

# EAP Task Force

**Annual Meeting of the Task Force for the Implementation of the  
Environmental Action Programme (15-16 October 2009, Paris)**

ROOM DOCUMENT

**ENVIRONMENTAL COOPERATION  
IN THE CONTEXT OF GREEN GROWTH:  
*Quo vadis, Eastern Europe, Caucasus, and Central Asia?***

This briefing note, prepared by the OECD/EAP Task Force Secretariat, aims to provide background information for the debates during a roundtable that will address international environmental cooperation involving countries of Eastern Europe, Caucasus, and Central Asia (EECCA) in the context of green growth. The roundtable will be conducted on 15 October 2009, during the Annual EAP Task Force Meeting.

Additional information can be obtained from Mrs. Angela Bularga, Head of the EAP Task Force's Environmental Policy Programme ([angela.bularga@oecd.org](mailto:angela.bularga@oecd.org)).

**ACTION REQUIRED:** For information.

## **NOTE FROM THE SECRETARIAT**

In order to kick off roundtable discussions, the OECD/EAP Task Force secretariat will brief participants about initiatives in OECD and EECCA countries to stimulate green growth as a vehicle for economic recovery, and the role of international cooperation in promoting green growth.

In this context, International Finance Institutions (IFIs) and donor countries attending the meeting will be invited to present their views on environmental cooperation involving EECCA countries, in particular: (i) recent trends in aid flows to EECCA, and the possible impacts of the economic and financial crises; (ii) thematic priorities and countries of focus; (iii) contribution to regional cooperation; and (iv) mechanisms of assistance, particularly for donors making greater use of sectoral and general budget support.

The Task Force is invited to take note of oral communications and discuss how finance and technical assistance provided to EECCA countries could be optimised, particularly in light of the economic and financial crises and opportunities to promote green growth.

Also the Task Force may wish to consider whether specific activities on green growth promotion in EECCA should be included in the EAP Task Forces' work programme.

## ENVIRONMENTAL COOPERATION IN THE CONTEXT OF GREEN GROWTH: *QUO VADIS, EASTERN EUROPE, CAUCASUS, AND CENTRAL ASIA?*

*Briefing note by the OECD/EAP Task Force Secretariat*

### 1. The overall context for the adoption of the “green growth” model

The emergence of the concept of “green growth” marks the change from a development model treating environment protection as an economic burden to a model that recognises environment protection as a driver for global and national economic development. A related conceptual change that comes together with the re-orientation on green growth is the large recognition of the need to transform production from a resource intensive process to a more or less closed cycle of material flow. Also green growth responds to calls to re-focus societies on achieving a qualitative growth, rather than continue measuring success based on traditional quantitative economic indicators, such as, for instance, Gross Domestic Product.

The recent financial and economic crises contributed towards further spurring private sector interest and high-level political commitments to green growth as one of vehicles of economic recovery and job creation. The need to stimulate economic recovery through public spending, compounded with the need to progress more actively on the achievement of climate change and other environment targets, motivated the interest in green growth. This situation is quite different as compared to times when environmental authorities were advocating, often in vain, a better integration of environmental objectives into development strategies.

Moreover, political commitments to green growth have bypassed national borders. For example, ministers from 40 countries, representing 80% of the world economy, discussed the crisis and the green growth agenda at the OECD's annual ministerial meeting in Paris. In a Declaration on Green Growth, signed by all OECD members plus Chile, Estonia, Israel and Slovenia, ministers tasked the OECD with developing a Green Growth Strategy that would address comprehensively economic, environmental, technological, financial and international aid aspects. The Strategy, which is now under development, might focus on such objectives, as the evolution towards a low carbon society, further improvement of resource efficiency, as well as a continuous integration of environmental aspects into economic and sectoral policies. Creating new jobs and bringing in revenue for public finance are ancillary benefits of green growth<sup>1</sup>.

The Declaration underlines the long-term horizon of green growth: according to ministers, “*green growth will be relevant beyond the current crisis*”. The Declaration also warns that “*the crisis should not be used as an excuse to postpone crucial decisions for the future of our planet*”.

