisions where green growth considerations tend to be most important include:

- ◎ Private sector development
- ◎ Rural Development and Agriculture
- ◎ Environment and Climate Change
- ◎ Infrastructure (most mentioned are drinking water supply, irrigation, energy and roads)
- ◎ Geographical departments

In addition to development cooperation departments, Foreign Economic Relations departments and departments/ministries promoting the national private sector abroad can play a significant role, as can embassies – especially in cases where intervention programming has been decentralised.

The fact that both green growth and private sector development are part of different portfolios and departments within DCED member organisations may catalyse mainstreaming of green

growth within the agency and avoid ‘silos’. However it may also pose challenges with respect to internal coordination.

Where green growth targets, responsibilities and expertise within donor organisations are spread over different departments, learning will typically be fragmented: a number of GGWG members highlighted the need for increased capacity at different levels of their organisations to identify specific opportunities for mainstreaming green considerations. Moreover, ‘holistic’ green growth approaches and opportunities may be overlooked because they do not fit into the more ‘narrow’ or specialist mandates of these separate departments.

# 3. APPROACHES TO GREEN GROWTH

## 3.1 Approaches to green private sector development

Now that we have seen which factors can drive green PSD, and that donors can strengthen these, the next key question is *how* donor agencies can best deliver their support, in line with their aspirations. This section maps the most common approaches to achieving green growth amongst DCED member agencies, and provides emerging lessons in how to pursue these approaches. However, it is important to highlight that this stocktaking does not provide any evidence on which approaches offering better ‘value for money’ than others.

### 3.1.1 Green Market and Value Chain Development Approaches

Market development approaches typically focus on achieving large-scale sustainable impact by catalysing improvement of the functioning of the market, rather than only targeting individual market actors. A green perspective on a market development approach may range – depending on the aspirations of the donor – from limiting the impact of economic operations on the environment to developing markets in a way intended enable a transition to green growth.

Similarly, green value chain approaches aim to improve functioning of a selected value chain by looking for the barriers and opportunities at each level of the value chain, from direct actors (sellers and buyers), to supporters and the influencers (in the business enabling environment). It is then possible to address multiple, specific bottlenecks to increased production and incomes.

Examples of interventions with green market or value chain development approaches include the UNIDO Sustainable Product Manufacturing (Leather products, Lifecycle Analysis applied to business competitiveness and carbon offsetting in Agro-export industries), the (BMZ/GIZ) tourism sector programme Promotion of Green Economic Development (ProGED) in the Philippines, the IFC programme Improving Productivity and Promoting Clean Energy in the Poultry Sector in Bangladesh, and the African Biogas Partnership Programme (ABPP), elaborated on in the box below.

### **Box 13: The African Biogas Partnership Programme (ABPP)**

The African Biogas Partnership Programme (ABPP) is working to build a commercial biogas sector in six African countries. Since its start in 2009, it has realized the construction of 15,000 biogas installations that provide households with clean energy, organic fertilizer, and a safer and healthier living environment.

The ABPP builds on SNV's successful work in Nepal, where 250,000 domestic biogas plants have been installed in the past 20 years, and on other national biogas programmes such as those in Vietnam (123,000 plants), Cambodia (15,000 plants), and Bangladesh (20,000 plants). In 2009, SNV, Hivos, and DGIS launched a partnership to introduce a similar programmatic approach to the development of national biogas markets in six African countries. The ABPP aims at constructing 70,000 biogas plants in Ethiopia, Kenya, Tanzania, Uganda, Senegal and Burkina Faso. An equally important goal is to create a viable biogas sector, where it is commercially attractive for local companies to sell, build and maintain biogas plants.

#### *Programme design*

In each country, a local partner (a ministry, semi-governmental organisation, or NGO) is supported to implement the programme at the national level. This model is replicated at the local level where local "implementing partners" promote the programme and the benefits of domestic biogas in rural areas. Payments to implementing partners are driven by output, a figure based on the number of biogas digesters built.

Hivos acts as international fund manager from the office in Nairobi. SNV provides technical assistance and capacity building services in the six countries. DGIS contributed € 30 million to the ABPP between 2009 and 2014. In order to support the creation of an enabling environment for the biogas sector to flourish, training is provided for private companies and local organisations as well as for national and local programme coordinators, who are enrolled in management and leadership programmes. In addition, the programme supports local vocational training by sponsoring a course on biogas in the curriculum. Local banks or micro-finance institutions are engaged to provide loans for biogas installations and for the masons or contractors. Training is also provided to local development organisations on the application of bio-slurry in agriculture. Lastly, the potential users of the plants receive awareness training about how this new solution could benefit them. Once they invest in a plant, they receive simple training on how to operate and use it. In most countries, half or more of the users trained are women.

#### *The benefits of biogas systems*

Domestic biogas plants convert animal manure and human excrement, through a microbiological process, into combustible methane gas. This biogas can be used in gas stoves in a clean and modern kitchen. Cooking on biogas is smokeless and much less risky for health than cooking on firewood. It can also be used for lighting. The availability of biogas relieves women and children from spending hours a day collecting fuel wood. The effluent of the conversion process, bio-slurry, is more fertile than the manure that went into the installation. It is easy to collect and can boost farmers' agricultural productivity.

In Africa, the price of a domestic biogas plant is between US\$ 600 – 1000. To support farmers in buying biogas plants, the ABPP provided subsidies from one quarter to a maximum of one third of the total cost - higher subsidies are thought to distort the market. The ABPP also supports the creation of credit facilities via banks, micro finance organisations or cooperatives.

