

Green Economy – Why, What and How?

The current global economic growth path is ecologically unsustainable. Production and consumption degrade and deplete many of the world's environmental resources. There is thus a need for new approaches that can promote inclusive and environmentally sustainable economic development – a green economy. Working towards a green economy (GE) offers such approaches. It conforms with Agenda 2030, Sweden's policy framework for international development cooperation¹ and Sida's Environmental Policy. It also promotes broad-based employment and reduction of poverty in its various dimensions. This brief explains why green economy is needed, what it is, how it can be done, and what Sida does, and can do, to promote it.

WHY GREEN ECONOMY?

The economic system needs transformation towards environmental sustainability and increased resource efficiency, strengthened resilience to environmental pressures and risks, and more and smarter use of green technologies and innovations. Working towards a **green economy promotes poverty reduction in the four dimensions identified by Sida**. It promotes *opportunities and choice* among poor people by increasing their access to a clean and safe environment; it promotes *human security* by preventing or addressing conflicts over access to land, food, water and other natural resources; it promotes increased *power and voice* among the poor by e.g. strengthening their rights to a safe and clean

environment, functioning ecosystems, food and health; it promotes *resources* including *enhanced quality and quantity of natural resources*, reduces pollution or degradation of air, water and lands, and other environment-related risks and vulnerabilities.

WHAT IS GREEN ECONOMY?

Promoting a **Green economy (GE) implies transformation of today's policies and practices towards environmental sustainability**. It challenges business as usual. Key elements of GE are efficiency, incentives, transformation, sustainability and inclusion - bringing people and key actors together towards better livelihoods in smarter, cleaner, innovative and more resource efficient economies; GE accounts for the environment and the value of natural assets in planning and decision-making, and focuses on the quality and sources of economic growth - as opposed to today's focus on the *growth number only*. Economic growth is necessary to reduce poverty in low income countries, but it needs to be socially and environmentally sustainable.

Working towards a green economy complements traditional environmental management by emphasizing use of economic instruments (pollution taxes, fees etc.), and place more responsibility on economic and financial actors to promote environmentally sustainable environment. It addresses economic externalities, e.g. environmental costs that are imposed on others, and economic distortions that create pollution and natural resource depletion and degradation. Making pollution more costly provides incentives for new green jobs, technologies, investments and opportunities for trade.

¹ www.government.se/legal-documents/2017/05/policy-framework-for-swedish-development-cooperation-and-humanitarian-assistance/

Operationalizing green economy typically implies analyzing and addressing economic driving forces to environmental degradation; e.g. identifying the environmental impacts of subsidies of water, electricity and petrol. It includes analysis of economic impacts of environmental degradation, natural resource depletion as well as identifying economic benefits of environmental management. What are the financial, economic and social costs of water, soil and air pollution? What are the economic benefits of green economy reform? Greening the economy also includes economic valuation to take stock of the state of the environment in economic terms.



Asella town market, Ethiopia: Promoting a green economy by strengthening local markets and incomes based on agro-diversity and sustainable crop production. Photo: Anders Ekbohm

Another key area of GE work is design and implementation of new policies, instruments and actions to address the key environmental problems and promote economic opportunities. At the international level this is done via the international conventions, treaties and agreements. At national and local levels it is most often done via environmental fiscal reform (changes in taxes, fees, subsidies etc.) or in projects and various initiatives like green jobs programs, green bonds, and other green investments, innovations and demonstration projects that can be scaled-up (e.g. renewable energy, sustainable housing and transport solutions). Yet another key area of work is measuring and reporting progress, such as budget allocations to environmental management, development of measures of wealth, economic growth and savings that also include changes in environmental quality and natural capital, e.g. Natural Resource Accounting and green GDP.

