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## **ISSUE PAPER**

# **Putting green growth at the heart of development**

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## PUTTING GREEN GROWTH AT THE HEART OF DEVELOPMENT -

### ISSUE PAPER

1. The OECD report *Putting Green Growth at the Heart of Development* argues that green growth is the only way to achieve sustainable development and combat global poverty over the long term. Green growth promises to sustain growth and development, while promoting efficient and sustainable use of resources, ensure better health and potentially reduce social inequality. Just as OECD countries have committed to a green growth policy agenda for themselves (OECD, 2011), support from the international community to developing countries – through finance, technology and trade – is needed to help “jump start” green growth, manage the transition, and mitigate any short-term costs. International action will also help create political momentum for a global green growth agenda. To deliver timely green growth at a global level, the international community must mobilise its resources to work together with developing countries on this policy agenda. Building on experience with green growth policies in developing countries and extensive consultations with developing country stakeholders, this report outlines a twin-track agenda for national and international action.

2. At the OECD Development Assistance Committee (DAC) Senior Level Meeting (SLM) in April 2013, senior representatives from the DAC member countries and other development co-operation partners will be invited to share policies and experiences related to working with developing countries to support the integration of green growth objectives into development policies and planning. The session will also seek members’ views on concrete areas of work that the DAC might undertake. SLM representatives will also be asked to provide specific suggestions of ways the development co-operation community might contribute to the lead-up to the renewal of development goals in 2015, in particular with respect to integrating green growth and sustainable development concerns into the goals.

#### **A. Failure to embrace green growth threatens to usher in an era of global instability**

3. Growth is increasing in the developing world, but current development patterns fail to address global and local environmental challenges in developing countries. At the local level, developing countries are more vulnerable to environmental threats than are developed countries. For example, poorer developing countries are far more economically dependent on natural resources than other countries: natural capital comprises 25% of total per capita wealth in low-income countries, as compared to 2% in OECD countries (World Bank, 2006; OECD, 2008). The links between environmental performance, equity and poverty are more direct and significant in developing countries than in developed countries. The multiple environmental and developmental challenges faced by developing countries include: *i*) unsustainable natural resource exploitation; *ii*) lack of access to food, water and energy and a lack of basic infrastructure; *iii*) deadly air and water pollution in a context of rapid urbanisation and population growth; *iv*) rural poverty with a large share of people’s livelihoods dependent on natural resources; and *v*) high vulnerability to climate change impacts, including a rise in natural disasters with a direct impact on local economies and livelihoods of the poor.

4. At the global level, the consequences of not acting to address the global environmental challenges will be felt most strongly in developing countries (OECD, 2012a). Conventional models of growth threaten food production, water security and livelihoods. An additional 1 billion people are expected to live in severely water-stressed areas by 2030, and global terrestrial biodiversity is expected to decline an additional 10%, leading to a loss of essential eco-system services. With growing levels of dangerous air emissions from transport and industry, the global number of premature deaths linked to airborne particulate matter is projected to more than double from today’s levels to 3.6 million a year by 2050, widely surpassing malaria as a global killer (OECD, 2012a). Most of the increased deaths will occur

in emerging economies like China, India and Indonesia, where premature deaths from air pollution are expected to grow from 0.6 million in 2000 and 1.6 million by 2050 (OECD, 2012a). Failure to act could also lead to a 50% increase in global greenhouse gas emissions by 2050, lock-in to emission-intensive development patterns, land uses and infrastructure, and global mean temperature increases of 3-6°C by the end of the century. Many developing countries will be severely impacted.

5. The costs of inaction on environmental challenges are estimated to be particularly high in developing countries. For example, inadequate water and sanitation in Indonesia already costs the national economy more than 2% of GDP (World Bank, 2009). Environmental degradation in the Central African Republic is estimated to cost 8% of its GDP in coming years, when impacts on both human and natural capital are accounted for (World Bank, 2010). This is because environmental risks, and the costs of these to human well-being, are much greater in developing countries than in developed countries (OECD, 2012a). These high costs suggest that failure to embrace green growth in developing countries threatens to reduce well-being and undermine economic growth for future generations.

