Green Growth and Development

I. Introduction

For a green growth strategy to be effective at the global level, it needs to be attractive to both developed and developing countries, recognizing that there are common but differentiated realities in different parts of the world. Policies and targets need to be achievable, taking into account national circumstances and priorities, the global economic context, as well as poverty alleviation objectives.

BIAC welcomes OECD’s initiative on green growth and poverty reduction in developing countries as follow-up to the 2011 Green Growth Strategy and in preparation for the Rio+20 Conference in June 2012. The business community recognizes the need for innovative work in this area and believes that the OECD can make a useful contribution, drawing on its multi-disciplinary strength and engaging its development experts. BIAC looks forward to participating in discussions with OECD development experts as the reports and analysis are being prepared.

II. Challenges specific to developing countries

To make green growth deliver, efforts of all nations are needed, including of many developing countries which are increasingly sources of economic growth. However, developing countries face different challenges than developed countries in designing a green growth strategy. Implementing such a strategy will only be possible, if in addition to addressing environmental challenges, it contributes to poverty alleviation and creates opportunities for economic growth, development and job creation. Different national circumstances and development objectives as well as financial and institutional capacity need to be given due attention.

Developing countries are often dependent on natural resources and thus vulnerable to resource degradation and environmental impacts. In addition, they often face challenges with insufficient technical capacity and financial resources to anticipate and pro-actively manage these problems. Bearing in mind that the situation varies from country to country, agriculture, forestry, energy and mining are usually key sectors and might in many cases be
the first focus, however, green growth opportunities should be sought across the economy where opportunities arise.

There are of course substantial economic and political differences from one developing country to another and particularly between emerging economies and least-developed countries. It is therefore important to develop a deeper understanding of the different contexts in which development countries operate and to tailor strategies to the needs of each country or region. A green growth strategy has to provide real value as well as tools applicable to the specific context.

### III. Key business considerations

Business will be key for capital investments in green infrastructure and technology development in emerging and developing countries. Green growth should therefore go hand-in-hand with creating new business activities and markets as well as job opportunities in different areas. As an important engine of growth, the private sector can contribute more than just finance and investment. It can also be an important driver for innovation and skills development. In general, the private sector will invest in projects that are profitable and environmentally sustainable. However, decisive action needs to be taken to address hurdles to private investment:

**Offer an enabling investment environment:** The quality of the policy environment is a key factor to generate the private investment and economic growth needed to reduce poverty and protect the environment on a sustained basis. In order to attract and retain the necessary investment for development, a well-functioning legal, political, social and economic environment in which companies can operate successfully and competitively needs to be established. Key components of such an investment framework include among others stable economic, financial and tax systems for investing partners; a transparent legal and regulatory structure and sound foreign ownership regulations; protection of intellectual property rights, free capital flows and stable rules for foreign currency exchange, well-functioning administrative structures at the local and national levels, and absence of excessive bureaucratic rules and delays.

**Pay adequate attention to the environmental considerations of investment:** Sound environmental policies, based on scientific assessment and life-cycle analysis, are an important part of a stable policy framework in developing countries. Transparency and reliability of these policies are important to ensure that companies can factor in costs for long-term investments and avoid high compliance costs due to rapid and arbitrary changes.

**Promote policy coherence and transparency:** Green growth policies should provide 'integrated solutions', with tools for the various needs and objectives. Many tools are available in the overall tool box, and policy coherence is important for constraints to be minimized. Environmental management and governance should not be considered in isolation, but they should be linked to the overall development agenda as well as finance, planning and sector ministries. In many developing countries, where private investment involves greater risk, transparency as well as a legal framework and procedures that
safeguard investors' interests need to be enhanced. Transparency in the flow and use of funds which can support green growth objectives is also indispensable.

**Address financial requirements:** The provision of sufficient financing for addressing green growth challenges across the world is a critical factor. Public funds should be used in a transparent manner and as efficiently as possible and in a way that does not violate the key principle of technology neutrality. In addition, policymakers should pay attention to how public funding can be targeted to effectively leverage private financing. If targeted appropriately, relatively small initiatives taken by governments can in some cases mobilize significant amounts of private investments. Private financing will of course be critical in the shift towards an economic model that results in greener growth in developing countries. However, the incentives for this private financing will only emerge if a sound, coherent and predictable investment framework is in place. At the same time, innovative financing mechanisms should be encouraged and new approaches should be further explored. For instance, loan guarantees can prove an important instrument to reduce investment risks and increase business confidence.

**Improve the effectiveness of market mechanisms:** In the context of international climate discussions, market-based instruments can provide opportunities for developing countries to attract funds needed for specific projects. The Clean Development Mechanism (CDM), for example, has opened new financing opportunities for smallholders while contributing to sustainability. It has, during its existence, provided investment and financing for a large number of emission reduction projects in developing countries, brought about local community involvement and has led to the development of monitoring, reporting and verification methodologies.