“*We are talking about a paradigm shift in policy,*” said Korean Prime Minister Han Seung-Soo, who chaired the meeting. Earlier, the Ministry of Environment of the Republic of Korea proposed the Seoul Initiative Network on Green Growth, which aims to address major policy issues for green growth as identified in 2005 at the fifth Ministerial Conference on Environment and Development in Asia and the Pacific.

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<sup>1</sup> Many politicians emphasise the “green job” objective, which is very appealing to their electorates, though the employment effects of green growth over the long-term may be uncertain.

Also UNEP has recently launched the Green Economy Initiative (see [www.unep.org](http://www.unep.org)) that is designed to assist governments in “greening” their economies by reshaping and refocusing policies, investments and spending towards a range of sectors, such as clean technologies, renewable energies, water services, green transportation, waste management, green buildings and sustainable agriculture and forests.

While green growth has been promoted up on the political agenda in many OECD members and some non-OECD countries, this is generally not the case in EECCA. With few exceptions, environmental investments are not part of the economic recovery packages. Moreover, experts from the region warn about attempts to relax environmental safeguards that may further deteriorate environmental conditions.

## 2. Definition of “green growth” and the role of public authorities

According to the UNEP definition, “greening” the economy refers to “*the process of reconfiguring businesses and infrastructure to deliver better returns on natural, human and economic capital investments, while at the same time reducing greenhouse gas emissions, extracting and using less natural resources, creating less waste, and reducing social disparities*”. As concerns environmentally-efficient production, current environmental policies, particularly in OECD countries, have been relatively successful in addressing industrial pollution and encouraging the adoption of more efficient processes rather than just end-of-pipe solutions. However, more efforts are needed to promote the concept of materials efficiency and support a further expansion of the eco-industry market. Minimum product standards need to be developed to reduce the impact of goods on the environment, as well as phasing out products that use excessive energy or water resources, or contain hazardous materials. Comprehensive policies are needed to minimise the environmental impacts from household activities. Also infrastructure development patterns require a change: not only capital, operation and maintenance costs, but also environmental costs over the lifetime of infrastructure need careful consideration.

Green growth is a shared challenge for numerous public and private sector actors, and the society at large. Public authorities can play the important role of process facilitator by establishing conditions that provide, or lead to the provision of:

- **Market and policy incentives:** Transition to green growth requires price signals, a supportive regulatory environment, consumer pressure, etc. Creating such incentives is, in part, possible through policy reform. Examples of immediate win-win policies include: conducting fiscal and budget reforms, improving product policies and removing environmentally harmful subsidies, enhancing green public procurement practices, cutting trade barriers to environmental goods and services, addressing market failures that prevent improvements in the environmental efficiency of infrastructure, and providing further incentives for corporate initiatives.
- **Adequate investment:** An adequate access to finance and scaling up investment is an important prerequisite and driver for greening business and infrastructure. Much of this investment comes from private sources; for example, global investment in clean technology expanded by 60 per cent from \$92.6 billion in 2006 to \$148.4 billion in 2007 (UNEP, 2008). Public funding and official development assistance (ODA) can play a major role in stimulating private sector investment, either by directly providing finance or by removing institutional barriers that hold back investments and slow progress. Simultaneously, environmental safeguards of investment programmes and projects need to be strengthened and rigorously enforced.
- **Eco-innovation:** Eco-innovation can prevent or reduce the negative effect on the environment of products and activities, and contribute to new business opportunities. But investors need a clear and credible price signal to make the appropriate investment decisions. Governments will also have to share the risk of research in new technologies with the private sector. Globalisation, particularly the international flow of knowledge, capital, goods and services, along with changes in the way businesses are organised, clearly has a profound effect on eco-innovation.

