

Programme to Support the Green Modernisation of the Ukrainian Economy

BRIEFING PAPER ON

Green Economy

August 2014



This publication has been produced on behalf of the Programme to Support the Green Modernisation of the Ukrainian Economy financed by the German Federal Ministry for Economic Cooperation and Development (BMZ) and implemented by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
Elaborated by Kristin Meyer

CONTENTS:

- 1. What is understood by a Green Economy?**
- 2. Why is a shift towards a Green Economy needed and beneficial to Ukraine?**
- 3. What kind of approaches, strategies and policy instruments exist in order to enable a transition towards a Green Economy?**
- 4. How can GIZ support the transformation process towards a Green Economy?**
- 5. Country examples of Green Economy Strategies**
- 6. Literature**

1. What is understood by a 'Green Economy'?

The **concepts of 'Green Economy'** and of 'Green Growth' have acquired **a lot of attention** over the past several years. An increasing number of countries, regions, and cities worldwide have designed, tested and implemented a range of policies that aim to **deliver economic development and environmental protection as well as poverty reduction at the same time.**

Green Economy focuses on the transition of the economy and can be understood as a vehicle for sustainable development. There is **no single approach** to Green Economy strategies but there are common features of what needs to be considered when a country develops its own suitable and appropriate strategy, which will be outlined in this paper.

Several definitions about the concept of a Green Economy exist of which three of the most common definitions are stated below. **A Green Economy is often understood as an ideal and a desired state at the end of an ambitious and long-term pathway of transformative change from a 'brown' to a 'green' economy.** GIZ's understanding of a Green Economy follows largely the definition from UNEP:

A green economy improves human well-being and social equity, while significantly reducing environmental risks and ecological scarcities. In its simplest expression, a green economy can be thought of as one which is low carbon, resource efficient and socially inclusive. (UNEP)

Green Economy means fostering economic growth and development while ensuring that natural assets continue to provide the resources and environmental services on which our well-being relies. It focuses on the synergies and tradeoffs between the environmental and economic pillars of sustainable development. (Green Growth Knowledge Platform)

The "green economy" is described as an economy in which economic growth and environmental responsibility work together in a mutually reinforcing fashion while supporting progress on social development. Business has a crucial role in delivering the economically viable products, processes, services and solutions required for the transition to Green Economy. (International Chamber of Commerce)

2. Why is a shift towards a Green Economy needed and beneficial to Ukraine?

After the crisis experienced during the transition in the 1990s, Ukraine entered a period of steady growth (7% p.a.) during 2000-2006 mainly driven by strong export rates of metals, chemicals and agricultural products. The global economic crisis in 2008-09 resulted in a lower global demand and led to a dramatic reduction in Ukraine's GDP of -15% p.a. **This illustrates the fragility and vulnerability of Ukraine's economy as the GDP is closely tied to a few commodity-based exports for growth.** Over the last few years, the economy has still not yet fully recovered and slowed down significantly with growth rates of 4% p.a. in 2010, 0% in 2011 and 2% in 2013 (World bank, 2014).

Ukraine **missed the opportunity to implement structural reforms in time, a measure which could have reduced** dependencies and made the economy more resilient to external demand shocks. The absence of **long-term strategies, weak institutions and governance, an unfavorable business climate and widespread corruption** have made it difficult to implement needed reform efforts.

Evidently, **this growth model seems not to be durable and sustainable given potential future downturns and trends in global markets** (e.g. lower demand from emerging countries, gas crisis etc.) and **low agricultural and industrial productivity.** Further, the growth is very resource-intensive and based on the inefficient use of natural resources. Ukraine remains one of the **most**

energy-intensive countries in Europe and is among the top twenty countries with the **highest CO2 emissions** as gas, coal and oil being the predominant energy sources. Soil erosion, congested solid waste landfills, increasing lack of water provision as well as severe land and water pollution are **pressing environmental issues** in Ukraine.

Therefore, Ukraine's **economic future highly depends on the ability to modernise** its economy, to improve the competitiveness of economic sectors, to utilise natural resources more sustainably and to reduce environmental degradation.

Effective and successful green measures differ from country to country and sector to sector and they are not 'per se' the panacea for boosting an economy but they are **likely to create specific opportunities that enable economic welfare and competitiveness**. Thus, a Green Economy agenda can be closely aligned with economic goals as illustrated in Table 1.

