

ANNEX

POLICY MEASURES FOR TRANSITIONING TO A GREEN ECONOMY

In order to facilitate and enable a transition to a Green Economy, a number of measures need to be introduced. The manner in which these measures are identified, prioritized and implemented is dependant on the policy context, prevailing institutional setup, and specific circumstances in the country in question. In addition to being country specific, the policy package should be developed in such a manner that the various measures and tools support and complement one another.

1. Political economy

In any political system there are always those who resist change and are in favour of maintaining the status quo. These may be individuals in high offices who would see their political power and interests threatened if there is a major change or shift in policy. They may also be large corporations that would see their businesses incur losses due to major policy shifts. Both entities will try to lobby and obstruct any change that will result in them losing power or money even if this shift is in the best interest of the majority of the people and country at large. It is therefore essential that policy makers are fully aware of the playing field, and measures are taken to contain, and/or counter their attempts to obstruct change.

2. Macroeconomic environment

A secure and stable environment is a necessary requirement to attract local and foreign investors and entrepreneurs. This can be achieved by ensuring a transparent, accountable and stable economic climate. In order to attract foreign capital - particularly for new and innovative sectors - it is essential that there is a clear and predictable financial system with a stable exchange rate, regulations pertaining to investments in the different sectors, and transfer of funds. The necessary market incentives should be in place in order to encourage investment. In most countries of the region, for example, the bond market is weak, thus hampering government and private sector involvement in large and long-term projects.¹

3. Integrated approach

Adopting an integrated approach for policy development and implementation will ensure the integration of environmental and social considerations in sectoral and macroeconomic policies. There is a need to depart from dealing with environmental and social consideration in isolation from mainstream economic policies. Financial and short-term economic gains should not be the primary driving force in designing sectoral and macroeconomic policies. Key

considerations such as social justice, poverty reduction, and equitable distribution of wealth, preservation of the environment and human welfare should be at the heart of the policy formulation process for genuine sustainable development to be achieved. Integrated assessment and policymaking for sustainable development should be one of the main tools used and promoted by national institutions to facilitate a transition to a green economy.

4. Regulations

In many countries regulations are the main tools used to regulate and implement policies, including environmental policies. Regulations need to be designed to support other measures, including market incentives.

In order to have an effective regulatory system that supports a transition to a green economy, the following should be taken into account in developing regulations:

- Support research and development and use of environmental technologies.
- Coordinate activities between government bodies with clear lines of responsibilities.
- Local capacity of environmental officers in environment-related issues and capability in tracking environmental pollutants to the source should be enhanced.
- Regulations introduced to provide a code of conduct for the different sectors should be designed to take into account environmental, social, and developmental considerations.
- The full cost of regulations should be accounted for and their implications on the economy, environment and different segments of the population taken into consideration.
- Include clear property and access rights for agricultural land, pastures, fisheries, and forests to encourage their proper use and management.

5. Market incentives

Incentive measures are increasingly being used to influence production and consumption patterns towards green and sustainable practices. Incentive measures include tools such as taxes, subsidies, charges, and fees, tradable permits, eco-labeling, and payments for ecosystem services. The use of a feed-in tariff and metering systems are other incentive tools that encourage investments in renewable technologies, where consumers are credited for surplus electricity generation beyond domestic needs. Such tools need to be designed to complement regulations and address environmental, social and economic considerations. In many instances, green taxes continue to be introduced as distinct from traditional or grey taxes. Taxes need to be designed not simply to generate income for the government, but also to alter behaviors towards more sustainable patterns of consumption and production. Therefore, instead of restricting taxing to income and employment, taxes should be introduced to arrest environmentally damaging behavior. Specific attention should be given to equity considerations and the

distribution of the tax burden among different segments of the society according to their income .

6. Subsidy reform

One of the main causes of market distortions that contribute to the inefficient allocation and use of resources are perverse subsidies. According to the World Bank, subsidies are one of the main barriers for energy and water efficient installations and investment in renewable energy.²

The following should be taken into account in reforming subsidies:

- Define and measure subsidies as some of them may be in the form of direct financial support or reduced tariffs or charges for utilities.
- Identify perverse subsidies as opposed to subsidies that promote sustainable development activities.
- Prepare a strategy for reforming subsidies with full consideration of its implications.
- Monitor the implications of subsidy reform.
- Replace perverse subsidies with green subsidies. These include direct grants, loans, tax rebates or cuts to encourage investments in green sectors.³
- Design as part of a package of incentives and regulatory measures aimed at reducing negative impacts on the poor, and on competitiveness.
- Develop and introduce a social protection mechanism in order to address potential resentment and negative reaction from the general public.

7. Human resource development

Investment in human capital is a crucial and necessary prerequisite for transitioning to a « Green Economy ». Strengthening capacities need to emphasize providing a cadre of professionals capable of designing policy packages aimed at achieving sustainable development. Particular emphasis should be laid on integrating environmental and social considerations, including equity considerations, social justice in the planning and decision making process. Efforts should focus on enhancing capacities to develop policies designed to maximize the benefits from investing in the environmental infrastructure.

