

Inclusive green economy policies for structural transformation in Africa

The present policy brief draws upon an upcoming report by the Economic Commission for Africa (ECA) entitled “Inclusive green economy and structural transformation in Africa”, prepared in response to calls from member States of the Commission and its partners to support the formulation and implementation of inclusive green economy policies and strategies that promote countries’ development objectives. Particularly relevant was the call by the seventh Joint Annual Meeting of the ECA Conference of African Ministers of Finance, Planning and Economic Development and the African Union Conference of Ministers of Economy and Finance in 2014 to provide support to African countries in strengthening their capacity to formulate, adopt and implement inclusive green economy policies in the context of accelerating structural transformation in the region. The ECA report explores the linkages and contributions of inclusive green economy policies and strategies to the structural transformation of African countries. It looks at the features of structural transformation and its desired outcomes in relation to an inclusive green economy, as well as the transmission mechanisms that could reinforce expected contributions and ensure the sustainability of the transformation. The present policy brief provides a synthesis of the report’s findings and highlights its key messages.

Structural transformation and inclusive green economy

For over a decade, African economies have recorded impressive and sustained growth rates. However, this growth has been largely non-inclusive because of its limited contribution to job creation, broad participation and the overall improvement of living standards, among other factors. Furthermore, it has not addressed market

failures that have resulted in environmental pollution and degradation, and associated climate change challenges.

The imperative for Africa is to maintain and translate its rapid economic growth into sustained and inclusive development, based on economic diversification that creates jobs, contributes to reduced inequality and poverty rates, enhances access to basic services and corrects market failures that undermine environmental sustainability. This underlies renewed calls by all African countries for a structural transformation that would effectively meet the region’s sustainable development aspirations, which are embodied in Agenda 2063 adopted in January 2015 by the Heads of State and Government of the African Union as a shared strategy for inclusive growth, structural transformation and sustainable development in the region.

A green economy could help enhance economic transformation while ensuring optimal use and a more equitable distribution of resources and better environmental quality. Although green economy encompasses the economic, environmental and social dimensions of sustainable development, it cannot be presumed to be inherently inclusive and automatically foster more equitable societies. Therefore, policies aimed at greening the economy should be carefully designed to maximize benefits and minimize costs for the poor and most vulnerable social groups, thus lending traction to the concept of “inclusive green economy”.

Macroeconomic environment and inclusive green economy

A stable and sustainable macroeconomic environment is fundamental to all forms of policy interventions and outcomes. An inclusive green economy thrives under a policy framework designed to support

economic growth and resilience, resource efficiency, low carbon development, sustainable management of natural resources, sustainable infrastructure, poverty reduction and social inclusion, among others. As such, the prevailing macroeconomic environment and policy outlook are important prerequisites for an effectively functioning inclusive green economy system. An inclusive green economy can also influence the macroeconomic policies of a country to adequately cater for environmental and social policy objectives, in addition to meeting growth imperatives.

Conducive macroeconomic policies sustain the growth momentum and provide opportunities for the green economy to thrive. Economic growth is vital to creating room for entrepreneurship and new investment opportunities for an inclusive green economy transition, and it provides Governments with fiscal space to increase social spending. However, there is a need for stronger alignment between inclusive green economy strategies and national development plans to ensure that macroeconomic policies adequately and measurably cater to an inclusive green economy.

Key messages

An inclusive green economy would benefit from a policy mix that provides incentives to promote green investment, and fiscal reforms that create fiscal space for public green investment while preserving macroeconomic stability. The recent macroeconomic stability of most African countries has facilitated high growth rates that attract increasing investments in green sectors. In addition to sustained growth, an economy with low and stable inflation rates and predictability in tax and spending also allows planning and investment in the green economy.

Investment in green sectors can accelerate economic diversification and a shift from dominant agriculture-based economies towards an economic structure based on industry and modern services. Green investments should be made in traditional natural resource-based sectors as well as in new high productivity sectors. Green investments in key sectors such as agriculture can generate high returns in terms of growth, employment and poverty reduction, promote an industrial supply chain based on natural resources, and contribute to added value in the economy. Furthermore, the development of new green sectors is key to creating employment opportunities, diversifying manufactured goods and accelerating structural transformation.