EXAMPLES: ACTIONS PROMOTING GREENER ECONOMIES

- **Green economy reform in Ethiopia:** In 2011, Ethiopia launched a Climate-Resilient Green Economy (CRGE) Strategy. It builds on Ethiopia's vision to become a low-carbon middle-income country by 2025. The Strategy promotes resource efficient, low-polluting alternatives to business-as-usual economic growth, by implementing an investment plan of over 60 larger investment projects. Thematically the investment plan covers four different areas of work: (1) Improving crop and livestock production practices, (2) protecting and re-establishing forests, (3) expanding electric power generation from renewable sources and (4) leap-frogging to modern and energy-efficient technologies. The investments are low-cost measures, and rely (mostly) on international and private finance, and private sector mobilization. Despite several implementation challenges it offers a positive example of how GE can be embraced and operationalized from national to local level.
- **Promotion of green jobs in Zambia:** Together with the private sector, donors, UN and academia, Zambia's government has made use of several green economy tools to stimulate a greener construction sector. The program has developed new building codes, trained micro, small and medium enterprises (MSMEs) in resource efficient building techniques, involved large companies in demonstration projects etc. to create new markets for greener and decent jobs.
- **Proliferation of Green Bonds:** The World Bank, SEB and Toyota and cities like London, Gothenburg and Johannesburg have issued green bonds to finance investments in green and low carbon development. The green bonds function as conventional bonds but focus on green investments; they serve as economic incentives among investors to increase and re-direct financial flows towards greener solutions and instruments to transform the economy towards environmental sustainability.
- **Public Environmental Expenditure Reviews (PEER):** PEERs are a tool to analyze the government's budget allocations to environmental activities across sectors, trends across sectors and time, and if these are coherent with national development plans and priorities. Examples from Tanzania and Mozambique show PEERs as useful eye openers to planners and decision-makers to inform policy processes and budgets.

THE POLITICS OF GREEN ECONOMY

General requirements for successful work towards a green economy are political will and leadership - internationally, nationally and locally - and stronger involvement of economic and financial actors and agencies. It requires strengthening national and local capacity, and competence to promote change. It often requires broad-based and profound changes in mindsets, norms, ethics and behavior among consumers and producers. It presupposes appropriate sequencing of reforms and steps to make progress – identification of low-cost measures that can be implemented quickly; and ownership among users and implementers.

Promoting GE includes many win-win opportunities, that need to be communicated and known among decision-makers. Examples include transformed supply chains of clean and ecologically certified products and growth in green export markets, New green companies may be created with higher sustainability standards that capture international market shares.

Greening economies typically also imply addressing trade-offs and goal conflicts between economic, environmental and social objectives. Examples include eviction and compensation of poor squatters in forests designated for conservation and climate change mitigation; or food security vs climate change mitigation, where agricultural lands are set aside for large-scale production of bio-fuels.

Green economy reforms also include addressing environmental governance and political economy issues, and managing winners and losers across actors and sectors. Polluting businesses will lose incomes, while new greener actors will grow, employ, and profit. This happens e.g. in the energy sector where solar and wind energy companies produce more jobs and take market shares from e.g. oil and coal.

HOW DOES SIDA PROMOTE GREEN ECONOMY?

Generally, greening an economy through development cooperation can be done mainly through three means: dialogue, targeted interventions or through integration in interventions; often in combinations.

i) Dialogue

Dialogue may be used with partner country governments, private sector actors, or NGOs/CSOs. Dialogue complements other measures, and has typically been common in the area of removal of subsidies (e.g. in energy reforms in Eastern Europe) that are costly to the Treasury and harmful to the environment. Other examples of dialogues are in the area of land rights and environment, in situations where land rights are controversial yet critical for promoting sustainable and equitable land use. Sweden has also used dialogue to influence and strengthen partner countries' safeguard systems for social and environmental sustainability.

ii) Targeted interventions

Examples of targeted interventions include support to:

- Capacity building in environmental economics in the global **Environment for Development (Efd) program**; it involves universities and regional networks of specialists in Africa, Asia and Latin America that conduct policy relevant research and outreach to produce new knowledge and inform and influence planners and decision-makers, in order to green their economies;
- **Enhanced water use in textile production:** Since 2010, 35 major Swedish companies work in the Sweden Textile Water Initiative to promote sustainable water use in their businesses. A platform is built for knowledge exchange aiming at promoting better understanding of, and solutions to, the industry's water challenges. The Initiative works in China, India, Bangladesh, Turkey and Ethiopia with 280 local suppliers targeted for implementation.
- **Climate change finance and gender equality in SE Asia:** Sida works in a partnership with UNDP to strengthen climate change finance and budgeting in Asia and the Pacific. It works with the governments and other stakeholders in Bangladesh, Cambodia, Thailand, Indonesia, Vanuatu and Tonga – all vulnerable to climate related extreme-weather events like storms and floods - to improve governance, effectiveness, accountability and responses to climate risks and impacts. Projects in the initiative aim to reduce poverty and vulnerability to climate risks, and strengthen

human rights and gender equality in the climate programming.

