

# Proposal for a Green Growth Working Group under the DCED

## A. Reasoning and Proposal

During the financial and economic crisis and the Copenhagen Climate Change Conference, the terminology of the debate on economic recovery and growth has been emphasising a “green” dimension. Under increased public pressure, political decision makers increasingly committed themselves to green growth jobs, green finance and green growth policies.

In a carbon constrained world with **climate change** impacts a reality, sustainability concerns permeate all areas of government, industry and society. Besides the problem of climate change, other negative externalities accompanying economic activities such as the **degradation and depletion of limited natural resources** have to be addressed in order to achieve **environmental sustainability**.

The complexity of these challenges requires action and partnership from all stakeholders, while its global nature requires governments and international institutions to take a proactive approach to ensure clear direction. A number of initiatives have been, and continue to be, proposed and implemented by various stakeholders. To ensure success, it is essential that **synergies** are exploited and **partnerships** developed.

It is against this background, that the **2009 Annual Meeting of the Donor Committee for Enterprise Development (DCED)** proposed that the DCED should address the issue of climate change and the important role of the private sector within a response. A working group under the DCED could take up the challenge of how to achieve growth in developing countries in the context of environmental degradation and depleting natural resources (resource efficient growth strategies), climate change, international mitigation policies, and opportunities of new markets (climate resilient growth strategies).

This **proposal** further specifies the rationale and outlines some key activities of a “**Green Growth Working Group**” under the DCED which should promote knowledge sharing, enable best practice promotion and facilitate partnerships. The core business of this group will be to consider, develop and co-ordinate strategies to:

1. Reduce the negative impact of climate change on private sector development (adaptation to climate change)
2. Limit the contribution of the economy to the degradation of natural resources and to climate change (mitigation of climate change)
3. Create and facilitate initiatives that allow the private sector to develop new environmentally as well as climate friendly growth potentials in line with overall development goals such as poverty alleviation (Green Economy/Green Growth)
4. Assist developing countries in the adaptation and introduction of policy instruments for green growth.

The precise objective and mandate of the working group should be discussed at the proposed first meeting but initially could include:

- Developing a joint understanding and mission
- Conducting a joint stocktaking of research, ongoing and planned activities, and experiences available in the different organizations, and establishing systematic approaches for knowledge sharing
- Sharing ongoing efforts in organisations, e.g. regarding practices on green entrepreneurship, and identify joint initiatives

- Contributing to develop concepts to address the mentioned issues, e.g. development of joint approaches and pilots on ways to incentivise public-private partnerships on green growth.

Members which since have expressed their interest include BMZ/GTZ, DFID, IFC, NORAD, ILO, SDC, SECO, UNDP and UNIDO. This document summarizes comments and suggestions contributed by these agencies.

### **Next Steps**

This document will be submitted to the next Executive Committee meeting of the DCED on 26 March, with a view to proposing “Green Growth” as a new line of work of the DCED. Should this be accepted by Executive Committee, the agencies interested will be invited to participate in the inaugural meeting.

Information on ongoing initiatives has already been posted under [www.enterprise-development.org/page/greengrowth](http://www.enterprise-development.org/page/greengrowth); further contributions are invited.

## **B. Context and Background**

As climate change is underway, national as well as global institutions, industry and the world’s technology base are evolving with it. Climate discussions have moved outside scientific, environmental and development circles, gaining momentum with a wider set of stakeholders.

**Climate change** offers both challenges and opportunities for continued economic growth and development. At the same time, growing **consumption of non-renewable resources**, the **degradation of the environmental systems** (resulting for example in decreasing biodiversity), the global growth in **emissions and waste** as well as the steady increase in **energy consumption** show that current economic processes are undermining the natural basis for future development.

The challenges of climate change are clear and explored in detail elsewhere<sup>1</sup>: Climate impacts, adaptation requirements and mitigation efforts will threaten economic growth and development whilst disproportionately affecting those in society that are most vulnerable.

Opportunities are less well defined but a number of recent initiatives have framed our response to climate change with these in mind<sup>2</sup>. Recent global events<sup>3</sup> have deepened the focus of international institutions, global businesses and national governments on green initiatives, highlighting the opportunity for economic growth and job creation in challenging times:

- New and enhanced **flows of capital** are beginning to provide investment for capacity building, infrastructure improvements, technology innovations and ventures in green sectors – driven largely by the creation of carbon markets such as the European Union Emissions Trading System (EU-ETS) and the Clean Development Mechanism (CDM) under the Kyoto Protocol.

