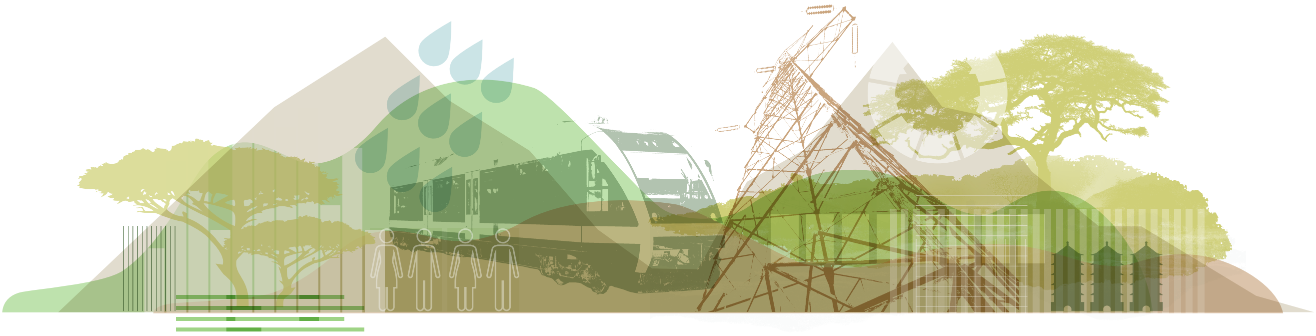


Green Growth Best Practices Briefing
Initial draft findings

October 2013

GGBP
Green Growth Best Practice

About the Green Growth Best Practices Initiative
Green growth is a relatively young field of public policy practice. The Green Growth Best Practices (GGBP) initiative was set up to accelerate learning and to inform design of green growth programs, by undertaking an analysis of early experiences.

GGBP engaged 75 authors in evaluating practices and lessons from cases of green growth programs and strategies.

The GGBP assessment will be completed in early 2014 and will be published as a synthesis report and an online Living Handbook with case studies. www.ggbp.org

Best practices on green growth policies, financing strategies and public private collaboration: initial findings

Introduction

Around the world a growing number of national and sub-national governments are seeking to chart a course towards sustainable development through strategies for green growth. To be successful these strategies must go beyond the ambition and challenges of yesterday's environmental policies, by aligning more closely to economic drivers and strategies.

The argument for green growth is that tomorrow's successful economies will be those that manage to integrate environmental costs and benefits into the heart of economic decision-making. Conversely those that do not face the risk of locking in unsustainable patterns of production and consumption which will become long-term liabilities.

Opportunities for industrial and energy shifts and improved environmental management that could deliver economic and social benefits have been identified in many countries. However governments face the critical challenge of finding ways to overcome well-documented, and often interlocking barriers, such as market failures, perverse incentives and subsidies, political, institutional and social system barriers.

Initial reviews by the OECD, UNEP, the World Bank, and UNESCAP of the various national green growth, green economy, low emission, low carbon and climate resilient development processes being undertaken, reveal that there is no single model but that many countries are carrying out common processes in developing their approach:

1. **Planning and coordination** through a high level mandate, active stakeholder engagement, coordination across agencies and levels of government, and development of effective monitoring and evaluation cycles.
2. **Analysis and communication** of goals, options, and pathways considering impacts, costs, and trade-offs.
3. **Development and implementation of integrated policy portfolios** to redirect investment flows, internalise environmental costs, build demand and consumer acceptance, and mobilise public and private resources.

GREEN GROWTH IN PRACTICE

- South Korea has adopted a green growth strategy to drive economic competitiveness through development and use of advanced technologies.
- Ethiopia's government sees a strategic link between economic growth, social development, greenhouse gas emission reduction and building resilience to climate change.
- China has committed to green growth in its 12th Five Year Plan and is carrying out systematic city-by-city pilots of promising green technology and policy innovations.
- Mexico is pursuing green growth through sector policies, incentives, and regulation, particularly focused on the energy and transport sectors.

Despite the common approaches there is lack of coordinated effort for assessing experiences and sharing lessons. The GGBP Assessment is focused on these three areas and seeks to answer questions that have been raised by planners, analysts and policy makers tasked with developing and implementing green growth plans.

