



# Focus: Green Economy

## What does green economy mean?

On the international level, diverse green economy schemes and approaches are discussed and there is no standard definition. There is a general recognition that development has multiple dimensions. Related strategies and approaches aim for socially inclusive and equitable economic growth while caring for the sustainable management of natural resources.

The United Nations Environment Programme (UNEP) defines a green economy as “one that results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities”. Put simply, a green economy produces a low amount of carbon dioxide equivalents, makes efficient use of resources and caters for social inclusion and equity. In a green economy, public and private investments are allocated above all to measures that lower carbon dioxide emissions and other pollutants, raise energy and resource efficiency and prevent the depletion of biodiversity and ecosystem services. A particular concern is support for sectors and regions where poor, underprivileged and vulnerable parts of the population live and work.

These principles are not new. The importance of interactions between development and environment were already an issue in the 70s. In 1992, the United Nations Conference in Rio focused international policy debate on the principle of sustainable development as a way to strike a balance between economic, social and environmental concerns, to meet the needs of present and future generations. In view of the economic crisis and climate change, today this debate is more relevant than ever. With “different approaches, visions, models and tools available to each country”, the green economy is cited in the Rio+20 outcome document as important tool for achieving sustainable development.

The European Union has made a commitment to the green economy with the Council Conclusions of October 2011, which seek to decouple economic growth from resource use, while stressing the role of the private sector in making the transition.

The Organisation for Economic Cooperation and Development (OECD) uses the term ‘green growth’ in this connection. It says that true cost and “right pricing is the key”, and envisages related infrastructure investments (above all in the energy, transport and water management sectors), innovation promotion and the creation of green jobs.

## Elements of the green economy

How can a form of economic development be achieved that conserves natural resources, causes minimum environmental pollution and contributes to sustainable development and with that to poverty reduction and social equity? How can we make the basic transition to a green economy?

The challenge for policymakers, business and society is to transcribe the idea of a green economy into credible practice. An environmentally sustainable and socially equitable economy means that all actors will have to change the basic way they think and act. It is essential to take equal account of the concerns, interests and priorities of women and men as well as of poor, underprivileged and vulnerable sections of the population. This approach can only succeed if it caters for these needs -

## **Institutions and enabling framework for a green economy**

A green economy needs an enabling framework and efficient institutions. These are major determinants of the scale and speed of economic development and of whether and to what extent it plans for environmental sustainability, social inclusion and poverty reduction. As a statutory system of incentives and sanctions, the regulatory framework must give an impetus to growth and ensure that production, investment and consumption decisions take account of environmental sustainability and social equity. The following basic principles apply:

- Market mechanisms and competition: Effective markets are an essential prerequisite for a viable economy. Appropriate parameters and institutions must promote competition to find the best solutions and afford the necessary scope for enterprises, local actors and institutions to respond to new challenges. Markets are certain to have various shortcomings that require regulation or correction.

Major examples of this include the prohibition of certain substances or practices, the definition of emission and immission thresholds or public taxes and their pro-poor distribution. The efficient management of available resources can also be supported in the framework of spatial and land use planning. Assured property and land use rights make the sustainable use of natural resources more attractive. However, interventions must be coherent. This applies in particular to taxation and funding policy, cancelling for example subsidies for fossil fuels. Decisions in public procurement should also take into account social and ecological goals.

- Transparency and participation: More transparency and inclusive participation in planning and decision-making facilitate the transition towards a green economy. Certifications to verify compliance with environmental and social standards improve transparency, like certifying sustainably produced timber, (such as to Forest Stewardship Council/FSC criteria) or products from developing countries to Fairtrade criteria that guarantee better conditions for the local producers. In addition, enterprises should disclose ecological and social aspects in their financial and investment decisions. Broad participation and equal opportunities for all are needed so that socially vulnerable and underprivileged populations and countries can participate in the transition process.

The green economy requires an integral policy approach that goes beyond solely economic considerations. Education policy must also contribute to the transition towards a green economy, because it does not just create jobs, it also calls for new qualifications. Of particular importance therefore is equal access to education opportunities and a socially equitable labour-market policy.

There is a general need at all levels (national and local) for efficient public administration that adheres to the principles of good governance. This must ensure the participation of civil society in planning and decision-making, equal access to resources and the equitable distribution of revenue from the use of natural resources, for example. Particular care must be taken to prevent corruption or illegitimate monopolisation by elites and to protect the interests of poor, underprivileged and vulnerable people.

Development cooperation can assist in creating an enabling framework and efficient institutions for a green economy in partner countries by strengthening the capacities of relevant actors at all levels, empowering civil society and the private sector to take part in decision-making processes, promoting cooperation with science and research and supporting networking for regular exchange and joint learning.

