GREEN economy

Enabling conditions

Supporting the transition to a global green economy

Acknowledgements

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List of acronyms

APEC	Asia-Pacific Economic Cooperation
BIT	Bilateral Investment Treaty
CSR	Corporate social responsibility
DTIS	Diagnostic trade integration study
FSC	Forest Stewardship Council
G20	Group of Twenty
GDP	Gross Domestic Product
GHG	Greenhouse gas
GRI	Global Reporting Initiative
ICT	Information and Communication Technology
ITC	International Trade Centre
MDG	Millennium Development Goal
MEA	Multilateral Environmental Agreement
MSC	Marine Stewardship Council
NAFTA	North American Free Trade Agreement
NGO	Non-governmental organisation
ODS	Ozone depleting substance
OECD	Organisation for Economic Co-operation and Development
PES	Payment for Ecosystem Services
PFI	Private Finance Initiative
PIC	Prior informed consent
PROCOP	São Paulo State Industrial Pollution Control Programme (Brazil)
PROPER	Programme for Pollution Control, Evaluation and Rating (Indonesia)
R&D	Research and development
REDD	Reducing Emissions from Deforestation and Forest Degradation
SCP	Sustainable consumption and production
SME	Small and medium-sized enterprise
TRIPS	WTO Agreement on Trade-Related Aspects of Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
UN DESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
US EPA	United States Environmental Protection Agency
WTO	World Trade Organization
WWF	World Wide Fund for Nature

Key messages

1. Enabling a green economy means creating a context in which economic activity increases human well-being and social equity, and significantly reduces environmental risks and ecological scarcities. Changing the economic environment in this way is an ambitious undertaking which requires a holistic set of policies to overcome a broad range of barriers across the investment landscape. This chapter identifies six key areas of policy-making which most governments will need to focus on in order to correct the incentive structures in current, unsustainable markets and to alter investment landscapes in the short to medium-term. It also raises the question of whether classical measures of economic performance, such as Gross Domestic Product (GDP) growth, are adequate for assessing wealth creation and human well-being in the transition to a green economy.

2. Carefully designed investment and spending can stimulate the greening of economic sectors. While the bulk of green economy investment will ultimately have to come from the private sector, the effective use of public expenditure and investment incentives can play a useful role in triggering the transition to a green economy. A number of sector chapters in the report recommend public investments in infrastructure and public services to enable green markets and ensure more efficient use of the environment and natural resources. Governments can also stimulate markets by using sustainable public procurement practices that create high-volume and long-term demand for green goods and services. This sends signals that allow firms to make longer-term investments in innovation and producers to realise economies of scale, leading in turn to the wider commercialisation of green goods and services, as well as more sustainable consumption. Investment and spending for a green economy, however, require regular assessments to ensure equity, transparency, accountability and cost effectiveness.

3. Taxes and market-based instruments are powerful tools to promote green investment and innovation. Significant price distortions exist that can discourage green investments or contribute to the failure to scale up such investments. In a number of economic sectors, negative externalities, such as pollution, health impacts or loss of productivity, are typically not reflected in costs, thereby reducing the incentive to shift to more sustainable goods and services. A solution to this problem is to internalise the cost of the externality in the price of a good or service via a corrective tax, charge or levy closer to the source of the pollution or, in some cases, by using other market-based instruments, such as tradable permit schemes. Also, markets establishing payments for providing ecosystem services, such as carbon sequestration, watershed protection, biodiversity benefits and landscape beauty, can influence land use decisions by enabling landholders to capture more of the value of these environmental services than they would have done in the absence of the scheme.

4. Government spending in areas that deplete environmental assets is counterproductive to a green economy transition. A number of the sector chapters highlight how poorly managed government spending can represent a significant cost to countries. Artificially lowering the price of goods through subsidisation can encourage inefficiency, waste and overuse, leading to the premature scarcity of valuable finite resources or the degradation of renewable resources and ecosystems. Such outdated subsidies can also be socially unfair. Moreover, they can reduce the profitability of green investments: when subsidisation makes unsustainable activity artificially cheap or low risk, it biases the market against investment in green alternatives. Reforming environmentally harmful and economically costly subsidies can therefore bring both fiscal and environmental benefits. However, short-term support measures accompanying the reform may be necessary to protect the poor.

5. A well-designed regulatory framework creates incentives that drive green economic activity. The sector chapters in this report emphasise that a robust regulatory framework at the national level, as well as the effective enforcement of legislation, can be a potent means of driving green investment. Such a framework reduces regulatory and business risks and increases the confidence of investors and markets. The use of regulations is often necessary to address the most harmful forms of unsustainable behaviour, either by creating minimum standards or prohibiting certain activities entirely. In particular, standards can be effective in promoting markets for sustainable goods and services and can induce efficiency and stimulate innovation, which can have a positive effect on competitiveness. Standards may, however, pose a challenge to market access for small and medium-sized enterprises, particularly from developing countries. It is, therefore, crucial for countries to balance environmental protection through the use of standards and other regulations with safeguarding market access.

6. Investing in capacity building and training is essential to support a transition to a green economy. The capacity to seize green economic opportunities and implement supporting policies varies from one country to another, and national circumstances often influence the readiness and resilience of an economy and population to cope with change. A shift towards a green economy could require the strengthening of government capacity to analyse challenges, identify opportunities, prioritise interventions, mobilise resources, implement policies and evaluate progress. Training and skill enhancement programmes may also be needed to prepare the workforce for a green economy transition. Temporary support measures may, therefore, be required to ensure a just transition for affected workers. In some sectors, support will be needed to shift workers to new jobs. In developing countries, inter-governmental organisations, international financial institutions, non-governmental organisations, the private sector and the international community as a whole can play a role in providing technical and financial assistance to facilitate the green economy transition.

7. Strengthened international governance can assist governments to promote a green economy. Multilateral environmental agreements, which establish the legal and institutional frameworks for addressing global environmental challenges, can play a significant role in promoting green economic activity. The Montreal Protocol on the Substances that Deplete the Ozone Layer, for instance, led to the development of an entire industry focused on the destruction and replacement of ozone-depleting substances. The international trading system can also have significant influence on green economic activity, enabling or obstructing the flow of green goods, technologies and investments. If