- What green growth **planning approaches** best achieve mainstreaming with development, long-term transformation, government agency and stakeholder buy-in?
- What are the most successful approaches that countries have used in establishing well defined green growth **targets and baselines** and using these goals to drive programs?
- What approaches have been most successful in assessing benefits and building a case to embark on a green growth plan?
- How are different approaches and tools being used to analyze and prioritize **green growth options and pathways** to effectively inform planning and implementation?
- What types of green growth policies and approaches to **policy design and implementation** have proven most effective at achieving short-term benefits and long-term transformation?
- What measures are most effective at **mobilizing finance** from domestic, international and private sector sources for green growth?
- What approaches have been most successfully used for **public private collaboration** to mobilize private sector leadership and action for green growth?
- What approaches have proven most effective for advancing green growth through coordinated **national and sub-national programs**, and across government?
- What are best practices in design and implementation of green growth **monitoring and evaluation** programs feeding into policy learning and implementation?

This briefing highlights initial issues raised through ongoing work-streams on Developing and implementing integrated policy portfolios; focused on policy design, financing strategies and public private collaboration. **These initial findings are currently undergoing peer review and will be refined to respond to review comments.**

Figure 1. Green Growth Planning Process and GGBP Priority Topics

Policy design and implementation

GREEN GROWTH IN PRACTICE

Policy case studies considered: innovation systems in Sweden, Finland, Denmark and Norway, Gauteng Innovation Strategy (South Africa), water pricing reform in Chile and Slovakia, skills development in Korea, India and Brussels, green city policies of Singapore, Medellin, Rio de Janeiro and Masdar City, Germany's energy policy, land management in Brazil, and agricultural policy in Thailand.

Green growth policies aim to achieve environmental sustainability quality at low cost, stimulate economic growth, and ultimately deliver support human wellbeing. There is already emerging agreement on the suite of policies that are likely to be most effective; reform and phase out of fossil fuel subsidies, taxation and pricing systems that reflect the value of ecosystem services, use of the purchasing power of the public sector to grow markets for sustainably produced product and services, integration of green and resilient specifications into public spending and infrastructure development, and establishment of regulations to overcome market failures. Many of these policies are economy-wide, while some require a focus on particular sectors such as energy, buildings, agriculture or transport.

These policies could improve the environmental resilience and impacts of economies at relatively low overall cost, and provide signals for continuing investment in green innovation. Immediate and long-term benefits include cost savings, market opportunities and the benefits of healthier people and more efficient cities and energy systems. Industrial policy and skills development can enable green investment to be translated into local employment gains.

However transformational change creates winners and losers, as assets and skills valued in the old economy become less valuable. Policies which seek to accelerate this change may adversely affect even those stakeholders who stand to gain in the longer term, and are likely to face opposition from vested interests, both within and outside of government.

The GGBP evaluation identified four broad features of successful green growth strategies:

1. **Developing a synergistic portfolio** of economy-wide and sector specific policies across all major types of measures (e.g. regulations, financial incentives, innovation, capacity building, technical assistance and awareness).
2. **Mainstreaming green growth into national policy** to achieve coherent and integrated incentives.
3. **Designing policies to enable transitions** for those adversely affected by green growth transitions.
4. **Developing institutional capacity** to manage policy implementation, enforcement, and economic and social adjustment with strong governance systems.

Developing integrated green growth policy, is not simply a bureaucratic matter of ensuring that every department and ministry has green objectives, it is a strategic one of managing trade-offs, and developing policy responses that are stable enough for long enough to generate benefits which mobilize a critical mass support for longer term policy reforms. Furthermore, it is critical that green growth policies are developed in a way that is not detrimental to the poorest and most vulnerable, and do not end up as a curb on economic growth by embedding new rent seeking relationships.

The GGBP author team is investigating how governments are responding to these challenges of developing coherent policies, managing trade-offs and developing institutional capacity, and the portfolio of policies that they are developing.

CASE STUDY

Selected Case Studies of Different Types of Policy Portfolios

Comprehensive Policy Portfolios

- Brazil's green agriculture program has applied a broad mix of land-use planning, R&D, credit support, capacity building and education, and trade policies and programs
- Singapore has utilized regulations and standards, pricing systems, demonstration programs, consumer behavior, information management, and other policies to become one of the greenest cities in the world

Fiscal and Regulatory Driven Policy Portfolios

- Germany has combined financial incentives and financing support and strong regulations and standards to transform its energy system to achieve high use of energy efficiency and renewable energy

Pricing Policies with Social Support

- Chile's water pricing program enables water conservation and full cost recovery while also providing poor households with subsidies to limit the burden on them

Innovation Programs

- Masdar city is demonstrating the use of cutting edge technologies and practices at a community level with tailoring to local design principles and to achieve social acceptance.
- Norway is developing green technologies and improving the competitiveness of its energy, maritime, agriculture, and health sectors through large investments in research, entrepreneurship, and public procurement.