## **Challenges and opportunities for the private sector**

The private sector must act as a major driver for the green economy. Actual transformation can only be achieved through private investments and innovations. New and cost-effective technologies are needed to decouple economic growth from resource use and new business models to achieve environmentally sustainable and socially equitable growth. This shift can only gain broad acceptance, if it is in the commercial interest of businesses. It will become particularly attractive for companies if they can glean a competitive advantage through fair working conditions, resource efficiency and investments in conservation and sustainable natural resource use.

Development cooperation can make a contribution here by enhancing the knowledge and abilities of national enterprises, local institutions and persons and by promoting specific advisory facilities, such as demand-led business development services (BDS). Other intervention points are supply chains that connect large and smaller enterprises. The independent development and dissemination of technologies and innovations in partner countries should be supported, too. As part of public-private partnerships, development cooperation can also assist in the application of environmental management systems, environmental or sustainability certification and life-cycle and social impact assessments.

## **Different measurement categories for and economic valorization of environmental services**

Today's conventional measurement categories for general economic activity, such as gross domestic product (GDP), disregard environmental damage and the destruction of natural resources that can cause high follow-on costs in the long term. That is why accounting for these costs and the thorough economic, social and cultural assessment of environmental services and natural resources are central principles of the transition to a green economy. The same applies for addressing distribution issues in policymaking and economics.

A tangible alternative or supplementary economic measurement to GDP is the ecological footprint. This compares resource consumption and pollution with the ecological bearing capacity or biocapacity of a country and/or region. Another example is the so-called genuine savings or adjusted net savings indicator, which also includes the costs of resource consumption and pollution when measuring prosperity. Environmental audits using this indicator are increasingly applied even in developing countries.

Extra-financial indicators are also very important for company valuations in the green economy. They can help to determine and understand both business risks and value drivers as a whole. Sustainable investment, which besides economic objectives also accounts for social and ecological criteria, is already of increasing interest today, not just for non-governmental organisations (NGOs) but also for foreign investors and customers.

The United Nations strategic initiative, Global Compact, addresses companies that pledge to abide by the principles of human rights and labour standards, environmental protection and anti-corruption in their business operations. Many investors and analysts have also signed up to the United Nations Principles for Responsible Investment (UNPRI), part of the Finance Initiative of the United Nations Environment Programme (UNEP FI) and the Global Compact. Under this, the signatories pledge to include extra-financial factors in their business decision-making.

Those new measurements account for environmental services and costs that have been ignored till now. This way, they raise awareness and supply sound economic arguments for investments in environmental protection. They can also lay the foundation for compensation systems and instruments that provide a financial refund for the conservation and sustainable use of environmental resources (payment for ecosystem services/PES), which generate more attractive income than short-term resource exploitation. Favourable experience has been gained with PES in watershed and forest conservation, for example. Experience so far, however, also indicates that women in particular, who often play an important role in developing countries for afforestation and/or reforestation, have hardly benefited at all from this.

The most comprehensive initiative so far is The Economics of Ecosystems and Biodiversity (TEEB). It marks a milestone in upgrading methodological and policy-strategic approaches for capitalising ecosystems and their benefits for mankind - as a provider of food, protection and recreation and much more.

An example of PES at global level is Reducing Emissions from Deforestation and Forest Degradation (REDD+). This financing mechanism of the UN Framework Convention on Climate Change provides for compensation payments to developing countries that protect their forests for the benefit of the global climate and do without potential revenue from logging or claiming land for agriculture. A shortcoming of this instrument is, however, that it often leaves traditional common access and use rights out of account, so that it still deprives the local population of possible compensation payments.

### **Financing green economy measures**

An environmentally sustainable and socially equitable global economic transformation also calls for financial resources. Public subsidies are needed, even if ultimately most of the financial investments will be made by the private sector.

This poses great challenges for developing countries in particular, as most of them can hardly strengthen national capacity in the diverse sectors, carry out institutional reforms, rehabilitate and preserve ecosystems and deploy subsidiary instruments, etc. without the help of development cooperation partners.

### **Why do developing countries need a green economy?**

Developing countries need sustainable and broad growth to master the economic and social challenges they face, and do heavily depend on the use of natural resources. Especially rural areas still suffer from chronic poverty and social and political marginalisation.