**Foster innovation and technology cooperation for green growth:** Technology holds the key to make green growth deliver. It is therefore essential to foster innovation and promote the widespread adoption of available green technologies, while focusing attention on developing and deploying new solutions that will enable a more rapid transition to greener growth. Addressing the local level and local entrepreneurs for innovation is particularly important in considering innovation for developing countries. Technology cooperation requires trust, long-term commitment and clearly demonstrated mutual benefits for all partners. Whether as a commercial transaction or as part of an overseas development assistance package, successful technology cooperation should be beneficial both for the host nation, by offering economic growth, better training and improved environmental management, and for the investor, by offering an attractive investment opportunity.

**Foster effective intellectual property protection:** An effective and efficient IPR regime provides incentives to take risks and encourages the creation and adoption of new technologies in all areas. A robust IPR regime is required to maintain the balance between exclusive protection for a defined period and disclosure of IP in accordance with internationally established IPR policies. At the same time, the access and diffusion of knowledge can increasingly be accelerated through a range of new collaborative mechanisms as well as through the emergence of global knowledge and innovation networks and markets.
Support innovative approaches: New voluntary approaches to share know-how should be duly considered. WIPO Green, for example, is an initiative of the World Intellectual Property Organization in collaboration with industry, in particular the Japan Intellectual Property Association (JIPA), which proposes improving the process for adaptation and diffusion of technology through the development of a platform facilitating partnerships and the market-based exchange of green technologies. Importantly, the platform would benefit all developers and users of green technologies, anywhere in the world, and be specifically set up to support developing country access. The Platform would serve as a partnership hub providing a forum where interested parties can meet and learn about available technology opportunities, as well as available funding for implementation and create networking opportunities.

Take a “system approach”: High technological capacity in a recipient country is a key factor in encouraging transfers. To address a specific issue, key technologies need to be supplied together with related technologies as well as know-how. A “system approach” is necessary instead of focusing on individual technologies in isolation. Further discussions among governments and with the private sector and more effective cooperation, including in the area of capacity building, are important to achieve long-lasting and substantive progress.

Support capacity building: Institutional capacity will play a key role in identifying environmental priorities, formulating targeted policy response and driving the transition. Government policies to increase technological and institutional capacity are critical. Capacity building needs to go beyond the traditional focus on environment ministries, but include finance, planning and sector ministries as well as the private sector and foster collaboration across agencies. Sound domestic economic and investment policies can help the development of local markets, while education and health policies can contribute to a strong and skilled workforce.

Promote a whole economy approach: Given that all sectors have a role in “greening” the economy and form part of wider supply chains, a Green Growth Strategy requires a “whole economy” approach in the broader context of sustainable development. Business underlines that a life cycle approach can help identify innovative solutions. The focus of capacity building needs to go beyond environmental protection, but needs to also include finance, infrastructure, the private sector and local communities.

Support involvement of OECD based companies in development: Support mechanisms are generally related to aid programs rather than trade and innovation programs in OECD countries. The OECD can play an important role in developing and disseminating good practice in adapting OECD countries’ science, technology and innovation policy to build better linkages with developing countries’ needs and opportunities.

Foster partnerships: Partnerships with the private sector and between developed and developing countries are becoming increasingly important as they can make a real impact and can have a transformative role beyond the scope of pure financing. It is essential to have a common aim, a clear vision of change and work more closely to achieve joint goals. At a practical level, this is about investing in networking, but it is also about leadership. Cooperation and integrated alliances among governments and business are necessary. Public-private partnerships can also play an important role in leveraging R&D and supporting innovation in developing countries.
IV. A key role for the OECD

Devising green growth strategies for developing countries requires an accurate and comprehensive perspective of the growth composition and the regional context of each country. Greater outreach and international cooperation are needed to uncover the specific green growth challenges that may be faced by countries at different stages of development. The extent of green growth challenges facing the world economy demands an integrated global response.

For this reason, understanding how the OECD Green Growth Strategy can be applied to countries at differing stages of development will be fundamental to its success. BIAC welcomes the fact that the OECD analysis on green growth will expand beyond OECD borders in order to realize its objectives. At the same time, potential impacts of green growth policies in OECD countries for developing countries should be part of the analysis.

Greater business engagement requires a long-term policy framework. In this process, the OECD can play a constructive role by highlighting the challenges faced by business and proposing useful solutions. The OECD can also play a role in offering analysis and advice for cost-effective green growth strategies within local, sectoral and national policy frameworks for poverty reduction and development policies. BIAC therefore encourages the OECD to work closely with the business community in its continued work on green growth and development.