Table 1: Examples of how Green Economy measures can underpin economic goals

Economic Goal	Examples of Green Economy Measures
Enhanced productivity through efficiency of production	- Energy and material efficient production processes and technologies can decrease energy costs, increase productivity and reduce environmental impacts
Economic diversification	- Promotion of economic sectors that potentially foster growth and provide solutions to an environmental challenge (e.g. renewable energies, waste-to-energy) or sectors that are 'by nature' less resource intensive (e.g. service sector)
Harnessing export potential and access to / compete for new markets	<ul style="list-style-type: none"> - Access to new markets through environmental standards and certification (e.g. organic agriculture) - Resource-efficient and low-carbon technology upgrades can move from semi-finished to higher value added products which may lead to new and more profitable market segments
Creation of new jobs	<ul style="list-style-type: none"> - Creation of jobs where 'green' skills are demanded (e.g. energy manager in companies) - Creation of jobs through new markets and market segments (e.g. insulation measures in buildings)
Unlocking investments in infrastructure, machinery and technology	<ul style="list-style-type: none"> - Research and development in resource-efficient, low carbon technology and innovation - Promotion of green entrepreneurs and an enabling environment for SME to adopt technologies - Financial sources and products for green investments (e.g. energy efficiency credit lines)
Fiscal revenue generation	- Removing environmentally harmful subsidies reduces fiscal burden and environmental impacts and can create opportunities to increase social equity
Securing long-term supply of key resources	- Measures of sustainable consumption and production (SCP) reduce the pressure on energy, water and natural resource supplies

3. What kind of approaches, strategies and policy instruments exist in order to enable a transition towards a Green Economy?

Developing and implementing framework conditions and a Green Economy strategy that enable the transition towards a Green Economy requires a **well-planned and coordinated process as well as capacities to design and implement such strategies**. The process can be described in three main steps (this paper will only focus on step 1 and 2 as the implementation will be of more relevance at a later stage of the program):

- 1.) Analysis of green economic options and priorities
- 2.) Designing policies and measures
- 3.) Implementation

1.) Analysis of green economic options and priorities

An analysis of options creates a good understanding of the determinants of green growth, related synergies and trade-offs between the economic, environmental and social dimensions as well as the dynamic interaction with other policies. Based on that knowledge, a **country can identify and select the available options that best suit its level of development, resource endowments, governance frameworks and institutional capacities**.

In this regard, there is no one-size-fits-all way to a Green Economy. Various tools and economic models (e.g. T21 model) are available to illustrate business-as-usual vs. transformation scenarios and to calculate cost and (economic, environmental, social) benefits of several options in order to support the decision-making process.

In Ukraine, a profound analysis about environmental risks and an understanding of economic sectors that have the potential for green growth, efficiency and employment is needed to identify options.

According to the literature, **promising sectors in Ukraine** may be the industrial sector (e.g. improvement of energy efficiency), transport sector (e.g. modernisation of public transport), residential sector (e.g. heat containment/ insulations), and agriculture (e.g. organic agriculture) as well as higher investment in Research and Development.

Generally, green growth options should be aligned with specific domestic policy priorities (e.g. export increase, employment), strategic sectors and socio-economic issues. The **options selected should be linked to specific, measurable, actionable, relevant and time-bound (SMART) goals and indicators**. These targets can be economy-wide performance goals (e.g. increase in employment) or reduced GHG emissions as well as sector-specific goals (e.g. reduction of toxic pollution in the chemical sector). **Targets and indicators help to measure the progress and success of a Green Economy strategy**. Developing robust baselines helps to design appropriate targets.

2.) Designing policies and measures

Green Economy policies and measures aim at achieving the targets set in the first step. The transformation towards a Green Economy requires **coherent policy portfolios that consist of a mix of policy instruments that addresses economy wide and sectoral policies** to achieve short term goals and long-term green transformational change.

Green economy policies **address market failures by 'getting the price right' for natural resource consumption and pollution and incentivise environmental-friendly behavior.** The policies enable the private and public sector to undertake necessary investments and innovations and to internalise the true cost of companies' and consumers' behavior.

Policy makers have a mix of policy instruments that foster the transition to a green economy (see Table 2). The Table illustrates **policy instruments that a) incentivise** the transition through pricing and fiscal policies; **b) mandate** the transition through regulations, standards or codes; and **c) enable** the transition through government investment, including information and education.

Table 2: Overview of Green Economy policies, economy-wide and sector-targeted

Types of policy	Economy-wide policy	Sector-targeted policy
Fiscal and pricing policies	<ul style="list-style-type: none"> • Environmental (e.g. carbon and pollution) taxes and subsidies • Allowance schemes • Payment for environmental services 	<ul style="list-style-type: none"> • Full-cost pricing of <i>energy</i>, water, or fuels • Taxes and charges e.g. taxing waste disposal or congestion charges • Feed-in tariffs • Targeted subsidies • Tax credits by sector e.g. for clean energy and other green technologies & products • Fossil fuel subsidy reform
Regulations, standards, and codes	<ul style="list-style-type: none"> • Air quality or water pollution standards • Green public procurement 	<ul style="list-style-type: none"> • Efficiency standards • Energy performance/efficiency standards • Green public procurement • Vehicle standards • Building codes • Regulation of utilities, public transport • Renewable portfolio standards
Enabling policies, including information and education.	<ul style="list-style-type: none"> • Redirection of environmental tax revenue • Earmarked budget allocation for green infrastructure investments or green innovation and R&D. • Education, green skills and training programmes • General green economy awareness programmes 	<ul style="list-style-type: none"> • Green jobs training programmes by sector • Sector specific product labelling and consumer awareness initiative • Soft loans • Land tenure regulation

Source: Green Growth Best Practice (GGBP), 2014, p.132

Ukraine **has already started to introduce mechanisms and instruments to foster a Green Economy, most prominently, the introduction of a 'green tariff', the law on energy conservation or the discussion of introducing an Emissions Trading System.** A coherent Green Economy strategy that unites all the means within one policy strategy, however, is still not available and further economy-wide and sector-targeted policies for a Green Economy are needed.