To achieve better outcomes for an inclusive green economy, there is a need to broaden the tenets and metrics of macroeconomic policy. A comprehensive integrated monitoring and evaluation framework for macroeconomic policy will ensure that macroeconomic measures actively create an environment for an inclusive green economy to thrive.

Inclusive green economy policies and their role in fostering structural transformation

African countries are increasingly developing and implementing inclusive green economy policies and strategies. Strategy development and implementation processes have generally been driven by high-level government commitment and leadership, which have been instrumental in garnering support and buy-ins from various stakeholders. Overall, the strategies, which in most cases support structural transformation objectives, seek to improve resource efficiency, increase productivity and economic growth, and reduce greenhouse gas emissions, poverty and inequality. They provide integrated and synergistic solutions that promote sustainable economic, environmental and social development, which are key to the successful implementation of structural transformation policies and plans in Africa.

An integrated system framework promotes multi-sectoral approaches and policy coordination to maximize linkages between inclusive green economy policies and structural transformation. Consistent with the vision of achieving sustainable transformation, the broad range of sector-specific green initiatives launched and integrated into national transformation plans offer win-win opportunities. However, this also involves trade-offs, at least in the short-run. Integrated assessments to inform the development and implementation of inclusive green economy policies and strategies are already being conducted in African countries to maximize benefits across economic, social and environmental sectors. However, additional capacity should be created for the cross-sectoral and systemic analysis of green economy policy outcomes.

Key messages

African countries are at various stages of developing and implementing inclusive green economy policies and strategies. While mainstreaming these into long-term development frameworks is a good approach, as it helps in harnessing synergies and ensuring coherence in strategy development and implementation, the strategy mix may be a better approach as it ensures that green economy policy objectives are clearly defined within a framework document embodying a country's development vision.

The visions, goals and objectives of various inclusive green economy policies and strategies augur well with those of structural transformation policies. However, an inclusive green economy approach underlines the need for balanced outcomes in all three dimensions through the mainstreaming of sustainability principles in strategy development and implementation. Thus, inclusive green economy policies have the potential to alter not just the pace of structural transformation, but also the greenness and inclusiveness of that transformation.

Effectively leveraging win-wins between structural transformations and an inclusive green economy could compensate for any short-term trade-offs that may arise. In addition, embedding inclusive green economy policies within long-term visions and development frameworks could help chart an implementation trajectory that provides a holistic view of short, medium and long-term costs and benefits and facilitates transparent, participatory and informed decision-making.

Implementation experiences, good practices and lessons on inclusive green economy policies that foster structural transformation

Although building an inclusive green economy may have high upfront costs, the agriculture and natural resource sectors, which mainly drive structural transformation in Africa, provide opportunities for quick wins that can be harnessed now. Although implementation commenced relatively recently, countries have begun acquiring invaluable experiences that could better inform the development and implementation of inclusive green economy policies and strategies and the region's transition. These include coordinating and collaborating mechanisms, stakeholder participation, multidisciplinary approaches, integration of the three dimensions of sustainable development, experiences related to the implementation of initiatives in various sectors of the economy, and the mobilization of financial resources for an inclusive green economy.

Important lessons have been learned to inform upscaling and outscaling, including attracting more investments. It is important to support policy decisions with research, thus strengthening the science-policy interface; to ensure meaningful stakeholder consultation and participation; to provide training and capacity-building to ensure the success of green economy initiatives; to provide an enabling environment for inclusive green economy; and to foster private sector development and participation. However, the effective implementation of inclusive green economy depends on a number of key factors that must be integrated into policy design and implementation at the outset.

Key messages

African countries have been implementing green economy initiatives in various sectors of the economy. While implementation commenced relatively recently, countries have begun acquiring invaluable experiences that could enhance the development and implementation of inclusive green economy policies and strategies that foster structural transformation, and inform the region's transition.

