60 YEARS IDOS

IDOS POLICY BRIEF 2/2024

Greening Economies in Partner Countries: Priorities for International Cooperation

Tilman Altenburg, Anna Pegels, Mauricio Böhl Gutierrez, Clara Brandi, Hanna Fuhrmann-Riebel, Franco Jauregui Fung, Daniele Malerba, Babette Never, Andreas Stamm, Rita Strohmaier & Ulrich Volz

Summary

While polluting industries are still flourishing, the green economy is on the rise. In low- and middle-income countries, the resulting opportunities are mostly underexplored. The Federal Ministry for Economic Cooperation and Development (BMZ)'s new strategy for "Sustainable economic development, training and employment" shifts gears towards a green and inclusive structural transformation, recognising that only a just transition approach with credible co-benefits for societies can gain societal acceptance (BMZ, 2023).

It is now essential to provide evidence of how a greener economy can offer direct economic benefits to national economies and the majority of their citizens. Ongoing cooperation portfolios need to be adjusted to this new and timely orientation in the BMZ's core strategy. We suggest focusing on the following six areas:

Eco-social fiscal reform should be a priority area in at least 15 of the over 40 partner countries with whom Germany cooperates on "sustainable economic development", systematically linking revenues from pricing pollutions to pro-poor spending.

Development policy should promote **inclusive green finance** (IGF) through market-shaping policies, such as an enabling regulatory framework for the development of digital IGF services and customer protection in digital payment services. It should also build policymakers' capacity in developing IGF policies and regulation.

Support in the area of **sustainable, circular consumption** should focus on eco-design, and repair and reuse systems. It should build systems design capacities and behavioural knowledge, to integrate consumers in low-carbon and circular industry-consumer systems. This will need new collaborations with actors shaping systems of consumption and production, for instance with supermarkets or the regulators of eco-design guidelines.

Germany should strategically support **national hydrogen strategies**, including a just transition approach and prioritising green over other "colours" of hydrogen. This means strengthening industrial policy think tanks, technology and market assessment agencies, technology-related policy advice as well as skills development, and exploring distributive mechanisms to spread the gains and ensure societal acceptance.

Sustainable urbanisation should be a more explicit priority, given its potential for job creation and enterprise development. This means supporting partners in integrating land-use, construction and mobility planning for compact, mixed-use neighbourhoods, and anticipating green jobs potential and skills required within cities.

Lastly, Germany should support **green industrial policy** and enlarge policy space in trade rules by promoting the core institutions of industrial policy, for example, technology foresight agencies, coordinating platforms for industry upgrading, and policy think tanks, and working towards reforms of the trading system, such as rules to allow clearly defined green industrial subsidies, preferential market access for green goods and services from low-income countries, or technology transfer.

It is evident for all areas that the challenges in low- and middle-income countries will differ from those in high-income countries. It is, therefore, imperative that successful programmes are co-developed with local partners. A just green transition that harvests benefits beyond a healthier environment and is supported by societies will then be achievable.

Context

While polluting industries are undoubtedly still flourishing, the green economy is on the rise. The Boston Consulting Group (Kuipers et al., 2023) estimates annual growth rates of 10 to 20 per cent for the most important green sectors, such as energy, transport, green consumer segments, and buildings. New sustainable technologies and business models are gaining ground and changing locational competitive advantages. Smart industrial policy anticipates such changes; it guides the economy so it can take advantage of the opportunities offered by this structural change at an early stage. This also applies to economic and employment promotion in development cooperation.

To be acceptable and, thus, feasible, however, the sustainability transition must be just – both in the Global North and South. Development policy has adopted the "just transition" approach, implying that the shift to a green economy must be fair and equitable for all. This has an international dimension, giving the Global South a just share in the emerging green industries, and a national one, avoiding negative impacts on workers, consumers and disadvantaged communities. A just transition ensures that both women and men have access to new employment opportunities, and it ensures that price increases do not overburden low-income groups. It provides compensation for the losers of the transformation and ensures transparent and participatory decision-making.

By focusing on green and inclusive industrial policy as a driver of development, German cooperation could expand the specific profile it has already established in some areas, such as the promotion of renewable energies, and ecological standards in supply chains. The BMZ's new core theme strategy "Sustainable economic development, training and employment" clearly shifts gears towards a perspective of a just and green structural transformation and highlights new elements, such as green and inclusive industrial policies, the promotion of circular economies, eco-social fiscal reforms, the hydrogen economy, and exploiting sustainable urbanisation as a just transition agenda. Yet, these new and timely orientations still need to be translated into concrete reforms in ongoing cooperation portfolios, to expand and re-focus ongoing efforts. IDOS has been invited to support the BMZ in this challenge. Given this context, we present and discuss ideas for the implementation of the BMZ's new core theme strategy that are

- innovative in the sense that they suggest new priorities or new types of policy support, and
- concrete in the sense that they can easily be incorporated into ongoing international cooperation programmes.

This short paper is organised along six policy fields that, as we believe, hold i) specific challenges for a just green transition; ii) substantial win-win potential; and iii) concrete options for additional, targeted action by international development cooperation. All of these policy fields have in common that they synergistically link structural change that creates jobs with green policy goals. For each, we outline key challenges, give examples of win-win potential, and provide ideas for concrete action.