Financing strategies

GREEN GROWTH IN PRACTICE

Financing case studies considered: Leveraging private finance for solar power in Morocco, Vietnam Development Policy Loans, South Africa Green Fund, Germany's energy efficiency financing, portfolio of measures in California, Bangladesh microfinance, Costa Rica's Payment for Ecosystem Services and the European Investment Bank's Project Bonds Initiative.

Estimates of incremental investment required for a green transition range from US$1 – 2.5 trillion per year. Practitioners in government and the private sector have repeatedly expressed the challenges and blockages encountered in attracting this level of green investment, and greening broader investment flows. Governments have three broad levers that they can use to mobilize investment to achieve their green growth goals:

1. **National budget authority** through direct budget allocation at the national and local levels, use of fiscal measures, government guarantees, design of national green funds and green mandates for national development banks, infrastructure investment planning and green public procurement programmes.
2. **Targeted risk mitigation measures** which improve risk adjusted returns for private investment through financial mechanisms and instruments that use public finance to reduce costs and risks for private investors.
3. **International financial cooperation:** to provide financial and technical resources that may be necessary to promote policy changes and innovative approaches and to leverage private finance.

It is crucial that the combination of mechanisms used is sufficiently attractive to foster development of green markets and participation of local businesses as well as international providers of capital. However, it is equally important to avoid distorting markets through inappropriately designed public support measures.

National budget authority

Governments will need to consider a range of financial measures that are appropriate to local conditions, flexible and responsive to the nature of transition, which is different for each country. However, common lessons emerging on green growth financing strategies are:

1. **Green growth budget allocation has the greatest impact where it is mainstreamed across the economy**, through the leadership of ministries of Finance and Planning, linkage to national targets, and integration with wider budget processes.
2. **Governments can tap fiscal revenues to establish green funds or provide green support for catalysing private investment**, particularly at the early stage of the project cycle.
3. **Public green infrastructure investments and plans, and public procurement** can be important tools for delivering finance for a green transition.
4. **Regionally coordinated infrastructure support and other financial policies** can be helpful in achieving large-scale transformation.

Targeted risk mitigation measures

1. **Mobilizing private sector investment requires a range of risk mitigation measures and instruments** to crowd in private sector to develop markets.
2. **Strong dialogue and partnerships with the financial sector** is needed in order to understand risk profiles and develop a portfolio of complementary policies, evolving through learning.
3. **Long-term, transparent and legal frameworks** are important for attracting investors. particularly providers of long-term finance.
4. **A range of instruments will be required to tackle differing barriers and risks** to investment. These should be tailored to overcome differing barriers and risks.

International finance cooperation

1. **Country leadership and platforms for strengthening coordination between international and local sources of finance is essential** to ensure resources are well aligned with national green growth objectives and that these are used most effectively.
2. **International financial cooperation is important source of support for capacity development, particularly within developing countries** to establish, sustain, and adapt financing measures over time in harmony with broader policy development and change.
3. **Participation of International finance institutions** can help build confidence of other investors and attract different sources of capital, including through providing credit enhancement.
4. **International financial cooperation may bring sources of capital and innovation in finance,** such as providing equity for SMEs in poorer countries or for assisting with green banking regulations.

CASE STUDY

The Moroccan Agency for Solar Energy (MASEN)