6. Vulnerabilities to environmental risks in developing countries are exacerbated by other development challenges, including inequality and poverty, rapid population growth and urbanisation, and poor access to basic services including health services. In addition, developing countries must consider how to manage large informal economies and cope with weak institutional, human or technical capacity to implement policy change. There is currently limited capacity in developing countries to manage these vulnerabilities. Reconciling development strategies with environmental protection and sustainable natural resource management is in the self-interest of developing countries and thus a priority for the development co-operation community. It is why there is a growing interest in emerging and low-income countries to design and implement green growth strategies.

## **B. Green growth is about integrating the environment into economic decision-making to achieve sustainable development**

7. In the face of the high costs of inaction, developing countries have begun to explore new models of growth that can boost economic development, reduce poverty and improve quality of life in the short-term, while preserving natural capital and raising the potential for economic growth over the long-term. Green growth responds to the dual global challenges of: *i*) greater economic opportunities for a growing population; and *ii*) mitigating the environmental pressures that otherwise could undermine opportunities for long-term economic growth. Green growth departs from traditional growth models by integrating environmental considerations and the value of natural capital into economic and development decision-making. Green growth is first and foremost about growth and sustainable development; it puts human well-being at its centre and ensures that natural assets continue to provide the resources and environmental services on which well-being relies (OECD, 2011).

8. The goal for many developing economies is to achieve diversified and sustainable growth rates over time, which reduces poverty, increases well-being and improves the quality of life of citizens. Green growth helps achieve this by taking into account the full value of natural capital and recognising its essential role in economic growth and secure livelihoods. Sustainable development provides an important context for green growth. Rather than a replacement for sustainable development, green growth provides a means to make it operational and to achieve it (Box 1) (OECD, 2011).

**Box 1. The relationship between green growth and sustainable development**

Sustainable development provides an important context for green growth. The concept of green growth is narrower in scope than is sustainable development, but entails a clear and workable policy agenda for concrete, measurable progress at the interface of the economy and the environment. In this concept, natural assets – including renewable and non-renewable resources and a stable climate – play a significant role in delivering production and welfare gains. The concept also provides a strong focus on the necessary conditions for innovation, investment and competition that can give rise to new sources of economic growth and resilient development.

The goal for many developing economies is to achieve diversified and sustainable growth to reduce poverty, increase well-being and bring major improvements to the quality of life of their citizens. This can be achieved by taking into account the full value of sustainably used natural capital and recognising its essential role in economic growth. Green growth promotes a cost-effective and resource efficient way of guiding sustainable production and consumption choices. Put simply, greening growth will help developing countries to achieve sustainable development.

9. The long-term benefits of green growth to development outweigh the short-term costs, but developing countries are understandably concerned that pursuing green growth could undermine short-term economic growth and development. Developing countries face challenges, policy choices and trade-offs with respect to green growth that are different from those of developed countries. These include: large informal economies, high levels of poverty and inequality, and limited capacities for innovation and investment. But most importantly, developing countries have the greatest need and demand for development, economic growth and welfare improvement in the short-term. In lower-income countries, where economic growth is weak and natural assets are frequently abundant, the welfare returns from transitioning to green growth are not as immediately evident as those from economic development. Without real mechanisms to transfer the value of natural assets to those individuals in developing countries who provide them (such as those who preserve forest land for carbon sequestration), individuals in developing countries have little incentive to manage natural assets in a sustainable manner. This weakens the political viability of green growth.

10. At the same time, emerging evidence shows that green growth activities can offer both short- and long-term benefits and opportunities to developing countries, including:

- *sustaining or better managing natural assets that are essential to growth and human well-being in developing countries; natural assets provide the inputs for marketable goods; as well as the ecosystem services upon which quality of life depends;*
- *reducing poverty, depending on the design of green growth policies and complementary measures, which in turn will affect how the benefits and costs of action are distributed;*
- *providing new economic growth opportunities and with these bringing potential new job opportunities, particularly through the provision of ecosystem services and technological innovation;*
- *preventing lock-in to energy- and emission-intensive, and vulnerable, infrastructure, by not just building more infrastructure but by also building “right”;*
- *increasing resilience and reducing vulnerability to climate change and natural disasters; and*
- *reducing reliance on fossil fuels, to diversify energy supplies and improve energy security, while extending access to energy, reducing pollution and mitigating climate change.*

11. In order to manage potential short-term trade-offs, economic instruments and fiscal policies will need to be designed to fairly share the economic and welfare benefits resulting from maintaining natural assets. Investments in human capital and skills will also ensure workers who are employed in the former

'brown' economic sectors can also quickly pick up skills required in the 'green' sectors. Consideration of the potential costs and risks associated with green growth need to be adequately reflected in their design and timing of policies (OECD *et al.*, 2012). Support from the international community through strengthened finance, technology cooperation and support for trade, further discussed below, can help incentivise action and to create political momentum for undertaking green growth in developing countries.