Greenhouse gas emissions and natural resource consumption are still on the increase worldwide. The attendant climate change causes enormous losses and costs, especially in developing countries, which lack adequate resources to prepare and implement appropriate strategies for coping with the impacts. The majority of the population, including women and poor, underprivileged and vulnerable people in particular, live from agroforestry, livestock breeding and fishery. The degradation of the natural sources of livelihood, which in itself incurs huge macroeconomic costs, places an especially heavy burden on these people. On-going social and economic inequalities affect women in particular, who account for about two-thirds of the poor population worldwide. In Africa, for example, women produce about 80 per cent of the food, but only own about 1 per cent of the land.

Environmentally sustainable and socially equitable growth decoupled from resource depletion and environmental pollution, the conservation of ecosystem services, the sustainable management of natural resources, equal access, property and use rights and the equitable distribution of income are therefore particularly important. They lay the foundation for securing long-term production, food security and income generation. They enhance resilience against the impacts of climate variability and other natural disasters.

### **Lines of action for Austrian Development Cooperation**

As an issue, green economy involves several relevant concerns of Austrian Development Cooperation (ADC): environmental sustainability, economic growth and social equity. It thus has a direct bearing on two of the three basic ADC goals (reducing poverty, securing peace and preserving the environment).

## **Economic growth**

Growth is a major precondition for poverty reduction. Private enterprises and (smallholder) farmers in developing countries, however, have to struggle to compete on national and international markets. Improved raw material, water and energy efficiency contribute much to reducing production costs. Investments in product and service quality, the implementation of social regulations (such as on working hours and pay) and setting environmental standards improve market opportunities. Promoting ecotourism and organic farming also affords scope for finding growth niches in the economy. Till now, the poorest developing countries have taken up a much smaller global share in these sectors than they could.

In agriculture and rural development, taking particular account of the needs, interests and potential of smallholder family-owned enterprises contributes to securing food supply and generating income (by selling products on local markets and accessing potential markets through certifications). Targeted investments in production and marketing promote supply chains, particularly on the local level. This is also supported through cooperation and networking among public, private sector and civil society actors. Strengthening the capacities of all actors and developing strategies along supply chains play a decisive role here. Also important, though, are investments in basic infrastructure for storing and processing agricultural products, as the prevention of huge post-harvest losses contributes to resource efficiency.

Demand-led advisory services and imparting relevant information (e.g. on innovations) to producers and effective coordination and networking with education, science and research will facilitate the transition to a green economy. Vocational training plays a special role here: Establishing sustainable resource management or the application of modern green technologies in curricula will create new opportunities for employment, income and environmental sustainability.

## **Ecological Sustainability**

Austrian Development Cooperation attaches importance to the sustainable use of natural resources by promoting local land use plans, integrated water management or organic farming as to the dissemination of renewable energies and raising energy efficiency. Investments in renewable energies are becoming increasingly attractive due to the rising costs of fossil fuels and the need to reduce greenhouse gas emissions that cause climate change. Where clean renewable energy sources also replace firewood and kerosene for cooking and lighting and so reduce smoke and soot pollution in houses, this improves health of women and children in particular. Promoting alternative, renewable energies does not just afford opportunities; it also poses risks: For example, planting agricultural fuels can result in the loss of property and use rights and worsen food insecurity. In the more traditional male-dominated energy sector, special attention must also be paid to involving women in decision-making mechanisms and ensuring their access to new technologies.

## **Social equity**

Taking consistent account of social equity is essential for all women and men to benefit alike from the advantages of a green economy. This holds for existing property, use and control rights over natural resources (such as land and water), equal access to social and economic services and inputs - above all access to new technologies - and the equitable distribution of revenue. This also calls for developing the capacities of actors and institutions at all levels (national - local) and empowering women and other underprivileged vulnerable sections of the population to pave the way for inclusive participation in planning and decision-making processes.

Compliance with legal social and labour standards is also necessary to ensure social equity and inclusion. Austrian Development Cooperation also supports systems for securing the social and economic protection of poor, underprivileged and vulnerable sections of the population (such as social transfer, insurance against crop failure) to enhance their resilience to crises.

## **Donor harmonisation and policy dialogue within partner countries**

Austrian Development Cooperation takes part in various platforms for exchanging experience and knowledge in green economy issues. It has also been represented in the Green Growth and Poverty Reduction working group of the OECD Development Assistance Committee.

Besides this international exchange, ADC is engaged in policy dialogue in its partner countries, particularly on framing policies and strategies, decision-making mechanisms, the distribution of resources and income and the participation of all the population groups in these processes.

