



The Donor Committee for Enterprise Development

April 2012

## Green Growth: Risks and Opportunities for Trade and Investment

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

### **The Challenge**

The promotion of green growth is increasingly gaining momentum in the policy-making of OECD countries and emerging economies. As the transition to green growth changes consumer and business behaviors, trade and investment flows with developing countries are likely to be affected as well. This change implies both opportunities and risks for development. For example, it may bring market opportunities to producers of organic agricultural products, while the investment for mass-scale biofuel production may result in displacement of small-scale farmers. Developing countries, particularly poor countries, need to adapt to these changes. The ability of the private sector in developing countries to adapt to changing conditions in trade and investment will be critical for the success of a transition to green growth patterns. This is why, in particular, private sector development policies in developing countries should be carefully assessed according to such opportunities and risks.

### **The Response**

In facilitating such assessments, development partners face considerable gaps in available research. Members of the [DCED Green Growth Working Group](#) are contributing to tackling this challenge. The OECD, for example, is currently undertaking a research project on how green growth policies in developed and emerging countries may affect developing countries.

### **The Results**

An OECD study (OECD, 2011) identified agriculture, forestry, energy, fishery and mining as key sectors for the economies in Least Developed Countries (LDCs). The table below is an extract on how green growth policies in developed and emerging countries are likely to affect agriculture and forestry sectors in LDCs. The study offers analysis on other sectors, but

these two sectors are particularly important as they underpin the livelihoods of people in most developing countries.

## The Examples

- **Biofuel production in Tanzania:** an economic modeling by the International Food Policy Institute suggests that the biofuel production by small-scale outgrower schemes brings more benefits to the poor than a large-scale plantation would. This is because small-scale outgrower schemes retain the land of the poor, and create employment for farmers. The government, therefore, should encourage and support outgrower schemes. Also, a combination of outgrower schemes and large-scale plantations could ensure the steady supply of biofuel (Arndt et al, 2010).
- In Mexico, certification for organic agriculture fails to generate additional income for small-scale producers (Tover et al, 2005). This is because the certification cost compared to the total sales is far smaller for large-scale farmers. The government can support small-scale farmers by institutionalizing more affordable certification schemes.
- Kenya can export cut flowers to the UK using less energy and thus generating less greenhouse gas emissions than the Netherlands. In fact, the carbon footprint of cut flower production in the Netherlands is about 5.8 times larger than in Kenya. Hence, carbon footprint capturing the carbon emissions at the production process will benefit Kenya (Williams, 2007).
- Bioenergy CDM projects, which generate energy from agricultural waste, are likely to benefit richer segment of the population than poor ones. This is because most of the agricultural waste come from large-scale farmers and generated energy is sent to urban area (Michaelowa and Michaelowa, 2007). This implies that CDM projects do not guarantee pro-poor benefits that contribute to poverty reduction.

**Table: Impact of green growth measures in OECD/BRIC countries on agriculture and forestry in LDCs**

Sectors in LDCs	Opportunities	Threats
Agriculture	<ul style="list-style-type: none"> <li>• Access to new markets and expansion of trade with bioenergy stimulates agricultural sector growth. (A, E)</li> <li>• New markets and exports of food products provide investment incentives in agriculture. (A, E, FI)</li> <li>• Certification promotes sustainable agriculture and economic returns to smallholders. (A)</li> </ul>	<ul style="list-style-type: none"> <li>• Shift of land use patterns towards large-scale farming (especially for biofuel production) in LDCs marginalizes small farming households. (A, E)</li> <li>• Negative environmental externalities from bioenergy production (water demand, monoculture, deforestation, etc.) impact on rural poor. (A, E)</li> <li>• Forest protection reduces the availability of agricultural land, which leads to decreased agricultural production, and consequently increasing food prices. (F)</li> </ul>
Forestry	<ul style="list-style-type: none"> <li>• Protection of forests creates green jobs</li> </ul>	<ul style="list-style-type: none"> <li>• Protection of forest land limits the access to</li> </ul>

	<p>to landless rural poor and preserves biodiversity. (F)</p> <ul style="list-style-type: none"> <li>• Certification promotes sustainable management of forest resources.(F)</li> <li>• New financing opportunities for forest owners via CDM, REDD, REDD+. (F)</li> <li>• Reduced pressure on forests as energy source due to renewable energy (i.e., biofuel) production. (E, A)</li> </ul>	<p>wood and non-timber forest products for the rural poor. (F)</p> <ul style="list-style-type: none"> <li>• Certification becomes non-tariff trade barrier. (F)</li> <li>• Removal of fossil fuel subsidies may increase the demand for forestry products as an energy source by the poor. (E)</li> <li>• Increased global demand for agricultural and forestry products as an energy source may spur deforestation, with adverse effects for the rural poor. (E, A)</li> </ul>
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Note: Letters in parentheses identify the sector in OECD/BRIC countries with which the opportunities and threats originate. E = Energy, A = Agriculture, F = Forestry.

Source: OECD (2011)

## Lessons Learned

These examples show how green growth policies in OECD countries and emerging economies can affect developing countries, both in terms of opportunities and risks. These need to be adequately evaluated and addressed in policy-making. International development cooperation can play an important role by supporting developing countries to assess and mitigate the risk and seize opportunities that arise from the transition. The DCED Green Growth Working Group provides expertise and knowledge on such issues.