### C. Growing experience in developing countries with green growth policies and emerging lessons

12. For green growth to be effectively implemented in developing countries, green growth objectives will need to be integrated into national development plans, policies and growth strategies. Some developing countries have already designed national green growth or climate change strategies, notably: Ethiopia and Cambodia (Box 2). There is also growing experience with green growth in middle-income countries. For example, South Africa has launched a Green Fund in partnership with the Development Bank of Southern Africa to facilitate investment in green initiatives. Funds are made available to support green cities and towns, the transition to a low-carbon economy, and environmental and natural resource management, through project and capital development grants, research and policy development grants, and concessional project development loans. China has also prioritised green development in its 12<sup>th</sup> Five-Year Plan, and it is experimenting with a range of green growth policies, in particular aiming to reduce poverty through the creation of green jobs in the forestry sector. Government estimates indicate that from 2005 and 2020, about 1 million jobs per year could be created in planting new forests, reforestation, and forest management activities in China. Although mostly temporary, these activities could provide job opportunities for rural migrant and unemployed workers (OECD, 2012b).

#### Box 2. Green growth strategies in Cambodia and Ethiopia

Ethiopia and Cambodia are among the first low-income developing countries to embark on producing national green growth strategy.

In **Cambodia**, the Inter-Ministerial Green Growth Working Group adopted a National Green Growth Roadmap in 2010, emphasizing access to water, agriculture, sustainable land use, renewable energy and energy efficiency, information and knowledge, means of better mobility and finance and investments (UNESCAP, 2009). A National Green Growth Master Plan is currently being developed to achieve these objectives, and this will outline the specific implementation plans to deliver better outcomes.

In **Ethiopia**, the main framework for green growth is the *Climate Resilient Green Economy Strategy*, launched in 2011. Developed under the leadership of the Prime Minister's office, the *Climate Resilient Green Economy Strategy* provides a vision, high-level commitment, plans and an extensive portfolio of investments. The Green Economy component of the strategy has a specific goal to increase GDP *per capita* by 475% over 2011-2030 so as to move from least-developed to middle-income country status, while reducing greenhouse gas emissions by 35% below 2011 levels (which would be 64% below the projected business-as-usual level in 2030) (EPA, 2011). The Climate Resilient component of the strategy, which focuses on adaptation, is currently being developed and specifically examines adaptation needs in sectors such as agriculture, forestry and land use.

Both national green growth strategies rely on attracting quality foreign investment for financing. They differ, however, in their aim and focus: Cambodia's strategy focuses on well-being, whereas Ethiopia's strategy focuses on climate change (and by extension, food security) and aims to raise the country to middle-income status.

*Source* : EPA (Environmental Protection Authority of Ethiopia) (2011), *Climate Resilient Green Economic Strategy*, Addis Ababa; OECD, forthcoming (a) and (b), *Inclusive Green Growth Case Studies in Ethiopia and Cambodia*; UNESCAP (United Nations Economic and Social Commission for Asia and the Pacific) (2009), *The National Green Growth Roadmap*, Phnom Penh.