Read more:

<http://www.africabiogas.org>

<https://snv.org/project/africa-biogas-partnership-programme-abpp>

#### *Key lesson*

- ***Farmers' realities do not always fit value chain approaches***

Most small agribusinesses depend on not one, but several commodities for their livelihoods, and apply crop rotation schemes. Making the business case for these enterprises to green

their production of one commodity could lead to mono-cropping, which depletes land fertility. A focus on one commodity, rather than the agribusiness as a whole, may mean that opportunities for more comprehensive and sustainable greening of agriculture are missed. One possible and emerging alternative to this is the ‘landscape approach’, where the natural asset base (land and water resources) has a more prominent role in the scope of the project.

#### **Box 14: Landscape approach in Zambezi valley**

Danida's Zambezi programme focuses on the coordinated use of water in and around the Zambezi River. The project aims to promote better management of water resources as a prerequisite for further economic development. Limited water resources are hampering economic development, because they are limiting production in sectors such as agriculture and tourism. The programme also works to support increased productivity and incomes in these sectors, by integrating these aspirations into their interventions and identifying win-wins.

Source: "[Integrated Water Resources Management Strategy and Implementation Plan for the Zambezi River Basin](#)"; [Sida/DANIDA, Norwegian Embassy Lusaka April 2008](#)

### *3.1.2. Influencing Private Sector Standards and Practices*

#### **a) Targeted Approaches**

##### Promoting greener operations of MSMEs:

Demonstrating the financial benefits of certain investments or behaviours, can be both the sole target of an intervention and a critical feature within market and value chain development approaches – including the aforementioned African Biogas Partnership Programme, which provides training to MSMEs on how biogas plants could benefit them.

#### **Box 7: Selling clean technologies to SMEs: selling the benefits**

MEET-BIS Vietnam (Mainstreaming Energy Efficiency through Business Innovation Support – Vietnam) was a project funded by the European Commission as part of its SWITCH Asia Programme. The programme promoted sustainable production and consumption in Asia. The project ran from 2009 until the end of 2013, and focused on developing the supply chain for clean technology products for SMEs in northern Vietnam.

Market research of MEET-BIS indicated that the main deterrent for SMEs to invest in energy and water efficient products that have a healthy payback time was not the cost, but lack of awareness and trustworthy information on the potential cost-saving benefits of energy and water saving technologies. MEET-BIS therefore partnered with clean technology providers to develop new marketing and sales models targeting SMEs, and built the capacity of business sector organisations to help promote energy efficiency.

In MEET-BIS's experience, these communication efforts, combined with improvement of product quality, provided the necessary encouragement for investment in energy and water efficient technologies. Requirements from international buyers could also act as a key driver for SME investment in clean technology, especially in the garment industry. Government legislation requiring SMEs to carry out green operations was further driver, but only when legislation was enforced or perceived as likely to be enforced in the near future. SMEs in markets with high uncertainty were often reluctant to make long term investments, irrespective of the payback time.

An example of a project aiming to stimulate cost-saving behavioural changes is the ILO Greener Business Asia project, where workers are being made more aware of the environmental implications of their actions and how they can contribute to the protection of natural resources whilst saving money (for more information see the case study in annex 1 of the report).

Key insights into how to mobilise businesses to invest or act upon cost-saving opportunities which arose from this stocktaking exercise include:

- **The need to communicate proven benefits:** Where cost savings are a major benefit or investment driver, MSMEs prefer to have guarantees or at least to see an externally validated study showing that cost savings could be attained.
- **Limited investment capacity of MSMEs hampers green investment capacity:** Despite the relatively short payback time of a number of investments, MSMEs often lack the financial capacity for investing.
- **Risks are part of the equation, and so are other opportunities:** MSMEs in markets with high uncertainty are often reluctant to make investments, irrespective of the payback time. MSMEs in high growth markets often prefer investing their time and money in opportunities with a higher return on investment, and therefore have limited interest in cost saving measures. These findings have important implications for the markets in which approaches targeting MSMEs are likely to be most effective.

Capacity building interventions may also be required to enable businesses to take up greener operations. An example of this is the GIZ MSME umbrella programme in India<sup>11</sup>, which combines raising awareness of both the risks and cost saving opportunities presented by climate change with support to service providers who offer training in adopting resource efficient business practices.

#### Awareness-raising amongst corporations:

Another strand of interventions target high-profile corporations, typically focussing on making the business case for CSR.

#### **Box 8: The case for CSR: Corporate Image and Economic Benefits**

The United Nations Industrial Development Organisation (UNIDO) “E-waste management in Cambodia” programme was launched in 2009. Its objective was to create employment opportunities and encourage more effective e-waste management in the country. The project budget of USD 1,350,000 was funded by the Republic of Korea through the Korean International Cooperation Agency (KOICA) East Asia Climate Partnership (EACP) and Samsung Electronics – as part of the company’s CSR strategy.

E-waste is the fastest growing stream of waste in Cambodia, and Samsung is a leader in consumer electronics and ICT products in the country. The programme supports vocational training in repair services and e-waste treatment in the form of technical workshops, curriculum development exchanges, training of trainers and study tours for disadvantaged youth, local trainers and experts from the private and public sector.

In addition to financial resources, Samsung contributed technical know-how through the provision of experts and equipment. While the programme aligned with Samsung’s CSR strategy, it also presented a compelling long-term business case for the company. The development of strong local supply chains is of strategic importance to Samsung in Cambodia, whilst further strengthening Samsung’s image as a responsible corporate citizen in the region. Moreover, investing in capacity building improves customer service.