<sup>1</sup> See Climate Science and Climate Impacts Primer <http://www.enterprise-development.org/download.aspx?id=1493>

<sup>2</sup> Green Jobs Report (UNEP/ILO), the Stern Review (UK Government), McKinsey - Abatement Curve. [www.unep.org/labour\\_environment/features/greenjobs.asp](http://www.unep.org/labour_environment/features/greenjobs.asp) / [www.occ.gov.uk/activities/stern/](http://www.occ.gov.uk/activities/stern/) / [www.mckinsey.com](http://www.mckinsey.com)

<sup>3</sup> The global financial crisis, bank failures, government stimulus packages, volatility in energy/ food prices and a predicted water crisis.

- Enhanced business practices, new technology and a core business focus have enabled a **reduction in operating costs** and the **creation of new markets**<sup>4</sup>. Just as the internet and mobile communications industry changed the way people communicate, the green or “cleantech” shift has the potential to be “disruptive” and significantly alter the way we utilise natural resources and produce/use energy.

### **Drivers & Definitions**

The “green” space is evolving and lacks clear consensus on what it actually represents. Terminology is used interchangeably with a number of different meanings. As such, “green” can be investigated through various lenses, the foundation being the notion of sustainability, the challenge of climate change as a result of increased levels of CO<sub>2</sub> in the atmosphere and the degradation of natural resources.

In its broadest sense the notion of a green economy or green development is sustainability – much as it was framed by the Rio Earth Summit and Agenda 21 initiatives<sup>5</sup> - but in a market context. Recently we have seen the proactive involvement of business, internalising sustainability as a core business function which has a number of possible drivers:

1. The reality of carbon pricing –at sub national, national, regional and global levels<sup>6</sup>,
2. The necessity of internalising negative external effects on the environment by including them into the pricing mechanism,
3. The observed and impending impacts of climate change – and the implications for insurance and risk management strategies,
4. The creation of new markets and greening of existing ones – focusing on “green” consumers.

For our purposes, the discussion about green development can be framed in the following manner:

- **Economic framework conditions** - which create a conducive economic environment for enterprises in order to tap substantial growth potentials
  - Development and implementation of strategies like Low Carbon Growth strategies
  - Regulatory and support instruments to increase resource efficiency and climate change mitigation/adaption effects of the economy (environmental fiscal reform, creation of incentive structures e.g. by eliminating tariffs for environmental goods and services, industrial policy, innovation and technology policy etc.).
  - Improving the investment climate in order to unlock private finance for Green Growth strategies.
  - Development of local capacities in the partner countries to realise Green Growth strategies, building on win-win situations for economic growth and the protection of the environment.
- **Carbon Finance** – financial institutions, investment services, fund management and insurance underwriting opportunities associated with the generation, trading and management of carbon markets along with the advisory services that will be necessary for industry, banks and funds to manage their carbon exposure and risk.

<sup>4</sup> Wal-Mart ([www.walmartstores.com/sustainability](http://www.walmartstores.com/sustainability)), GE ([www.ge.ecomagination.com](http://www.ge.ecomagination.com)) and Google.org

<sup>5</sup> See The 1987 Brundtland Report “Our Common Future”

<sup>6</sup> For example, the US Regional Greenhouse Gas Initiative (RGGI), the EU Emission Trading Scheme (EU ETS) and the Clean Development Mechanism (CDM) under the Kyoto Protocol.

- **The CleanTech Sector** – advisory services and technologies that utilise innovative technology and approaches to reduce operating costs and create new products and services. Can be viewed as a sector within itself and as a theme that cuts across all industry sectors. Possible segmentation includes:
  - Energy Generation & Renewables (solar, wind, bio-mass, hydro, cleaner coal).
  - Energy Storage (fuel cells).
  - Energy Infrastructure & Efficiency (green building, smart grid, usage monitors/regulators).
  - Transportation and Logistics (clean vehicles, fleet tracking systems, green supply chains).
  - Water Purification & Air Quality (water recycling, asset management, emissions controls, air purifiers).
  - New approaches to agriculture (drought resistant crops etc).