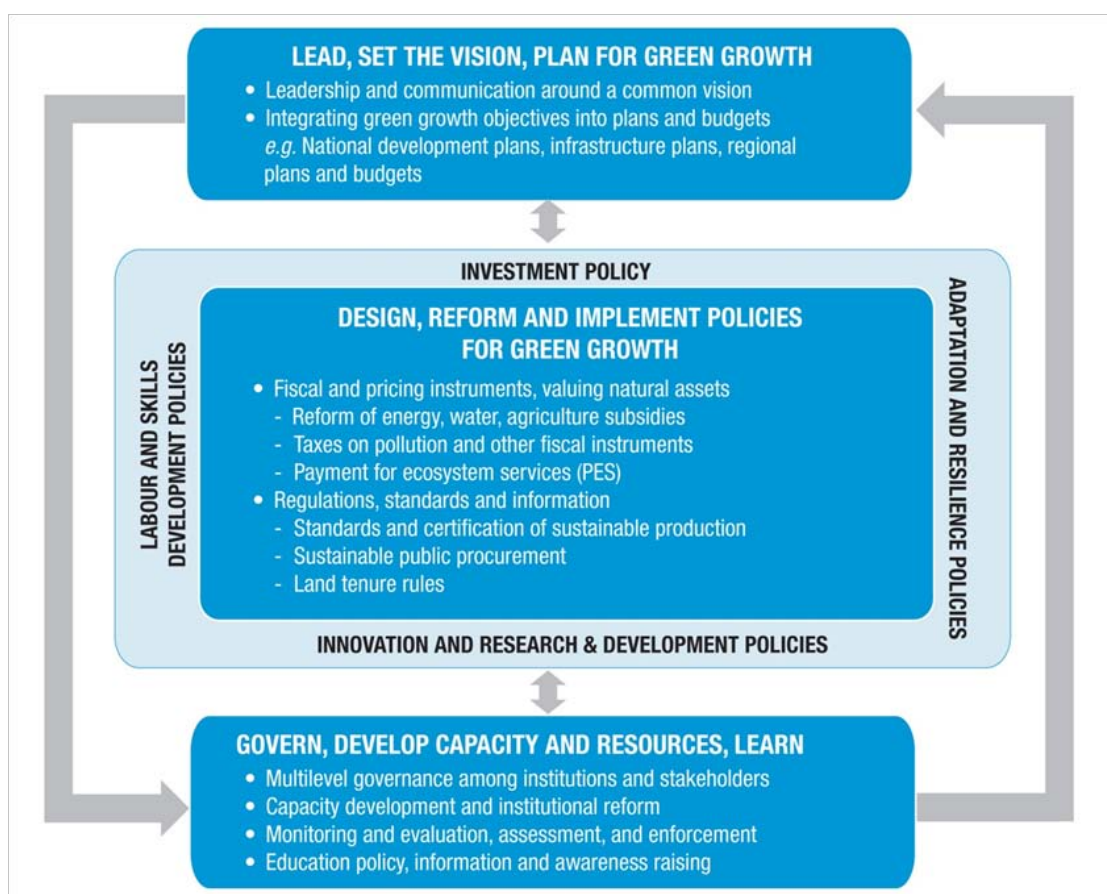
13. While a number of developing countries are advancing innovative strategies and policies to pursue green growth, these efforts are recent and limited in scope. Such efforts will need to be scaled up and broadened significantly to improve economic and environmental outcomes across the developing world. Greening developing countries' economies will require mobilising ministries of finance, development planning, labour affairs and line ministries. It will also require more developing countries to take up green growth policy agendas and to adapt them to their own national contexts and development priorities. For example, the greening of national fiscal policies provides a largely untapped opportunity to boost domestic fiscal revenues and to establish incentives to catalyse green investment. Mainstreaming green growth into development planning and policies can be supported by the integration of relevant financial resources and green objectives into national budgets. However, this can only be done successfully with attention to the pre-existing political and economic landscape at national level, and with policies tailored to the social and institutional context for such reforms.

#### D. Green growth puts environmental sustainability at the heart of the national development agenda

14. An agenda for transforming national growth and development policies suggests that three main areas of action to support and guide national green growth efforts (Figure 1). These include:

- leading, setting the vision and planning for green growth;
- designing, reforming and implementing green growth policies; and
- governing, developing capacity and learning from experiences to inform future policy design.

Figure 1. An agenda for national action on green growth in developing countries



15. While working in all three areas is key to the development of a robust policy framework, this agenda for action is a guide rather than a prescription. Policymakers in developing countries will have different entry points and opportunities to green growth and development. The resulting mix and sequencing of policies across countries will vary. The ultimate goal of this agenda for action is to put green growth at the heart of development planning and policies, to systematically change the way their economies function. Green growth policies will work to provide incentives, allocate fiscal budgets, establish data collection and assessment approaches to measure progress, and engage key stakeholders in decision making to sustain natural resources and promote human well-being over time.