#### *Main lessons in promoting CSR:*

- **Projects with multinational corporations can have high visibility**, which in some cases enabled projects to catalyse other initiatives and influence policy makers.

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<sup>11</sup> For more information, please refer to the case study document.

- **Scalable impact requires a business case beyond CSR.** Stand-alone initiatives where the main driver for investment was firms' CSR strategy could achieve significant green outcomes within the scope of the project. However, experiences with these types of projects have shown that in order to reach scale, or leverage other corporate resources (such as knowledge, networks and distribution capacity), there should be a business case beyond the CSR rationale.

### b) Industry-wide or sectoral approaches

#### Platform approach

Another approach which involves engaging with transnational corporations is to develop platforms in which various actors come together to develop common, longer term visions on sustainability issue, typically related to a specific business sector or supply chain.

Platforms can operate as independent entities, or be housed within existing public or non-profit institutions. Some key functions of a platform include acting as a focal point for stakeholders, spreading knowledge, and catalysing collective action and systemic approaches. Platforms can channel the resources and capabilities of many players to effectively address market failures or governance gaps, to achieve a greater scale and address systemic challenges, or to mobilise private capital or innovative funding mechanisms (ODI, 2012). As such, platforms can also be used as instruments in other approaches.

A notable example related to green growth is the Alliance for a Green Revolution in Africa – a partnership working across the African continent to develop practical solutions to significantly boost farm productivity and incomes for the poor, while safeguarding the environment. Other platforms are focused on improving socially inclusive, environmental and human rights performance in specific sectors, for example the World Banana Forum, and the Green Industry Platform (GIP) which are elaborated on in Box 15.

#### **Box 15: Examples of Platform approaches**

The **Green Industry Platform** operates at a global scale focusing on industrial sectors. It is a high-level, multi-stakeholder forum which aims to catalyse, mobilize and mainstream action on Green Industry worldwide. It provides a framework for bringing governmental, business and civil society leaders together to secure concrete commitments and action in support of this agenda, i.e. *greening the manufacturing process and creating green industries for production of goods and services for domestic use or export*.

[http://www.greenindustryplatform.org/?page\\_id=2](http://www.greenindustryplatform.org/?page_id=2)

Another example of a platform is the **World Banana Forum**. This initiative brings together all value chain actors, including producers and their organisation, trade unions, coops, retailers, traders, public agencies, governments, research institutions and civil society organisations. The mission of the Forum is to inspire collaboration between stakeholders, leverage pragmatic solutions to improve the banana industry. Achieving industry wide consensus on best practices regarding environmental impact and sustainable production is goal of the forum, which also addresses other workplace issues including gender equity,

<http://www.fao.org/economic/worldbananaforum/wbf-aboutus/en/>

There is a potential risk that international platforms experience challenges in achieving local impact. Perhaps for this reason, there is also **an emerging trend of platform organisations setting up local offices** in countries or regions where they want to achieve impact at scale.

### **Box 15: Examples of Platform approaches (cont.)**

A third example that is often mentioned as a success story of sector self-regulation is the development of a **Code of Practice in the Ethiopian horticultural sector**. The development process of the Code of Practice (2006 to date) involved a number of activities, implemented under the flag of the sector organisation the EHPEA, the Ethiopian Horticulture Producer Exporters Association. The Code of Practice covers five “topic areas”, namely staff management, environmental management, production management, community relations and legislation and enforcers. One of the success factors of the Code of Practice for Sustainable Flower Production was the introduction of a “graduation” concept, providing recognition to companies whose sustainability effort are beyond the ‘bronze’ compliance level. In 2010, EPHEA introduced two additional levels of compliance, Silver and Gold, as higher standards to recognize the significant progress already made by some members in implementation of sustainable production practices and to guide the

### **Box 9: IDH Lessons on Standards and Certification Schemes**

The Sustainable Trade Initiative (IDH) is a platform for public and private partners to work and invest together in social and environmental aspects of supply chains. The initiative has promoted certification mechanisms such as Utz Certified (coffee, tea), the Better Cotton Initiative (Cotton) and ASC (aquaculture). The organisation is supported by the Danida, the Netherlands Ministry of Foreign Affairs and SDC.

According to IDH, voluntary standards have worked as powerful mechanisms to trigger initial improvements supply chains. By linking the end-market to the producers, standards have initiated a process of continuous improvement. Farming systems and labour practices are being upgraded to fulfil consumer requirements; information systems and third-party verification have been introduced to demonstrate compliance; and premiums and other market commitments incentivize producers to invest.

The IDH recognises that standards and certification mechanisms are powerful, but also that they have limitations. Firstly, standards need to ensure their **continued credibility**. Secondly, standards must become **more based on performance and real data**. Currently, in most cases, certification only assures that some good practice is in place and has been checked. It does not tell us much about real impact on business performance – though BCI in cotton is a positive exception, as is ASC in aquaculture. With credible measurement, investment can be allocated accurately and change accelerated.

Thirdly, there is the issue of the **proliferation of standards**. For brand manufacturers and retailers who deal in thousands of products and ingredients, it is impractical that each of these to go through the same multi-stakeholder standard-setting process as has been done in sectors like soy and palm oil. Companies should be able to work with a formally recognized “bandwidth” of standards.