Education systems in the Arab world need to be revamped to produce education curricula that meet current and future challenges. Environmental and social considerations need to be integrated in the different disciplines and not taught as separate disciplines. University and vocational curricula should cater for current and future market demands. This includes expertise in renewable and energy efficiency, water efficiency, recycling and water desalination, sustainable agriculture, clean technology and industrial processes and practices, ecotourism, green transport, green cities and buildings. Sustainability tools and methodologies should be introduced and taught at schools, universities and training centers. These include: integrated policy making, integrated/sustainability assessment, life cycle analysis, use of market incentives, economic valuation of the environment,

ecosystem and the services it provides, integrated environmental and economic accounting among other tools. Moreover, education systems should be geared towards encouraging innovative thinking, research and development.

8. Technology and innovation

At the global current level, investment in research and development and deployment of technology is in the range of US\$ 12.5 billion annually both by private and public sector. In order to make the transition to a green energy sector, this figure needs to be increased by a factor of 2 or 3⁴. National capacities to absorb and develop appropriate and environmentally sound technologies are key to making the transition to a green economy and achieving sustainable development. The figure for developing countries is in about 0.15% compared to the world average of 1.4%, and 2.5% in Europe. Adequate budgetary allocations should be made available by Arab countries for research and development (R&D). Governments in the Arab region have to allocate at least 0.5% of GDP to R&D, which amounts to US\$ 9.5 billion annually based on the region's GDP in 2010. The introduction and use of environmentally sound technologies will enhance resource efficiency, reduce waste, and contribute towards creating new market opportunities as well as increasing competitiveness of products in local and international markets.

9. Communication and outreach

It is important to develop communication and outreach packages to make the business case for transitioning to a green economy. These packages should be designed to target different stakeholders and target groups in order to raise awareness about the rationale, benefits, and implications of the proposed policies and enabling conditions for transition to a Green Economy. This will enhance the likelihood of integration of the proposed policies, programmes, and projects in the decision making process. Media has a very important role to play in this regard. Though in some Arab countries media is used as an instrument to propagate government policies, media need to function independently and function as a source of education and knowledge, and to create public awareness.

10. Consultation and participation

It is essential to adopt a consultative and participatory process involving all relevant stakeholders in development and implementation of policies. This will not only ensure that the adopted policies reflect the needs and priorities of the different segments of the population, but will also increase the chances and success of implementation of the proposed policies, particularly if the proposed policies are innovative and non-conventional. Adopting a participatory process further empowers local communities, and increases trust and confidence in government and their policies.

11. Inter-ministerial coordination

Inter-ministerial coordination is essential in order to ensure complementarity of and support for sectoral policies. This will also ensure the integration of environmental, social and economic policies, and increase the net development gains of sectoral and macroeconomic policies. Inter-ministerial coordination is generally lacking, not only in the Arab countries but in many developed countries, as well. It is therefore important that a coordinating mechanism is established at the national level to ensure inter-ministerial coordination. It is advisable that this coordinating entity is under the direct authority or chairmanship of the Prime Minister.

12. Finance

The bulk of funding needed to support the transition to a green economy should be through the private sector and gradual redirecting of public spending from conventional to green and sustainable investment. Moreover, following a green and sustainable development path should result in government savings in the immediate, short and long term. This is due to savings resulting from the phasing out of perverse subsidies and efficiency gains, and reduced cost of medical expenses due to improved health conditions. Moreover, though most of the funding for green investment is expected to come from the private sector, government spending, policies and incentive measures need to be supportive to a transition to a Green Economy.

Investing in green sectors is likely to attract foreign direct investment as opposed to conventional investment. In order to encourage investment along a sustainable path, finance institutions should screen projects and approve loans based on a sustainability assessment. Attempts to include ethics in lending operations should also be considered. Such an assessment should also be applied to loans provided to countries in the region. Moreover, in order to encourage the engagement of small and medium size enterprises in economic activities, governments should encourage micro finance.

13. Trade policy

Trade policies, if properly designed, can be an effective tool to promote green investments. Trade policies can facilitate access to environmental technologies necessary for green transformation. This can be in the form of market access related measures, subsidies, and standards. Due consideration should be given to avoiding or reducing the potential negative impacts of trade policies on the environment, job creation, and poverty reduction in the region.

14. Governance

One of the main obstacles in making a transition to sustainable development in the Arab world is governance and institutional setups. Despite the increase in environmental commitments by most Arab countries, current institutions and practices are inadequate to formulate and implement sustainable development policies. There has been a shift in the understanding of the environment in the Arab world from being confined to sanitary engineering and health related issues to the broader sense of sustainable development. This process has been advanced through the Arab Initiative for Sustainable Development, put forward by the League of Arab States in 2002. In order to assist Arab countries strengthen governance for sustainable development in the Arab region, ESCWA has suggested the creation of a high council for sustainable development to coordinate efforts between member states and national councils supported by a sustainable development advisor to the Prime Minister⁵. What is relevant in this connection is the need to mainstream sustainable development with economic considerations within the planning and decision making process of ministries.