The relevance of the debate for development cooperation is obvious; if future growth strategies are to be “green”, it lies within the responsibility of government and donor supported programmes - embedded in dialogue mechanisms with the private sector - to shape the development of the private sector accordingly. Markets are formed and made by local, national and international regulation and policy.

### **Current Initiatives**

As a consequence, a number of international organisations adopted the “green” terminology as part of their approaches to deal with a wide spectrum of problems ranging from economic recovery to combating climate change, and debates have turned to green growth strategies and green jobs.

Most relevant examples and initiatives by donors and agencies in this context include the following:

- The UN Economic and Social Commission for Asia and the Pacific (UNESCAP) illustrates Green Growth paths around a strategy for growth “that seeks to maximize economic output while minimizing the ecological burdens. This new approach seeks to harmonize economic growth and environmental sustainability by promoting fundamental changes in the way societies produce and consume”<sup>7</sup>.
- A recent UNEP/ILO report on green jobs<sup>2</sup> defines green jobs as “work in agricultural, manufacturing, research and development (R&D), administrative, and service activities that contribute substantially to preserving or restoring environmental quality. Specifically, but not exclusively, this includes jobs that help to protect ecosystems and biodiversity; reduce energy, materials, and water consumption through high efficiency strategies; de-carbonize the economy; and minimize or altogether avoid generation of all forms of waste and pollution”.
- Complementing these approaches, UNIDO has launched its Green Industry Initiative, which is defined as any industry that is committed to reducing the various environmental impacts of its processes and products, and is actually doing so on a continuous basis. It emphasises the need that Industry, at the strategic / management level complies with all relevant environmental / as well as health and safety laws and regulations; at the process level are eliminating / reducing, through resource efficient and cleaner production methods, their use of raw materials, energy, water and other natural resources; at the site level, are using Best Available Techniques and Best Environmental Practices (BAT/BEP); and at the product level, have

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<sup>7</sup> [www.greengrowth.org/gqtracks.asp](http://www.greengrowth.org/gqtracks.asp)

designed their products to consume the least amount of electricity, water, detergents, oil, hazardous/toxic chemicals, etc.

- The Green Economy Initiative of UNEP is currently working on The Green Economy Report that will demonstrate that investment in greening the economy across a range of sectors, including agriculture and forestry, can drive economic recovery and lead to future prosperity and job creation, while at the same time addressing social and environmental challenges.<sup>8</sup>
- German Development Cooperation is working on several initiatives, to promote Green Growth in the developing countries and building on the German experiences with regulatory incentives for Green Growth, ecological industrial policies and SME support.
- Financed by DFID, the Overseas Development Institute (ODI) also recently published the study “Policies for Low Carbon Growth”<sup>9</sup>, suggesting two broad approaches:
  - **Mitigation**, to allow economic growth to continue while constraining any associated growth in carbon emissions. This includes policies designed to encourage greener energy sources, greater energy efficiency and reduced emissions from agriculture and forestry, and includes strategic thinking about other issues, such as management of infrastructure development to support greener forms of the urbanisation that is likely to accompany economic growth.
  - **Adaptation**, to both climate change itself and to international mitigation policies, to ensure that domestic growth strategies are consistent with the changing global environment and policy context. This includes both taking account of threats to the future growth of certain high carbon industries and trying to capitalise on new opportunities arising, perhaps from growing demand in certain markets (e.g. for environmental goods and services), changing patterns of international trade and investment or new sources of finance being made available through carbon markets.

This overview gives a first indication of the potential for coordination and joint initiatives by various agencies, and the scope for value adding by the DCED.

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*Based on the original proposal by BMZ/GTZ and UNDP, and including comments from DFID, GTZ, ILO, SDC, UNIDO; additionally, expressions of interest were received from NORAD and SECO.*

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<sup>8</sup> [www.unep.org/greeneconomy/AboutGEI/tabid/1370/language/en-US/Default.aspx](http://www.unep.org/greeneconomy/AboutGEI/tabid/1370/language/en-US/Default.aspx)

<sup>9</sup> [www.odi.org.uk/resources/details.asp?id=4542&title=policies-low-carbon-growth](http://www.odi.org.uk/resources/details.asp?id=4542&title=policies-low-carbon-growth)