Establishing lead institutions with clear mandates to coordinate the development and implementation of inclusive green economy policies and strategies enhances implementation efficiency and effectiveness. Such institutions foster synergies with structural transformation policies and plans through enhanced collaboration, multidisciplinary approaches, coherence and integration.

Several factors influence a successful green economy implementation. These include high-level political support, flexibility in policy design that builds on existing institutional frameworks, an integrated approach that caters to the transition in the long term while effectively addressing immediate development needs or priorities, and effective monitoring and reporting on progress facilitated by establishing key targets that feed into broader development planning processes. However, success factors vary depending on the country context.

Enabling measures for an inclusive green economy that supports structural transformation

Creating an enabling environment for greening economic transformation starts with policies and regulatory frameworks that address the systemic limitations inhibiting structural change. Such a transition essentially requires a policy structure that encourages and stimulates shifts in production, consumption and investments in and across various sectors of an economy. Appropriate policy instruments and their inherent incentive structure can stimulate resource efficiency, innovation, research and green technology development, natural capital and social infrastructure, which can further accelerate the transition to a green economy. Although Africa has put in place continental initiatives to promote technology development, adequate resources are needed to support these initiatives.

Capacity development is also essential in strengthening institutions and the overall policy environment within which the transformation takes place. It is a crosscutting enabling measure for an inclusive green economy, hence the need for country frameworks for the establishment, coordination and delivery of inclusive green economy capacity development. Adequate financial resources are needed to foster inclusive green economy transitions in key strategic sectors that are set to drive Africa's growth and its transformative agenda. A green economy strategy hinged on long-term national development plans would clearly identify priority areas for investment (and disinvestment) and map the associated mix of funding sources required.

Key messages

An inclusive green economy could foster structural transformation if supported by enabling measures.

These include coherent policies accompanied by appropriate instruments; capacity development for individuals, institutions, systems and their linkages; development and adoption of green technologies; and mobilization of adequate and innovative finance for a green transformation.

Enabling measures create a conducive environment for private and public investment in the green economy, making environmentally sustainable investments viable and stimulating markets for green goods and services.

The choice of policy instruments must be guided by broad inclusive green economy policy objectives and countries' sustainable development goals. Technology development and transfer must be approached primarily as a business opportunity, through which the competitiveness of Africa's industrial output could be enhanced. Capacities should be strengthened for policymakers and relevant stakeholders to draw coherent country plans for a green transformation. Limited financial resources for competing development priorities justify the need to view financing of a green transformation within the realm of broader sustainable development financing.

African countries' strong growth performance is an opportunity to use fiscal reform and other economic instruments to trigger inclusive green growth.

A dynamic, growing private sector plays an important role in a green economic transformation. Countries must therefore bolster the role of the private sector, enhance mobilization of private sector investment funds, and provide incentives to stimulate private sector engagement and enterprise development in the green economy. Governments should also consider supporting private sector investment in innovation and technology development, aligning industrial research with national development objectives.

The foregoing suggests that an inclusive green economy can serve as a vehicle for a sustainable structural transformation in Africa. However, a stable and sustainable macroeconomic environment is a fundamental prerequisite for an inclusive green economy to thrive. An inclusive green economy can also influence the macroeconomic policies of a country to adequately cater for environmental and social policy objectives. To foster coherence and integration, inclusive green economy policies and strategies must be developed and implemented within the framework of national development plans. The application of integrated assessment methodologies and tools in green economy analysis is essential for integrated approaches that promote a balanced consideration of the economic, social and environmental dimensions of sustainable development. Lastly, a set of enablers is required to further the development and implementation of inclusive green economy policies that drive the desired transition and transformation.

ECA policy briefs are based on various analytical works and research on the social and economic development of Africa carried out at, or in collaboration with, the Commission. The mandate of ECA is to promote economic and social development in member States and foster regional integration in Africa.

For more information, please contact the Green Economy and Natural Resources Section (GENRS) of the Special Initiatives Division (SID), ECA, Addis Ababa, Ethiopia at +251-11-544-3089.

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