4. How can GIZ support the transformation process towards a Green Economy?

GIZ supports the transformation process to a Green Economy of the partner countries by **strengthening capacities of individuals and institutions and by offering advisory services** with regard to policy development and implementation processes. The aim of the program in Ukraine is that government institutions, SMEs, and trade associations make better use of enhanced knowledge and new instruments for green economic development.

Key services offered by GIZ:

- Capacity building of individuals and institutions involved in the process of designing, implementing, monitoring and evaluating the reform process towards a Green Economy
- Facilitating and enabling multi-stakeholder dialogue and consultation on Green Economy
- Green Economy assessments and analyses to identify opportunities and options (e.g. analyses of green growth options, policy impact assessments)
- Identifying, supporting and facilitating economy-wide and sectoral Green Economy strategies, policies, policy instruments and approaches (e.g. green industrial policy, fiscal and finance policy, innovation policy)
- Advisory services to enable and foster a green private sector (e.g. green business development services, green skills)

For further details, please refer to the [GIZ paper](#) on advisory services and project examples in the field of Green Economy of department 41 'Economy and Employment'.

5. Country Examples of Green Economy Strategies

In December 2013, **Chile** launched its [National Green Growth Strategy](#) representing a set of vision and objectives over the short, medium, and long term (2014-2022). Activities include the implementation of environmental management instruments, promotion of the market for environmental products and services, and the outlining of the monitoring and measuring progress of the strategy.

Mozambique launched the Green Economy Roadmap at the Rio+20 Conference on Sustainable Development, outlining its vision to become an inclusive, middle income country by 2030. In October 2013 the government released [the Green Economy Action Plan](#) laying out the actions over the period of 2013-2014. The plan aims to guide the integration of policies, practices and environmentally sustainable actions.

Kazakhstan launched the [Concept for transition](#) of the Republic of Kazakhstan to Green Economy in May 2013. The concept outlines a vision for the transition and illustrates the main principles and approaches to achieve this. The concept defines the overall Strategy Kazakhstan 2050 which sets guidelines for building a sustainable and efficient economic model.

[The National Green Growth Roadmap](#) was launched by **Cambodia** in December 2009 and has been endorsed by all line ministries. The roadmap proposes a number of short, middle and long-term interventions to support the mainstreaming of Green Growth concerns into the overall development framework of Cambodia.

For further country examples, please see the Green Growth Best Practice Report launched in 2014, the Green Growth Knowledge Platform and the UNEP Partnership for Action on Green Economy.

6.Literature

DIW econ (2013): Towards a low carbon growth strategy for Ukraine: Key policy steps
<http://www.undp.org/content/dam/ukraine/docs/EE/DIW%20ECON%20PP2%20Towards%20LCG.pdf>

DIW econ (2013): Assessing the innovation potential in Ukraine - Recent track record and implications for low-carbon development - Technical Paper No.1

<http://www.undp.org/content/dam/ukraine/docs/EE/DIW%20ECON%20TP%201%20Innovation.pdf> Green

Growth Best Practice (2014): Lessons from country experiences

<http://www.ggbp.org/sites/all/themes/ggbp/uploads/Green-Growth-in-Practice-062014-Full.pdf>

Green Growth Knowledge Platform

<http://www.greengrowthknowledge.org/>

Kononenko (2013): Development of Green Economy in Ukraine as a Display of Transformation Processes

http://geokyiv.org/pdf/reports/12_Kononenko.pdf

Martyniuk / Ogarenko (2012): Resource Efficiency Gains and Green Growth Perspectives in Ukraine. Friedrich Ebert Stiftung

<http://library.fes.de/pdf-files/id-moe/09398.pdf>

OECD (2013): Green growth and environmental governance in Eastern Europe, Caucasus and Central Asia

<http://www.oecd.org/env/outreach/48876109.pdf>

OECD - EaP GREEN (2013): Creating Incentives for Greener Products Policy Manual for Eastern Partnership Countries

<http://www.greengrowthknowledge.org/sites/default/files/downloads/resource/Final%20Binder%20Policy%20Manual%20Creating%20Market%20Incentives%20for%20Greener%20Products.pdf>

UNEP - Partnership for Action on Green Economy

<http://www.unep.org/greeneconomy/PAGE>

UNEP (2011): Towards a Green Economy: Pathways to Sustainable Development and Poverty Eradication

http://www.unep.org/greeneconomy/Portals/88/documents/ger/ger_final_dec_2011/Green%20Economy%20Report%20Final%20Dec2011.pdf

World bank (2014): Development Databank

<http://databank.worldbank.org/data/views/reports/tableview.aspx>

World Economic Forum (2014): Scenarios for Ukraine: Reforming institutions, strengthening the economy after the crisis

http://www3.weforum.org/docs/WEF_Scenarios_Series_Ukraine_Report_2014.pdf