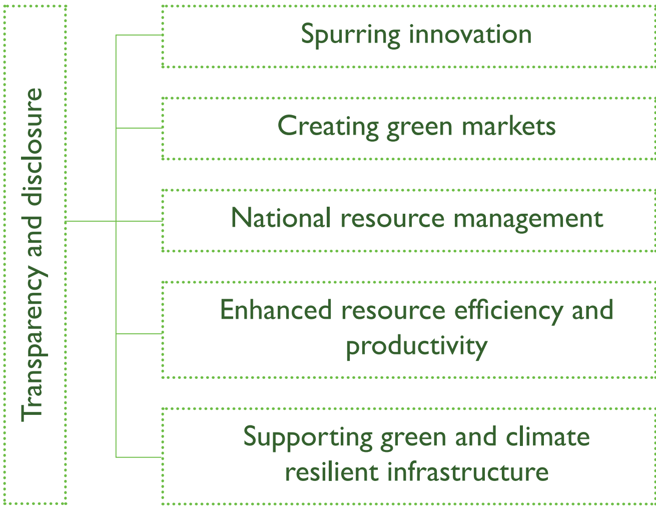
Combines domestic funding with investment grade policy and international donor support. It provides two main risk-sharing instruments through a Power Purchase Agreement (PPA) and shareholdings in the equity investment. It has been successful in attracting private investors for concentrated solar power (CSP) technology, which is not competitive with grid connected power prices, requiring significant public support. This is supported by a US$200 million loan facility from the World Bank to the Moroccan government to mitigate the risk that MASEN will default on the PPA due to public budget shortfalls.

Public-private collaboration

GREEN GROWTH IN PRACTICE

Public-private collaboration cases considered: Kenya Climate Innovation Center, UK Business Innovation Facility, GAVI Alliance's Advanced Market Commitments, Forest Stewardship Council, Alaskan halibut fisheries management, Kitakyushi City in Japan, Punjab Silos Project in India Chiansi Irrigation Project in Zambia, use of mobile phones in enhancing agricultural productivity, Greenhouse Gas Protocol.

Figure 2. Key areas of public-private collaboration



Developing effective and targeted policies to catalyze green growth, exploring opportunities, and negotiating complex deals amongst stakeholders requires engagement from all parts of society. Support from the general public and consumers is also crucial for sustained action.

Governments, at both national and municipal level are engaging in intensive dialogue with the private sector to develop a deeper understanding of how policies impact on investor decisions. In some cases these discussions may be taken further into collaborative partnerships which explore the potential for new markets and business models, new technologies or which lay the ground for regulation or larger contractual Public Private Partnerships (PPPs). Both the public sector and private sector can come up with the ideas for collaborations and take the lead in their implementation. And while some collaborations involve just single public and private partners, others can involve multiple intersections of public and private actors.

Key areas that have seen the development of public private collaboration are in spurring innovation, creating green markets, natural resource management, enhance resource efficiency, supporting green and resilient infrastructure, and overcoming information problems through transparency and disclosure.

Key lessons for public-private collaboration in accelerating achievement of green growth goals are:

1. **Public and private collaboration, if done well, can be a very powerful mechanism** to overcome market and governance failures to support green growth.
2. **Drawing effectively on the strengths of the public and the private sector unleashes creative entrepreneurship.** Case studies have demonstrated the high value that public funding and support can have if it unleashes entrepreneurship in the private sector.
3. **Partnerships should have a shared vision and clearly articulated goals,** although the individual benefits that partners derive from the collaboration may differ.
4. **Transparency and accountability** with broad and extensive stakeholder engagement are essential to enable a durable commitment to cooperation, and to enable ongoing learning and evolution.
5. **A process or forum where creative and innovative actors come together to identify links and connections can help find unexpected solutions** to complex challenges and unleash the power of collective innovation.
6. **Governance of partnerships is critical to their success.** This includes the commitments and roles and responsibilities of participants and means for collective decision making.
7. **High impact collaborations involve risk to participants and can be costly;** they should be undertaken with a serious assessment and intent.
8. **Partnerships have greatest impact when they influence other programs and measures,** whether by governments or business.

CASE STUDY

Chiansi Project, Zambia

The Chiansi project in Zambia is an example of a collaborative public-private partnership which was able to demonstrate an innovative model which was then scaled up to commercial scale. It brings together small farmers and commercial farmers to enable irrigation and to link small farmers to commercial markets. International donor sources lever-in debt and equity from commercial sources. The initial pilot project begun in 2008 includes 148 hectares of commercial farm and, as well, there are 8 hectares of market gardens for use by the community. With the pilot project proving viable, the larger project will now establish a joint commercial and outgrower farming operation through irrigation provision on 1,575 hectares of smallholder and commercially owned land, plus 150 hectares of market gardens.

Feedback and contact details:

We would be delighted to get your feedback on these initial findings and to keep you updated on the progression and launch of the GGBP. Please contact the GGPB Project Office to share your feedback and get further news on the GGPB.

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