15. Public procurement

Public procurement constitutes a significant share of public spending. Adopting a government policy that promotes green public procurement sends a strong signal to investors and businesses regarding government intentions with respect to its current and future policies to promote green investment. By greening public spending, governments would create demand for green products thus

encouraging green investment. This does not only result in creating new markets, and creating jobs, but also in promoting sustainable production and consumption, and at the same time reducing negative environmental degradation. Green public procurement in a number of countries in Europe (Austria, Denmark, Finland, Germany, the Netherlands, Sweden, and the UK has reduced CO₂ footprint of procurement by 25%.⁶

17. Role of private sector

The active involvement of the private sector and promotion of public-private partnership through finance and expertise is critical for transitioning to the green economy. In order to encourage private sector involvement, governments need to provide the right regulatory and market incentive measures to achieve this. Providing the enabling environment in terms of policies, regulations, and incentive measures is therefore necessary in engaging effectively the private sector in supporting government policies aiming at transitioning to a green economy. National capacities are needed to design policies and introduce measures that encourage the involvement of the private sector in support of the green transition. Moreover, in order to enhance the engagement of small business, governments should encourage microfinance.

18. Public-private partnership and guarantees

There has been growing interest in the last several years in promoting private sector engagement through joint public-private activities. Such partnerships have been used in the field of clean energy⁷. Guarantees can take different forms, but the basic principle behind it is to provide necessary funding to cover initial costs of the project whereby the government guarantees credits for that purpose. The International Finance Cooperation (IFC) has been active in this field by establishing partnerships with banks in a number of developing countries. Combining training with the loan has been an effective way of encouraging energy efficient investments⁸

19. Voluntary measures

Voluntary initiatives are also used to influence attitudes towards the environment. This includes the introduction of energy efficiency rating system and eco-labeling schemes. Such tools contribute to raising awareness of the benefits of green and sustainable investments and encouraging the participation of the private sector in environmental and sustainable development initiatives and activities. In order to be effective, such interventions need to be supported by regulations⁹.

20. Integrated environmental and economic accounting

The main measurement for economic growth is the system of national accounts (SNA) currently universally used by governments to provide an assessment for the performance of an economy. It was introduced in the 1930s mainly to measure the value of goods and services produced in a country. However, the SNA is not an accurate indicator for measuring human welfare. The current SNA does not reflect the depletion and degradation of resources. It even provides a distorted picture of the performance of the economy, where for example it calculates as income damage cost, and cost of selling natural assets such as oil and natural gas. Attempts to provide an alternative measurement or indicator started in the early 1980s when the United Nations Environment Programme (UNEP) together with the World Bank launched an initiative exploring the introduction of environmental accounting as a real measurement for the genuine performance of an economy.

*Since then a great deal of work has gone into the development of methodologies for green or environmental accounting or what is referred to by the Statistics Division of the United Nations Division of Economic and Social as **Integrated Environmental and Economic Accounting**.* The need to go beyond the GDP has been further stressed in the Stiglitz Commission Report on the Measurement of Economic Performance and Social Progress established in 2008 to identify the limits to GDP as an indicator for human wellbeing. The proposed system for green accounting is reflected in “The Handbook of National Accounting: Integrated Environmental and Economic Accounting 2003”. The Handbook brings together economic and environmental information in a common framework to measure the impact of the economy on the environment and vice versa. Apart from several developed countries who have developed green accounting systems such as the Netherlands, Germany, and France, developing countries introducing the system include China, Indonesia, and the Philippines¹⁰.

21. Monitoring and evaluation

This should be part and parcel of the planning, decision-making, and implementation processes. It is intended to ensure that the proposed policies have achieving or are in the process of achieving their set objectives through the introduction of necessary corrective measures and actions. Capacities of Arab countries to develop follow up, monitoring, and evaluation tools and techniques are needed to ensure that policies, plans, and programmes are on target and are yielding the desired outcomes.

Notes:

1. Stiglitz, 1994.
2. Taping a Hidden Resource, Energy Efficiency in the Middle East and North Africa, Energy Sector Management Assistance Program, ESMAP, 2009.
3. GER, Synthesis, 2011
4. World Economic and Social Survey 2009, Promoting Development, Saving the Planet, Department of Economic and Social Affairs.
5. Governance for Sustainable Development in the Arab Region: Institutions and Instruments for moving beyond an environmental management culture, ESCWA, United Nations, 2003.
6. Green Economy Report, Synthesis, UNEP, 2011
7. Sagar, Bremner and Grubb, 2008
8. World Economic and Social Survey 2009, Promoting Development, Saving the Planet, Department of Economic and Social Affairs).
9. (Meeting of the OECD Council at Ministerial Level, Green Growth Strategy Interim Report: Implementing Our Commitment for a Sustainable Future C/MIN (2010) 5 Paris, 27-28 MAY 2010.
10. Hussein Abaza, Sustainable and Green Growth for Egypt, Egyptian National Competitiveness Council, 2011.