(Source: IDH, Proposal 2014-2020, Netherlands Ministry of Foreign Affairs)

### Multi-stakeholder approach

A multi-stakeholder approach typically engages not only with corporations, but other stakeholders including consumers and businesses, to develop green ‘standards’ which have broad-based support. In interventions taking this approach, awareness raising efforts on the importance of environmental sustainability in business operations are often focused on stakeholders in developed countries. There is also typically a second component working with stakeholders on the supply end, including farmer cooperatives, NGOs and local governments, to build knowledge and capacity around green operations and standards using the targeted interventions for MSMEs explored above.

Key lessons relating to the development of standards and certification schemes:

- ***Standards and certification schemes can have unintended effects***

Standards or buyer requirements around green or sustainable practices can create barriers for SMEs, and especially for small companies and smallholder farmers which lack the knowledge and capital to meet them. They can thus have an unintended negative effect on the participation of these small businesses in greener activities.

- **Proliferation of standards**

The number of voluntary standards and green labels continues to grow. While this trend demonstrates that green growth is being embraced by the private sector, it also underlines the risk of ‘green washing’. Standards systems need to innovate to continue to be relevant for further scaling and mainstreaming, while strengthening their credibility and further developing measurement systems to capture farm-level impact.

### 3.1.3 Public Policy Initiatives

Most green growth projects have a component that supports governments in the development of green growth strategies, builds government capacity for implementing green growth policies and programmes or influences governments to mainstream green considerations into policies, regulations, tax regimes and procurement mechanisms. A significant share of these projects is focused on regulatory frameworks, and assisting countries with emerging green growth policy issues

#### **Box 11: Different approaches to influencing of policy frameworks**

An example of a project that aims for improvements in the regulatory framework is the joint initiative of the Forestry Department of FAO and FAO’s National Forest Programme Facility. This programme seeks to **integrate climate change considerations into national forest programmes (NFPs)** or forest policy frameworks. It promotes a new approach for policy makers to develop strategic goals and respective actions to integrate climate change into forest policies and strategies, legislation, and institutional frameworks. It also suggests ways to improve and develop ‘enabling factors’: forests and climate change-related capacities, financial arrangements, research and information, and communication systems.

This approach is the product of a thorough consultative process with active engagement of countries and experts. The expectation is that this intervention will enable climate change aware private sector investments in the forestry sector by lowering the threshold to access required investment capital and through a more conducive investment climate.

An example of a more facilitative approach to making changes in the regulatory framework is the UNDP project '*De-risking Renewable Energy Investment*'. The project has produced a tool to support policy decision-making with quantitative comparisons of different public instruments and their expected impacts. The framework is built upon the idea that one of the main challenges which must be addressed to scale up renewable energy technologies in developing countries is to lower the relative financing costs. The tool that was developed demonstrates to policy makers what mix of public instruments can address investor risks, and quantifies how they can reduce financing costs. This will then lead to an improved investment climate for renewable energy solutions.

Another approach is to influence policy makers through demonstration. For example, the Malaysian-Danish Environmental Cooperation programme has supported the building of two energy efficient office buildings. The pilot building demonstrated that it was possible to reduce energy consumption by almost 50% through a combination of innovative technologies and architecture. This has received great recognition from the government of Malaysia, and has contributed to the establishment of a new Energy Information Bureau, introduction of energy related subjects in university courses, and new building by-laws and standards for energy efficiency in government buildings.

#### *Main lessons*

The investment decision must come from the private sector in order to achieve significant greening of local economies. **The government’s role is to create an enabling environment that makes these investments possible and attractive.** Instruments for policy makers can range from providing information to facilitating development of voluntary standards and from setting

compulsory targets to developing and enforcing green regulations. The most effective category is likely to depend on the degree of control the government aims to exert, the capacity of the private sector, and available resources, as is elaborated upon in the table below.

**Table 2: Benefits and challenges of different policy instruments**

	<i>Command and control</i>	<i>Market based</i>	<i>Voluntary</i>	<i>Information</i>
Description	Compulsory standards, bans	Setting benchmarks or compulsory targets	Encouraging market actors to take the initiative in developing solutions to the problems policy makers wish to solve	Government itself or independent bodies set up by government can act to pro-actively share information and raise awareness
Benefits	Predictable results	Leaving it up to the industry to figure out what is the best way to achieve the target enables private sector innovative capacities	Stepping aside and letting the industry take the lead, or providing a framework or benchmarks for those that wish to participate in the voluntary initiative.	Need for authorities information on best practices, payback times on green investments, etc.,
Challenges	May stifle innovation; Depending on gvt. enforcement capacity	Depending on private sector investment and innovation capacity	Depending on private sector investment willingness to cooperate	Unpredictable outcomes

Source: Adapted by Enclude from UNIDO "Green Industries; Policies for green industry" May 2011

### 3.1.4 Access to Finance Initiatives

Improving access to finance is an important and widely-used strand of green growth interventions. Different models exist to make use of finance as a driver of green growth; three common approaches currently used by donor agencies are outlined below.

#### *Green credit lines*

One common approach is the use of *green credit lines*. For example, AFD has several projects of this type, where dedicated credit lines for green investments are being made available through local banks for onward lending to businesses that wish to invest in renewable energy (RE) and energy efficiency (EE) projects. A specific example is the RTAP project in Kenya, which is providing green credit lines for businesses that want to invest in RE and EE technologies (see case study on RTAP in Annex 1). In this project, credit lines coupled with Technical Assistance was shown to be an effective means of scaling-up new investment technologies and stimulating demand for the energy efficiency and renewable energy solutions. Local banks acquire the required capacity to finance the EE and RE markets, resulting in more projects and an additional source of income for the banks.