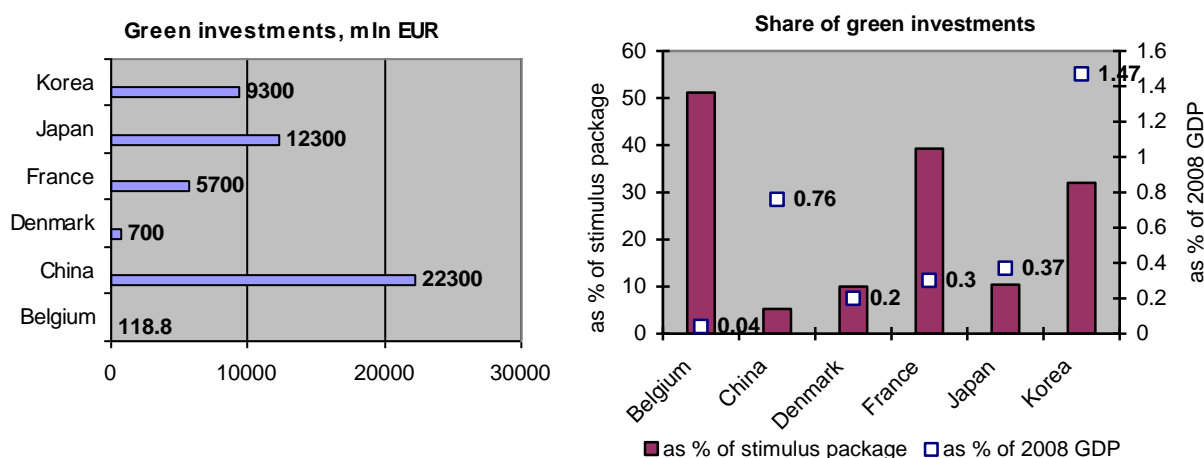
- **Appropriate information:** A set of indicators to measure the transition to a low carbon society, progress in resource efficiency and reducing environmentally harmful subsidies or in moving to green taxes would be necessary to enable progress monitoring and cross-country benchmarking.
- **New knowledge and skills:** Skills gaps have emerged as a binding constraint on the greening of economies in industrial and developing countries alike. Without qualified entrepreneurs and skilled workers, the available technology and resources for investments cannot be used or cannot deliver the expected environmental benefits and economic returns. Closing the current knowledge and skills gap, and anticipating future needs, are essential for a rapid transition to green growth.

### 3. “Green” measures in economic recovery packages

Economic recovery has often been based on structural reforms therefore the current crisis provides both an opportunity and an incentive to improve efficiency in the use of energy and materials, and for the development of new green industries and businesses – developments that can benefit both the economy and the environment. Over the longer-term, moving towards a low-carbon economy can also help to increase energy security.

Investing in the environment is an important element of many of the stimulus packages being put in place by governments in OECD and emerging economies (see Figure 1). Countries are also working to ensure that the right policy frameworks are in place to encourage private investments flows that support environmentally sustainable long-term growth. A number of countries plan an immediate implementation of "green" measures, starting in 2009 and covering one to three year periods.

**Figure 1. Volume and share of green measures included in government economic recovery packages in selected OECD countries and China**



Source: OECD (2009), Green Growth: Overcoming the Crisis and Beyond. Data were provided by governments to the OECD secretariat.

In the European Union, a pan-European Economic Recovery Plan has been adopted injecting support of 400 billion EUR to boost purchasing power and generate growth and jobs (EC, 2009). This Recovery Plan identifies a number of green measures, including actions on climate change, energy efficiency, clean technologies, developing green skills, and promoting green products. Also a large number of Member States have developed national recovery plans. The main “green” measures identified in these recovery plans are energy efficiency, renewable energy, development of public transport and infrastructure and car scrapping schemes (Table 1). Fewer member states identified eco-technology and innovation, water and waste treatment, or environmental taxes as a part of their anti-crisis package. Most of the "green" measures foreseen by the EU countries will be used in their fight against climate change.