## **ADC programmes and projects**

### **Himalayas: bees as a business**

It is not easy making a living from agriculture in the Himalayas. To improve their household income, male and female farmers increasingly rely on the sale of beekeeping products. Because of its higher yield, the European honeybee was introduced years ago, displacing the native bee species and therewith the traditional knowledge of the local population. Austrian Development Cooperation has taken another path. Via the International Centre for Integrated Mountain Development (ICIMOD) located in Nepal, it has supported researching and promoting beekeeping with the native species, *Apis cerana*, which was already under threat of extinction, since 1993. The Asian bees have many advantages over the exotic European species. They are better adapted to the environment and are naturally resistant to various diseases and pests, so there is no need for costly chemical disease prevention. The *Apis cerana* also makes a major contribution to conserving biodiversity in the region. It seeks out certain plants that are dying out because the imported honeybee avoids them.

Over the years, the project has developed into an integrated programme and is being implemented in all countries of the Himalayas-Hindu Kush region. This includes building local supply chains, research projects, (university) education of the local population, lobbying for beekeeping and strategies at national policy level.

### **Nicaragua: food security in harmony with nature**

The El Castillo/Boca de Sábalos municipality in southeastern Nicaragua is one of the poorest in the country. Forty per cent of municipal land is demarcated as a nature reserve to conserve one of the most diverse rainforests in the region. Demographic pressure on agricultural land and forests is high in the district. Traditionally, no great value is accorded to forestry, as forestland is seen more as an obstacle to cultivation and is claimed for cropping through slash and burn.

Since 2004, Austrian Development Cooperation has therefore helped to develop and apply environmentally and economically sustainable methods of production, strengthen business know-how on processing and marketing produce and build organisational capacity. This secures basic food supply for smallholder families, generates income and conserves natural resources. A specific development programme aims at improving the economic and social status of women.

Sustainable, innovative agricultural extension services contribute to raising productivity and product quality. This ensures that the available cropping acreage is put to the best possible use and prevents the incursion of agricultural activities into the core zones of the nature reserve. Ecologically appropriate woody plants, such as cocoa and cinnamon, supply internationally marketable products, but also improve the structure of cropland to promote biodiversity. Forestland is also used for the sustainable cultivation of high-grade timber, which is processed in a local sawmill.

### **Uzbekistan: genuine bio with the power of the sun**

Desiccated sweet and sour cherries produced by Marap Handels GmbH mainly come from organic cultivation in Uzbekistan. For years, with its subsidiary DP Silk Road Organic Foods and more than 150 smallholders, Marap has been actively promoting the cultivation of organic fruit in the fertile but

poor region at the Silk Road. With support from the business partnership programme of Austrian Development Cooperation, a carbon-neutral solar and biomass driven drying unit has been set up near the town of Samarkand. In a recycling system, it uses processed waste, such as cherry peel or stones, as biomass. This new processing technology makes farming less dependent on the unstable power supply. By qualifying two installation enterprises, Marap has also prepared the way for marketing the unit in the whole of Central Asia. For the benefit of all: It secures the supply chain with organic and Fairtrade products on the growing market, creates work and reliable income for the local population and protects the environment.

### **Egypt: solar energy - the oil of the 21st century**

Sunny countries like Egypt could meet a large part of their future energy needs with solar thermal energy. There is, however, still a lack of know-how, trained specialists and general awareness of this environment-friendly energy form. To date, pilot measures with solar collection systems have often failed in the desert nation, because without professional maintenance the sensitive collectors are quickly disabled by sandstorms and the salinated air. This is about to change: As part of a business partnership of Austrian Development Cooperation, European solar systems will be adapted to Egyptian conditions and will be available at affordable prices by 2014. In collaboration with Austrian solar specialists, Sekem Energy GmbH and Pink GmbH from Styria, GREENoneTEC GmbH from Carinthia and Egyptian partners, SEKEM, E-Green und EcoEnergy, experts provide their collective know-how to local educational institutions and companies. Specialists are trained to professionally install and properly maintain solar panels to deliver sufficient clean energy in future. In cooperation with local companies, facilities will also be built up for the production and sale of components for high-quality solar collection systems in Egypt.

## Secondary literature/Information sources

Adjusted Net Saving Indicator:

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/ENVIRONMENT/EXTEEI/0,,contentMDK:20502388~menuPK:1187778~pagePK:148956~piPK:216618~theSitePK:408050,00.html>

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Rio+20: towards achieving sustainable development by greening the economy and improving governance: [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/envir/125027.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/envir/125027.pdf)

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UNESCAP: <http://www.greengrowth.org>

UNFFC – REDD: [http://unfccc.int/methods\\_science/redd/items/4531.php](http://unfccc.int/methods_science/redd/items/4531.php)

World Bank: <https://www.wbginvestmentclimate.org/advisory-services/cross-cutting-issues/climate-change/green-growth.cfm>