#### *Green Investment Funds*

Another channel for increasing the availability of funding for green investments is *investment funds*. For example, the Green for Growth Fund (GGF) in Southeast Europe is the first specialized fund to advance energy efficiency and renewable energy in Southeast Europe, including Turkey. A Luxembourg-based investment fund initiated by the European Investment Bank and KfW Entwicklungsbank, GGF is a public-private partnership established to reduce energy consumption

and CO<sub>2</sub> emissions. GGF provides refinancing to financial institutions to enhance their participation in the EE and RE sectors and also makes direct investments in non-financial institutions with projects in these areas. The activities of GGF are supported by a technical assistance facility.

#### *Climate Innovation Centres*

A further type of project channelling financial resources to the private sector is *Climate Innovation Centres* (CICs) (WB/InfoDev/Danida/DFID). This is a model to promote green growth by accelerating locally developed solutions to climate change adaptation and mitigation. The global initiative aims to establish 30 national CICs, which will deliver financial services including access to equity and loans. An example is the CIC in Kenya, which offers financing and other services (consultancy, coaching and business development services) to grow a network of climate innovators and entrepreneurs. By working with banks and the private sector, the CIC will provide opportunities to expand the country's agriculture, energy, transport, and health and water infrastructure to serve the needs of a growing population through environmentally sustainable means.

#### **Box 10: Financial institutions investing in the forest sector to develop due care procedures**

FLEGT stands for Forest Law Enforcement, Governance and Trade. The EU's FLEGT Action Plan was established in 2003. It aims to reduce illegal logging by strengthening sustainable and legal forest management, improving governance and promoting trade in legally produced timber.

One component of the programme works with financial institutions investing in the forest sector to develop due care procedures, raise awareness amongst financial institutions and build their capacity to assess risks related to financing forestry companies that do not comply with buyers' voluntary codes of conduct and government policies on sustainable forestry.

Source: <http://www.eu-flegt.efi.int/flegt-action-plan>

#### *Main lessons*

- **Merely making a credit line available is often not sufficient.** Capacity building is needed, as knowledge and skills at financial institutions need to be developed. In some cases, TA is also needed to help applicants develop bankable proposals. Earmarked green funds/credit lines are therefore often combined with a technical assistance facility.
- **Financial incentives should not be seen in isolation from the financial institution that is to roll them out.** Financial institutions need to recognise the business case. Environmental monitoring systems in financial institutions can be useful tools for tracking the impacts of financial products delivered.

# 4. TOOLS FOR GREEN GROWTH

DCED members have created numerous tools to aid green growth programme design, assessment and results measurement, many of which can be accessed online. A selection of these is described below. In addition, other organisations such as the United Nations Environment Programme and Green Growth Development Platform and Green Growth Knowledge Platform have created and reviewed useful tools which can be accessed online. See for example:

- <http://www.greengrowthknowledge.org/resource/tools-delivering-green-growth>
- [https://www.greengrowthknowledge.org/search/site?keyword=tools&sort\\_by=search\\_api\\_relevance&sort\\_order=DESC](https://www.greengrowthknowledge.org/search/site?keyword=tools&sort_by=search_api_relevance&sort_order=DESC)

## 4.1 Green intervention design

The starting point of many green growth interventions is to look for green private sector development opportunities; new tools have been developed by DCED members help identify these. These tools often focus on the meso or macro level, assisting the design of development strategies for sectors, landscapes or countries. However, a number of tools reviewed were developed to identify direct opportunities for businesses.

The table below provides an overview of some of these tools encountered.

Tool	Description
Danida Climate Change and Green Growth Screening Note <sup>12</sup>	Danida has developed a Climate Change and Green Growth Screening Note, which is a checklist to assist programme managers to assess the risks, and also the opportunities, for Climate change and Green Growth within a programme.
ILO 'Methodologies for assessing green jobs' <sup>13</sup>	Different methodologies are available to assess the employment <i>potential</i> that green policies can offer. They include inventories, surveys and employment factors, input-output analysis and Social Accounting Matrices and Computable General Equilibrium models. The selection of which tools are most appropriate for carrying out a study is largely dependent upon the questions that it sets out to answer.
GIZ CP4Dev <sup>14</sup>	CP4Dev has been developed as a comprehensive tailor-made support package for institutions in developing countries. GIZ support in the context of CP4Dev includes process facilitation for integrating climate change aspects into development planning, participatory development of a methodology and material, extensive capacity building and support for follow-up, learning and quality control of adaptation.
GIZ ValueLinks Manual <sup>15</sup>	ValueLinks is the name given to a systematic compilation of action-oriented methods for promoting economic development with a value chain perspective. It

<sup>12</sup><http://amg.um.dk/en/~/media/amg/Documents/Technical%20Guidelines/Guidelines%20for%20programmes%20and%20projects/Tools%20and%20templates/Climate%20Change%20and%20Green%20Growth%20Screening%20Note.docx>

<sup>13</sup> ILO Policy Brief, February 2013: [http://www.ilo.org/wcmsp5/groups/public/---ed\\_emp/---emp\\_ent/documents/publication/wcms\\_176462.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_176462.pdf)

<sup>14</sup> [https://www.adaptationcommunity.net/download/ms/mainstreaming-guides-manuals-reports/gtz-climateproofing-td-2010-en\(2\).pdf](https://www.adaptationcommunity.net/download/ms/mainstreaming-guides-manuals-reports/gtz-climateproofing-td-2010-en(2).pdf)

<sup>15</sup> <https://www.valuelinks.org/material/manual/>

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provides essential knowledge on ways to enhance employment and the income of micro and small-sized enterprises and farmers by promoting the value chains they are operating in. The ValueLinks manual is intended for use by development projects or by public agencies promoting specific agribusiness, handicraft or manufacturing sub-sectors of the economy. The emphasis is on the product markets that offer opportunities for the poor. It is currently being updated to include a more explicit focus on 'green' value chain opportunities.