**Table 1. A summary of green measures foreseen in recovery plans in selected EU member states.**

	BE	CZ	DE	DK	ES	FI	FR	HU	IT	LT	LV	NL	PL	RO	SE	UK
<b>Issue-specific measures</b>																
Energy efficiency	▲	▲	▲	▲	▲	▲	▲	▲	▲	▲	▲	▲	▲		▲	▲
Renewable energy		▲		▲	▲	▲	▲	▲	▲	▲	▲	▲				▲
Public transport/ infrastructure	▲	▲	▲	▲	▲	▲	▲		▲	▲					▲	▲
Car scrapping scheme		▲	▲		▲		▲		▲			▲		▲	▲	
Water programmes						▲	▲					▲				▲
Waste treatment							▲									▲
Nature conservation				▲												
<b>Cross-cutting measures</b>																
Eco-technologies/ innovation		▲	▲	▲	▲	▲	▲				▲	▲			▲	▲
Fiscal instruments		▲	▲	▲		▲	▲	▲	▲	▲		▲		▲	▲	▲
Green procurement											▲				▲	
Green jobs		▲	▲			▲						▲				▲
<b>Other measures</b>	▲	▲			▲		▲						▲			▲

Note: BE – Belgium; CZ – Czech Republic; DE – Germany; DK – Denmark; ES – Estonia; FI – Finland; HU – Hungary; IT – Italy; LT – Lithuania; LV – Latvia; NL – the Netherlands; PL – Poland; RO – Romania; SE – Sweden; UK – United Kingdom.

Source: European Commission (2009), Non-Paper “Green Elements from Member States’ Recovery Plans”. [http://ec.europa.eu/environment/integration/recovery\\_plan.htm](http://ec.europa.eu/environment/integration/recovery_plan.htm)

As concerns the type of instrument, the EU Member States use public investment, loans and loan guarantees. A few countries use allocations from EU funds (structural and cohesion funds), as well as loans from the European Investment Bank. A number of countries also foresee the use of broader fiscal instruments, varying from household tax deductions (*i.e.* for energy efficiency projects) to taxes on pollution.

Unlike in many OECD countries and emerging economies, *e.g.* China, the measures to promote economic recovery identified in many EECCA countries are not explicitly oriented towards green growth. Where “anti-crisis programmes” exist, they rarely mention environmental investments (PKF, 2009). Belarus seems to be the “greenest” with energy and resource efficiency among key objectives; some energy-saving measures are planned in Kazakhstan and Uzbekistan. Armenia wants to invest 300 million USD in the water infrastructure though it is not clear whether this is “new” money. So far, the majority of infrastructure projects, identified in the recovery packages of EECCA countries, deal with roads and irrigation systems rehabilitation. Efforts to screen-out environmentally harmful policies from government programmes and to improve environmental infrastructure and product policies are still limited and need to be further strengthened.

#### **4. Possible contribution of international cooperation**

International cooperation and exchange of experience can provide significant value-added in the pursuit of green growth by establishing a mechanism for policy dialogue, joint analytical work, progress monitoring and benchmarking, and capacity development. Analytical work on green growth may be particularly relevant in a first phase. In terms of analysis, countries may want to respond collectively to a number of questions that are relevant in any context, such as, for instance:

- ***How to best combine economic and sectoral policy objectives with environmental ones?*** This would involve analysis across relevant aspects of economic, sectoral and other policy areas (*e.g.* agriculture, industry, innovation, consumers, transport, energy, water, tourism, territorial

development), as well as framework conditions for green growth (*e.g.* trade, investment, and tax). It may include analysis of options for reforming policies that are economically costly and environmentally damaging (*e.g.* subsidies to fossil fuels or to agriculture and fisheries).

- ***How to identify and implement an effective policy framework to move towards green growth?*** This would involve analysis of the policies that can stimulate private investments in both new and existing business lines, including changes in production and consumption patterns. These include the use of direct regulation (*e.g.* standards that mandate energy efficiency of buildings), market-based approaches, direct public investments (*e.g.* in green infrastructure), or public support to research and development. And so on.
- ***How to manage the implementation of policy reform (political economy aspects) and transition to a green economy?*** This would include an understanding of not only the restructuring and renewal of the business sector but also the employment dimension and possible distributive effects and educational aspects (skill development at various levels) of moving towards a green growth model. Policy reform will involve decision making on a number of trade-offs between different policy objectives and therefore requires co-ordination among Ministries and among different levels of government as policies that will enable green growth are often implemented locally.