- The Swedish Environmental Protection Agency's **global program on accounting for ecosystem services**; ecosystem services (such as biodiversity, wetlands, grazing areas, oceans, rainforests and coral reefs) are typically unrecognized and underpriced in the economic system. This leads to over-exploitation and degradation. In this program Sida supports more sustainable decision-making by enhancing methodologies used to value ecosystem services, and engagement with senior planners and decision-makers to enhance partner countries' resource use.
- **International training program on strategic environmental assessment (SEA)** in government agencies; it builds capacity on SEA in public agencies and ministries in 12 partner countries in Africa and Asia in order to better integrate environment in policies, plans and programs, which contribute to greening their economies;

iii) Environmental integration

Sida supports greening of economies via environmental integration in projects and programs. Examples include:

- **Market transformation - The Better Cotton Initiative:** In an effort to green markets Sida supports The Better Cotton Initiative, which aims at making global cotton production better for the producers, the environment and the sector's future. It involves global producers like H&M, IKEA and Adidas and a range of local stakeholders along the cotton value chain. It has helped to improve management practices, reduce use of water and chemicals, and increase the cotton farmers' incomes and capacities for development.
- **Coffee and Climate:** Sida promotes coffee farmers in Latin America, Africa and Asia to effectively respond to changing climatic conditions by combining state of the art climate change science and proven farming methods, offering appropriate and practical tools for production, forming a network of relevant stakeholders in the field, and promoting sustainable value chains.
- **Power Africa energy sector reform;** around 600 million people lack access to electricity in sub-Saharan Africa. Sida supports expansion of renewable energy production and access in the region, and phasing out of non-

renewable energy sources. Specifically, Sida supports institutional development (development of policies, legal and regulatory frameworks), investments in green energy, research, and strengthening capacity among key public agencies and civil society, in order to increase understanding and management of energy-environmental issues, raise awareness and strengthen people's rights and participation.

Although Sida is a relatively large supporter of green economy initiatives, still many opportunities remain to be exploited. Using economic policy instruments to green economies is a powerful yet little used set of measures. Still it is free in most low-income countries to pollute waters, air and lands. Natural resources are sold too cheaply, and ecosystem functions are consumed and depleted at no private costs; the poor typically suffer the most and pay the price. **Greening economies by using cost-effective economic policy instruments**, in smart combinations with other environmental management tools, **may promote not only environmental and social sustainability but also inclusive economic development.**

SOURCES OF MORE INFORMATION

- Poverty-Environment Initiative (UNDP/UNEP); www.unpei.org
- Zambia Green Jobs Programme; www.zambiagreenjobs.org
- Ethiopia Climate Resilient Green Economic plan; www.ethcrge.info/crge.php
- Green Bonds; treasury.worldbank.org/cmd/htm/WorldBankGreenBonds.html
- Green Growth Knowledge Platform greengrowthknowledge.org
- Global Green Growth Institute (GGGI); www.gggi.org
- Green Economy Coalition; www.greeneconomycoalition.org
- The Economics of Ecosystems & Biodiversity; www.teebweb.org
- DCED Green Growth Working Group <http://www.enterprise-development.org/organisational-structure/working-groups>
- Partnership for Action on Green Economy; www.un-page.org
- ICSU 2012. A Green Economy for a Planet under Pressure http://www.icsu.org/rio20/policy-briefs/GreenEconomy_LR.pdf
- OECD DAC Green Growth and Developing Countries - a Summary for Policymakers <https://www.oecd.org/dac/50526354.pdf>