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## 4.2 Environmental performance standards for private sector development projects

This section looks at the different tools that have been developed and are being used within GGWG member organisations to assess, monitor and evaluate the green aspects of private sector development programmes.

### Environmental and social performance and quality standards

All DCED member organisations interviewed as part of the stocktaking include social and environmental risk assessment or quality standards as part of their entry-level assessment procedures when initiating a private sector development intervention.

The majority use the IFC Performance Standards on Environmental and Social Sustainability to guide their project assessment and implementation.

These standards are regularly updated to reflect new trends and thinking on environmental risks.

#### **Box 16: Overview of IFC Performance Standards on Environmental and Social Sustainability**

The eight Performance Standards establish standards that the client is to meet throughout the life of an investment by IFC:

- Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts
- Performance Standard 2: Labour and Working Conditions
- Performance Standard 3: Resource Efficiency and Pollution Prevention
- Performance Standard 4: Community Health, Safety, and Security
- Performance Standard 5: Land Acquisition and Involuntary Resettlement
- Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources
- Performance Standard 7: Indigenous Peoples
- Performance Standard 8: Cultural Heritage

Source: [https://www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/sustainability-at-ifc/publications/publications\\_handbook\\_pps](https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_handbook_pps)

In 2010, the IFC Performance Standard Three was updated to include not only pollution prevention, but also resource efficiency related to the use of raw materials, water and energy. In March 2014,<sup>16</sup> UNDP launched a consultation on its draft Social and Environmental Standards which were subsequently revised and approved for roll-out by the end of 2014. The standards put human rights, gender equality and environmental sustainability at their core and outline seven project-level standards (including standards related to biodiversity conservation and sustainable natural resource management, pollution prevention and resource efficiency, indigenous peoples, climate change mitigation and adaptation, among others).

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<sup>16</sup> <http://www.undp.org/content/dam/undp/library/corporate/Social-and-Environmental-Policies-and-Procedures/UNDPs-Social-and-Environmental-Standards-ENGLISH.pdf>

**Table 3: Examples of S&E Standards**

Organisation and name of standard	Environmental / green dimensions monitored
<i>UNDP's Social and Environmental Standards<sup>17</sup></i>	<ul style="list-style-type: none"> <li>- Biodiversity Conservation and Sustainable Natural Resource Management</li> <li>- Climate Change Mitigation and Adaptation</li> <li>- Pollution Prevention and Resource Efficiency</li> </ul>
<i>IFC performance standards</i>	<ul style="list-style-type: none"> <li>- Assessment and Management of Social and Environmental Risks and Impacts in development projects</li> <li>- Resource Efficiency and Pollution Prevention</li> <li>- Biodiversity Conservation and Sustainable Natural Resource Management</li> </ul>

#### **Green risks and opportunities to be assessed**

Most environmental quality or performance standards currently do not include checks on interventions or investments' potential to generate positive environmental impacts.

However, a number of organisations are beginning to develop these opportunity assessments. For example, KfW's Environmental, Social and Climate Change Assessment includes a systematic review of risks and 'chances' (opportunities). The environmental assessment includes an assessment of "potential to improve environmental quality, conserve resources and foster ecological sustainability". Sida and the FAO also explicitly include a scan for "opportunities for better management of natural capital and climate risks" in their processes, as illustrated in the table below.

**Table 4: Examples of risk assessment tools**

Organisation	Tools description
<i>KfW Environmental, Social and Climate Change Assessment Systematic Review of Risks and Chances</i>	<p><b>a) Environmental assessment:</b> Firstly, <u>potential adverse effects</u> of a strategy or measure upon the following endpoints are analysed:</p> <ul style="list-style-type: none"> <li>- People, including human health, - Fauna, flora and biological diversity, - Soil, water, air and landscape, - Cultural and other material assets, and - Linkages among the above-mentioned endpoints. Secondly, the <u>potential to improve</u> environmental quality, conserve resources and foster ecological sustainability is analysed.</li> </ul> <p><b>b) Climate assessment: (added in 2011)</b></p> <p><u>Climate proofing:</u> The purpose of assessing and considering climate adaptation issues is to ensure that the envisaged development results of the strategy or measure are not jeopardised by the anticipated impacts of climate change. A further purpose is to analyse whether adaptive capacity in the partner country can be boosted within the context of the strategy or measure. (...) It also considers the extended period of results beyond the formal duration of the strategy or measure. On this basis, options for increasing the adaptive capacity of target groups or ecosystems are developed and implemented.</p> <p><u>Emission saving:</u> The purpose of assessing and considering mitigation aspects is to avoid significant greenhouse gas emissions and tap greenhouse gas reduction potential. (...) options for contributions to greenhouse gas reduction are developed and where appropriate – taking account of their development-policy effectiveness and their costs – they are integrated into the strategy or measure.</p>
<i>Sida</i>	Sida has a system for administrating contributions called TRAC. TRAC provides general questions to ensure that <u>environment and climate change risks and opportunities</u> are considered in the inception phase where a pre-appraisal is made, throughout the project (including in the in-depth relevance assessment) and in the