#### **E. Well-designed green growth policies can reduce poverty and inequality**

16. When green growth policies are designed to take into account the interests of the poor and of vulnerable groups, they can bring profound impacts to the economy, environment, and above all, poverty reduction and social equity. For instance, removing fossil-fuel subsidies can improve the living conditions of the poorest if the subsidies are re-assigned to providing cheaper public transport or more accessible health care services; sustainable certification schemes and eco-labelling programmes can become a new source of income in many developing countries with abundant forests and agricultural production if land tenure is secured, and the certification schemes give special premium to community-managed forests or small landholders; payments for ecosystem services can reduce poverty if they explicitly target local communities and include capacity development to boost local households' ability in negotiating payment contracts; and greening infrastructure investment, innovation strategies and national blueprints for skill development can have even more significant impacts on development and poverty. For these benefits to be realised, green growth policy needs to be based on good governance and sound understanding of local context. Countries also need to allow the voices of affected stakeholders to be heard in the policy design, implementation and evaluation.

#### **F. Green growth anchors sustainability in international development co-operation**

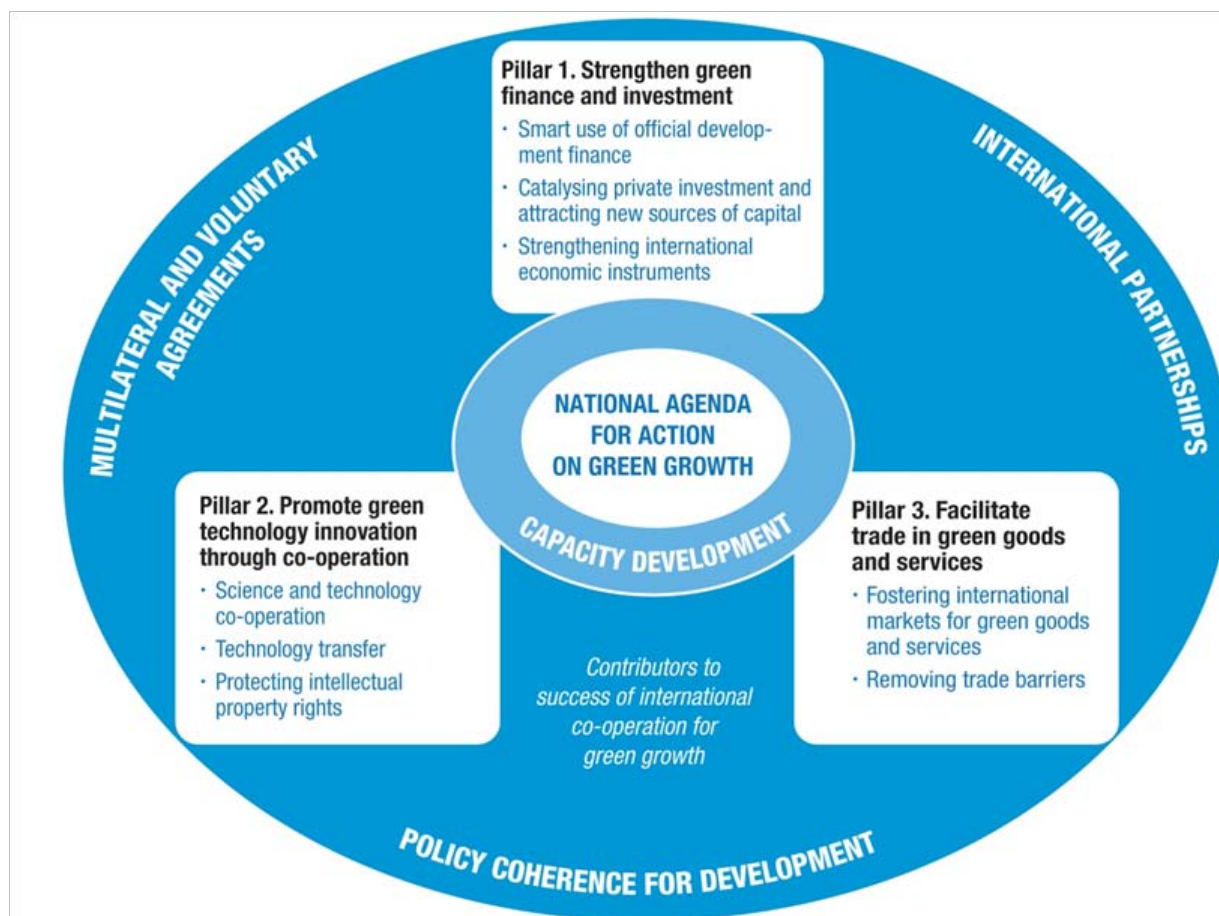
17. The international community can play a crucial role to facilitate developing countries' transition to green growth. An agenda for international co-operation to support green growth in developing countries includes at least three pillars of action: *i)* strengthening green finance and investment; *ii)* promoting green technology innovation through co-operation; and *iii)* facilitating trade in green goods and services (Figure 2). The starting point is that green growth must be country-driven. The *Development Co-operation Report: Lessons in Linking Sustainability and Development* (OECD, 2012b) documented many of the successful examples and lessons learnt from the development community in supporting developing countries with sustainable management of natural resources, improving energy access and tackling climate change. One of the key conclusions from these examples and many others is that investing in natural capital pays higher social dividends than investing in the carbon- and resource-intensive and vulnerable business as usual development pathways, including conventional infrastructure, of past decades (OECD, 2012b). Going forward, green growth can be better mainstreamed into development co-operation practice, a goal to which DAC member countries collectively committed at the 2012 Senior Level Meeting, including through a joint Policy Statement prepared for the Rio+20 Conference.<sup>1</sup>