An extensive know-how transfer and capacity development agenda will be needed in EECCA countries to promote green growth. Many of the activities carried out by the OECD/EAP Task Force secretariat currently or in the past are highly relevant in this context, *e.g.* work on environmental fiscal reform and environmental finance, greening business through cleaner production and integrated pollution prevention and control, promotion of sustainable infrastructure, to name just few.

Finally, progress monitoring and benchmarking is needed in order to promote political commitments for green growth which are yet to come in EECCA.

As mentioned above, the OECD secretariat was asked by member countries to lead the development of a Green Growth Strategy. A number of other international organisations, such as UNEP, IMF and the World Bank, and some private institutions are also developing green growth work in the coming years, and appropriate co-ordination in this area is needed.

## **5. Donor aid, the crisis, and green growth**

The global downturn is affecting developing countries – the least responsible for the crisis, and the least able to cope with its impact. Low-income countries, in particular, were already weakened by the food and energy crises. The World Bank estimates that, as a result of the crisis, 53 million more people will have to live on less than USD 1.25 a day.

This bitter reality will make low-income countries face even more difficult tradeoffs between enduring priorities and urgent needs. But the crisis also presents them with opportunities to reshape their strategies in a changing world economy. In this regard, donor aid can provide a bridge to help countries safeguard social progress and social investments and at the same time build foundations for stronger, cleaner and fairer growth and for achieving the Millennium Development Goals (MDGs).

In the face of the crisis, OECD countries have reaffirmed their aid commitments. Thus, the OECD's Development Assistance Committee (DAC) adopted an Action Plan (see Box 1) at its high level meeting on 27-28 May 2009. In this Action plan, donors reaffirmed their existing ODA commitments, especially for Africa, called to integrate crisis management with long-term growth and the MDGs, re-iterated the relevance of key commitments taken in the Paris Declaration and Accra Agenda for Action (such as country ownership, use of country systems and predictability), confirmed their willingness to consider the potential need to deploy additional resources for multilateral institutions to help meet emerging needs at the country level, signalled the

intension to ensure complementarity between ODA and other development flows, and committed themselves to monitor their response to the crisis, its impact, and hold themselves accountable.

Also high level representatives of OECD Development Co-operation and Environment Ministries came together in May 2009 to highlight the importance of a secure financing for key international environmental challenges, including climate change and water supply and sanitation.

In this regard, it is necessary to mention that priorities and approaches of donors and IFIs in the EECCA region have evolved over the last years. Though the most recent trends are not known, the *Trends in Environmental Finance* report (OECD, 2007) showed that bilateral donors are progressively scaling down their programmes (from USD 200 million in 2001 to less than USD 100 million in 2005), while IFIs have increased their assistance in the form of loans from some USD 250 million in 2001 to USD 450 million in 2005). Overall, multilateral assistance reached 1,829 million USD over the period 2001-05. The reduced share of environmental assistance in total bilateral assistance may be related to donors providing general budget support, rather than project support. Some bilateral donors which had played a major role in the early stages of the transition have scaled their effort back (US, UK, Denmark, Sweden), while others have emerged or have significantly increased their contribution (Japan, the EC, Switzerland, Germany, Finland). Both bilateral and multilateral assistance particularly favour large, oil-producing countries, like the Russian Federation and Kazakhstan.

Bilateral and multilateral environmental assistance remains marginal as a share of GDP (below 0.6% in most cases). Bilateral environmental assistance represents less than 1 USD per capita and per year, and multilateral environmental assistance is about 1.3 USD. This indicates that neither ODA nor IFI finance can be a substitute for domestic environmental finance in EECCA. However, projects supported by the international community are recognised as having particularly positive demonstration and catalytic effects, both in terms of technology transfer and the development of new skills and know-how.

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