<sup>17</sup> Public Comment Draft: 3 March 2014

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<b>FAO EX-ACT<sup>18</sup></b>	<p>follow up phase. Questions have to be answered to advance further in the preparation of the contribution. TRAC does not specifically include questions that use the green growth/green economy terminology. However it <u>stresses the importance of considering opportunities for stronger results</u> through better management of natural capital and climate risks. Furthermore it contains supporting texts that make reference to opportunities arising from green growth.</p> <p>The EX-ACT (EX-Ante Carbon Balance Tool) is a tool jointly developed from three FAO divisions (TCS, TCI and ESA1) and is aimed at providing ex-ante estimations of the impact of agriculture and forestry development projects on GHG emissions and Carbon (C) sequestration, indicating the effects on the C balance</p>
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### Exclusion lists

Out of the 14 organisations that submitted data for this review, only a few have their own exclusion lists related to environmental or green criteria. Most organisations do, however, have a long standing policy of steering away from projects with significant environmental risks.

Finland has its own exclusion list.<sup>19</sup> The Netherlands MfFA applies the exclusion list of development bank FMO<sup>20</sup> to its private sector development programmes.

There is also a trend towards excluding brown technologies. The box below, for example, illustrates growing concern about using public financing for nuclear power plants, coal-fired power plants or large hydro-dams. These debates are influencing the policies and financing activities of development finance organisations such as IFC.

#### Box 17: Exclusion lists for brown technologies

There is increasing discussion amongst multilateral and bilateral aid organisations on whether development cooperation should be used to provide (preferential) financing for brown technologies, such as power generation through coal-fired power plants.

Finland has, for example, excluded the use of development cooperation funds in financing nuclear and coal power or large dams. The Netherlands also recently announced that it will join with the U.S., the U.K., Denmark, Finland, Iceland, Norway and Sweden in ending public financing for any new coal-fired power plants overseas, except in rare conditions when other technological options are not available.

Source: Bloomberg BNA

### 4.3 Green M&E indicators

As discussed in the previous chapters, green growth interventions use a large variety of different approaches and interventions at different levels; the theory of change is often not clearly or explicitly articulated. As a result, indicators tailored to the measurement needs of the programme often don't exist; nonetheless, there is a wide variety of indicators in use, and a list may be useful as examples of what might be appropriate for each programme (for more information on articulating and using theories of change to measure results, see the DCED's [Standard for results measurement](#)).

Some important efforts have already been undertaken to develop instruments to assist organisations/staff with the selection of indicators in their green growth projects. For example

<sup>18</sup> <http://www.fao.org/tc/exact/ex-act-home/en/>

<sup>19</sup> [https://finnpartnership.fi/wp-content/uploads/2020/12/Finnpartnership\\_ExclusionList\\_2020.pdf](https://finnpartnership.fi/wp-content/uploads/2020/12/Finnpartnership_ExclusionList_2020.pdf)

<sup>20</sup> FMO=Dutch Development Bank

the OECD has developed a preliminary selection of indicators on the basis of existing work in the OECD, other international organisations, and in member and partner countries (OECD, 2011)<sup>21</sup>. UNIDO has launched a project to establish a set of indicators to monitor green growth in the Latin America and Caribbean (LAC) region. The indicators are based on the OECD Green Growth measurement framework and draw from UNEP's prior experience with environmental indicators.

**Figure 4: Overview of Green Growth indicator groups and topics covered**

<b>1</b>	<b>The environmental and resource productivity of the economy</b>	<ul style="list-style-type: none"> <li>• Carbon and energy productivity</li> <li>• Resource productivity: materials, nutrients, water</li> <li>• Multi-factor productivity</li> </ul>
<b>2</b>	<b>The natural asset base</b>	<ul style="list-style-type: none"> <li>• Renewable stocks: water, forest, fish resources</li> <li>• Non-renewable stocks: mineral resources</li> <li>• Biodiversity and ecosystems</li> </ul>
<b>3</b>	<b>The environmental dimension of quality of life</b>	<ul style="list-style-type: none"> <li>• Environmental health and risks</li> <li>• Environmental services and amenities</li> </ul>
<b>4</b>	<b>Economic opportunities and policy responses</b>	<ul style="list-style-type: none"> <li>• Technology and innovation</li> <li>• Environmental goods and services</li> <li>• International financial flows</li> <li>• Prices and transfers</li> <li>• Skills and training</li> <li>• Regulations and management approaches</li> </ul>
	<b>Socio-economic context and characteristics of growth</b>	<ul style="list-style-type: none"> <li>• Economic growth and structure</li> <li>• Productivity and trade</li> <li>• Labour markets, education and income</li> <li>• Socio-demographic patterns</li> </ul>

Source: OECD, 2014

In addition, some measurement systems for specific types of environmentally focused interventions are being developed. For example, AFD has developed an instrument for quantifying emissions and can estimate the reduction of greenhouse (GHG) emissions generated by the project's finances. The tool is based on a very large baseline data set, which is used to estimate emissions avoided by a project, regardless of the country and the project area.

Another example is FAO's contribution to the development of a set of sustainability indicators specifically for bioenergy, in the context of the Global Bioenergy Partnership. To support the contribution of bioenergy to sustainable development, the development and deployment of modern bioenergy should be based on principles reflected in a common set of sustainability indicators that can be applied by individual countries or communities.

Whilst the above comprise an important preliminary step towards identifying common indicators of green growth, feedback from project evaluations and a number of GGWG members suggests that more explicit guidance on the selection of indicators appropriate for different types of interventions could be helpful. Especially in interventions where there may be a trade-off between economic, socially inclusive and green outcomes, guidance to monitor performance and signal potential unintended effects would have the further benefit of *improving the overall quality of the interventions*.