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<sup>1</sup> OECD DAC Policy Statement for the Rio+20 Conference, endorsed by the DAC at its Senior Level Meeting on 3-4 April 2012.

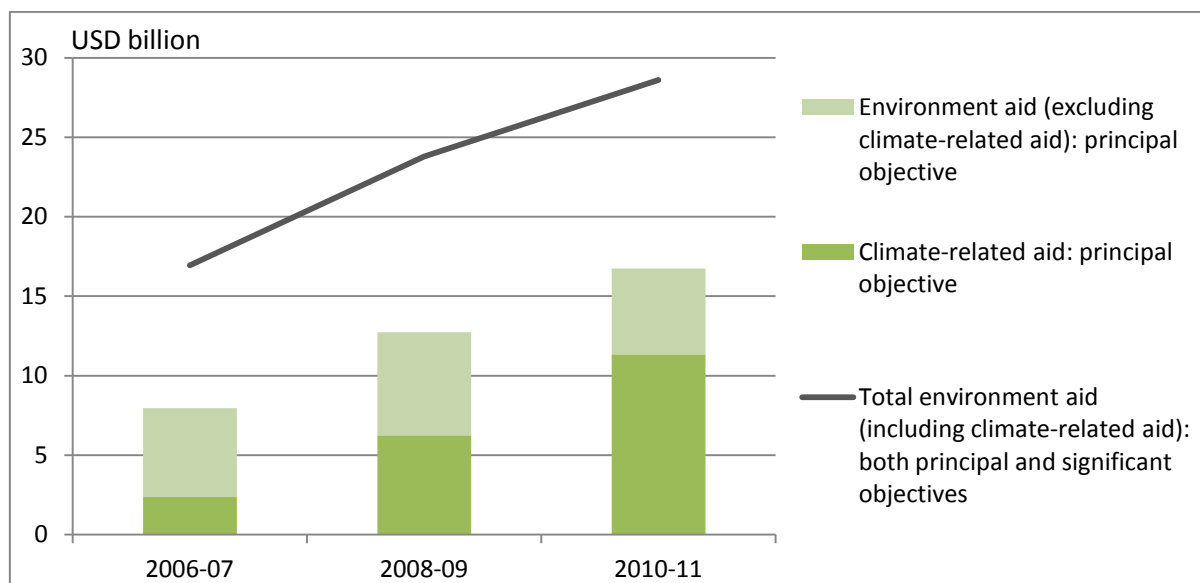


Figure 2. An agenda for international co-operation on green growth in developing countries



18. The first of the three pillars of international co-operation to support green growth is particularly relevant to providers of development co-operation. It calls for mainstreaming green growth into official development assistance (ODA) and strengthening the interaction between ODA and other development finance, including private investment, to achieve environmental and development priorities simultaneously. Sustainable natural resource management has become a priority focus of many bilateral aid programmes and ODA flows to support environment and climate change goals is increasing (Figure 3). The increased attention to environmental issues in development co-operation practices can be seen in the use of Environmental Impact Assessments as a standard requirement in all significant aid-funded infrastructure projects, as well as the growing use of Strategic Environmental Assessment at programme and policy level. These practical tools are increasingly used to facilitate decision-making across development co-operation agencies, and in partnership with developing countries, to implement commitments of the international community to boost the effectiveness of development cooperation practices.

**Figure 3. Trends in environment aid (including climate-related aid) between 2006 and 2011**  
**2006-2011 commitments, constant 2010 prices (USD billion)**



Notes:

- i) A number of activities fall under “climate-related” aid, and are thus included here, however they are not recorded as “environment” aid (USD 2.7 billion in 2010-11); this might for example include a large hydro-electric facility.
- ii) “Climate-related” aid covers both adaptation and mitigation aid as from 2010 only.

Source: OECD Development Assistance Committee, Creditor Reporting System Database.

19. Development assistance modalities and instruments can be usefully broadened, with options spanning sector and/or budgetary support, and from grant instruments to provision of loan guarantees that are used to leverage private capital. Examples of different types of instruments include grants, concessional loans, non-concessional loans and technical assistance. For example, in Thailand, a blending of ODA and non-concessional external public finance has successfully been used to leverage private sector investment in renewable energy and energy efficiency to avoid locking into a carbon- and pollution-intensive development pathway (OECD, 2012b). In another example, grants and technical assistance are the main instruments in use in some of the development co-operation efforts aiming to help sub-Saharan Africa to boost its 12% electrification rate to allow more economic growth (OECD, 2012b).

20. Technology innovation, development and diffusion represent a second pillar for international co-operation on green growth. OECD countries with advanced research capacities, innovation policies and technology dissemination experience can better target their technological support to developing countries by working with them more closely to define their science and technology research agenda and priorities for international co-operation; focusing on building innovation capacity within developing countries for promoting future national and local demand-driven innovation; providing training to technical staff, developing the research capacity of skilled workers, and establishing joint research projects with universities and national research institutes; and last but not least, promoting intellectual property rights systems and encouraging knowledge sharing.

21. The third pillar of the international agenda for action is on supporting global trade in green goods and services. Given that OECD and developing countries are closely connected by trade, OECD countries, in particular development co-operation providers, could help developing countries to more actively participate in the open market for green goods and services and enhance their capacities to negotiate in

international standard setting, such as environmental certification schemes. This would diminish the risk of such standards becoming non-tariff trade barriers. Ministers and other high-level participants in the Joint OECD Development Co-operation Directorate (DCD) and Trade and Agriculture Directorate (TAD) Policy Dialogue on Aid for Trade in January 2013 expressed their commitment to using development co-operation to support trade.<sup>2</sup>

22. Development co-operation to support green growth will need to be tailored to respond to the differing needs of developing countries and their different development priorities and national contexts. The development community also needs to build feedback mechanisms into their programmes to ensure that lessons learnt through monitoring and evaluation of the effectiveness of support is integrated into future development co-operation programme design. International partnerships are another useful means to share lessons learnt, across countries and different development co-operation programmes.

23. Applying a green growth lens to development co-operation activities is ultimately key to supporting developing countries to achieve sustainable development goals over the short and long term. Given that development assistance and aid has been increasingly directed to support environmental and green growth objectives in recent years, there is an urgent need to review the current status of these efforts, assess their effectiveness, generate lessons learnt and provide recommendations to strengthening international support for green growth.

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<sup>2</sup> The Joint OECD DCD/TAD Policy Dialogue on Aid for Trade discussed how to ensure the relevance of aid for trade in a changing trade and development environment. More information of is available at [www.oecd.org/dac/aft/aidfortradepolicydialogue2013.htm](http://www.oecd.org/dac/aft/aidfortradepolicydialogue2013.htm).

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