<sup>21</sup> <http://www.oecd.org/greengrowth/48224574.pdf>

# 5. CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Conclusions

Green growth is a topic of growing interest and support in private sector development programmes. The review of 120 green growth PSD projects among the DCED Green Growth Working Group member agencies demonstrates the wide variety of approaches, models and tools that are being used worldwide.

This stocktaking has provided valuable insights into the current diversity in aspired types and drivers of change, in addition to the diversity in actual intervention approaches and tools. This wide variety of approaches to green growth stems in part from the diversity in the aspirations of donors and interventions – a diversity which can in fact lead to complementary outcomes. Interventions which exploit the green growth opportunities existing within current framework conditions are matched with interventions which aim to change these very conditions in order to reach different, i.e. greener, development paths over time. In this light, donors need to clarify their underlying long term aspirations for separate short term interventions, and consider the potential trade-offs which may follow from these whilst seeking opportunities to maximize ‘win-win’ scenarios.

Clearly, this diversity is also related to the fact that there is not a single, commonly agreed definition of “green and inclusive growth” among the surveyed agencies. This is probably a reflection of the relatively short existence of the concept and the limited knowledge and understanding among staff and partner countries. In a sense, the concept and approaches are still very much in an experimental phase, hence the ongoing research and capacity development within many of DCED member agencies.

The stocktaking proposes a mapping of green growth perspectives using drivers of green growth, the role of the private sector and the aspired change, or intended outcome, as parameters. The emerging picture shows no particular predominance or trend in the approaches, but rather reveals the complexity of the concept.

The same is reflected with regard to practical approaches that agencies adopt to implement green growth strategies, with a large number of initiatives for green market and value chain development (or “creating green growth”) in tandem with programmes to make existing operations of business and corporate behaviour more climate-friendly and resource efficient (“greening growth”). Whilst many efforts are directed at the private sector, most agencies incorporate approaches and tools to reform public policy, acknowledging the key importance of enabling policies and regulations.

Importantly, it appears that most agencies acknowledge the relevance of each of these approaches, with some looking for active synergies by building broader platforms to convene stakeholders. It will be important to facilitate the co-existence of different models of interventions whilst looking for ways to enhance their eventual convergence.

One impeding factor may be the impression of rather scattered organizational models that is gained from this review of agencies. Green growth approaches and tools are adopted in many parts of the organizations, with only some having created a central unit or programme for coordination. It seems too early to assess whether this is already the evidence of successful mainstreaming or the reflection of more or less autonomous adoption of greener ways of undertaking conventional programmes. Here, the role of the DCED could be significant, sharing lessons of organizational development strategies among its members, perhaps including the

ways organisations with a purely environmental mandate are beginning to embrace private sector focused strategies.

In this context, it may also be useful to focus future work on a more narrow selection of the approaches which are felt to be most relevant to the work of DCED GGWG members, in order to enable more evidence-based exchanges on lessons learnt and better understanding of good practice.

Further recommendations based on the insights of the stocktaking are as follows:

- **Develop joint M&E guidance:** Green growth is a broad theme, and a variety of indicators is needed. However, practical guidance on selecting indicators and some level of standardization on indicators would be useful, both for improving the quality of green growth interventions and for strengthening the concept of green growth itself. The DCED GGWG could further explore if it is positioned to play a role in this process.
- **Prevent proliferation of standards:** More insight is needed into the potential role of donor coordination in preventing the proliferation of (voluntary) green standards.
- **Develop mutual understanding and aligning of goals:** An important ingredient for effective green growth PSD interventions is working partnerships. However, when projects rely on collaboration among diverse partners, the harmonisation of the initial goals, assumptions and expected outcomes at project inception is of critical importance. Mutual understanding of different stakeholder perspectives can be key to identifying the set of potential win-win scenarios.
- **Systematically review of risks and opportunities:** The review revealed most donors' social and environmental quality or performance standards traditionally focus on the assessment and mitigation of environmental risks. Green growth however is not only about risks; it is about pro-actively seeking synergies between green and economic opportunities. Environmental quality or performance standards need to be updated to include checks on whether interventions or investments are implementing best practices to enable their potential to improve environmental quality, conserve resources and foster ecological sustainability.
- **Develop tools to overcome the limitations of internal organisation:** Green growth targets, responsibilities and expertise within donor organisations are often spread over different departments. The advantage to this is that it allows green growth to be mainstreamed into existing environmental, socially inclusive or private sector development interventions and approaches. The associated risk however is that learning will be fragmented, and that 'holistic' green growth approaches and opportunities may be overlooked because they do not fit into the more 'narrow' or specialist mandates of these separate departments. Regular reports and other outputs of the GGWG can empower its members to take initiative in sharing knowledge and insights to inspire their co-workers, and share best practices.
- **Bring together and share tools:** New tools have been developed by DCED members to identify green private sector development opportunities. These tools often focus on meso or macro level, assisting with the design of development strategies for sectors, landscapes or countries. However, also a number of tools were developed to identify actionable opportunities for businesses. The DCED GGWG could develop an overview of these tools, to share knowledge and prevent duplication of efforts.

- ***Address lessons and knowledge gaps:*** As experiences in green growth interventions are still young, and it is difficult to make statements about the effectiveness of the various approaches, it is recommended to perform another review in 3 years' time, perhaps with a more evaluative emphasis.