Phasing-in eco-social fiscal reforms in a just and acceptable way

There is growing consensus on the importance of pricing environmentally harmful behaviour, like emissions or waste, and removing fossil fuel subsidies. Yet, few international development agencies engage in this area (with the exception of the IMF (International Monetary Fund) and the World Bank; German cooperation with Indonesia is one of few bilateral exceptions). Development cooperation should place greater attention on context-specific pricing policies that also address negative socio-economic effects. In addition, pricing policies, in particular subsidy reforms, encounter a complex and sensitive political economy and depend on political will. Development partners can support coordinated efforts and international initiatives in addressing vested interests and other political barriers. Overall, coordinating efforts between countries is critical in raising the ambition of climate policies and avoiding carbon leakage.

As such reforms deliberately increase the prices of polluting goods and services, consumers face an increased economic burden. Particularly, poor and vulnerable households feel these pricing effects. Concerns about negative effects can block environmental pricing reforms, as recent experiences have shown, for example, in France, Nigeria and Ecuador. In addition, there are concerns that climate policies such as carbon pricing may disrupt employment and the economy of communities that depend on fossil fuels, such as coal communities, by shifting economic incentives towards renewable energies.

Nonetheless, such challenges could become win-wins if governments channel the revenues from carbon fiscal reforms towards pro-poor compensation mechanisms, such as social protection. Evidence shows that such eco-social fiscal reforms can decrease poverty in the short term. For subsidy reforms, governments can use the fiscal space created to invest in new or existing social protection programmes, in many cases replacing universal subsidies with more targeted ones. However, the quality of social protection is crucial, and governments need to urgently improve social protection systems (including social registries).

Moreover, governments can address potential job losses from carbon pricing with labour market measures. Recent research shows that climate policies will create net employment (that is, more jobs are created than disrupted). In addition, workers in the fossil fuel industry that lose their jobs may be re-trained and re-allocated to take advantage of new jobs in green sectors. For workers that cannot re-train and re-allocate, compensation mechanisms are needed.

Development cooperation has an important role to play in supporting partner countries in reaping the synergies between the ecological and economic aims of eco-social fiscal reform. Efforts such as the Just Energy Transition Partnerships as well as the Climate and Development Partnerships (P+) provide a starting point to discuss such reforms, coordinate across countries and give development partners the opportunity to promote eco-social fiscal reforms. Pricing environmentally harmful behaviour is relatively straightforward to implement and generates financial space in government budgets. Thus, eco-social fiscal reforms are a logical first step in green economy transitions and should become much more prominent in development partnerships, as they also influence the acceptability of the broader transition process.

Recommendations in a nutshell:

- Make eco-fiscal reforms a priority area in at least 15 of the over 40 partner countries with whom Germany cooperates on “sustainable economic development”.
- Develop and document good practices for eco-social fiscal reforms that systematically link revenues from pricing pollutions to pro-poor spending.
- Ensure that eco-social fiscal reforms are prominent in international processes such as JETPs (Just Energy Transition Partnerships), Climate and Development Partnerships (P+) and emerging climate clubs.
- Ensure that all partnerships entail comprehensive communication strategies based on recent public acceptability studies to explain the benefits of eco-social reforms.

Inclusive green finance for a just transition

A green transition requires large amounts of investment, both public and private. Across the financial system, banks and investors need not only analyse and mitigate risks related to environmental change, but also align their portfolios with sustainability. While divestment from environmentally harmful activities is important and welcome, it may have unintended and undesirable consequences unless additional measures are adopted. It may affect micro, small and medium enterprises (MSMEs), poor households, and women in particular, as they face considerably worse access to (sustainable) finance. New environmental standards requiring businesses to adopt clean technology may threaten the survival

of MSMEs that are not able to make such investments. Furthermore, when financial institutions prefer the financing of "green" projects and punish "dirty" ones, MSMEs struggle to pay for green credentials such as a sustainability assessment by third parties, meaning they might not qualify for access to green financing channels even when their activities are environmentally sound. Thus, despite being well-intentioned, green finance policies may exacerbate financial exclusion.

Just transition will require financial policymakers to adopt an equity (including a gender) lens and develop strategies to support inclusive green finance. IGF can be promoted through direct interventions as well as market-shaping policies. Direct interventions include, for example, the provision of credit guarantees or the introduction of sectoral credit targets for green lending to MSMEs or climate-mitigating farmers. Such instruments have already been promoted for a long time and can be calibrated with a particular IGF focus to support MSMEs and poorer households to mitigate climate-related risks and enhance their access to transition finance. This is already happening, but it needs to be done more systematically and at scale. Market-shaping policies for IGF are designed not just to prepare the private sector to offer financial services for green projects that also support vulnerable groups, but to also create the right incentive structures. Some of these services (such as micro-insurance or credit risk guarantee schemes) are specifically designed to enhance the protection of vulnerable populations; others, such as retail mobile payments, provide the technology for a de facto safety net among individual clients. Digital financial services hold a particular promise in this context. Successful examples already exist, such as M-KOPA, a mobile-phone based pay-as-you-go scheme for financing solar devices in remote communities in Kenya, Uganda, and Nigeria, or OKO, a technical service provider that offers index insurance to smallholder farmers in Mali. For such schemes to thrive, policymakers need to implement regulatory enablers to facilitate the development and adoption of digital payment services, mobile money, and the second- and third-generation services that build on this infrastructure. Regulatory enablers include rules and frameworks for non-bank e-money issuance, use of agents, risk-based customer due diligence, and – especially important – consumer protection.

International development cooperation can support domestic policymakers – especially at finance ministries, central banks and supervisory authorities – in devising targeted approaches for IGF. Capacity building can support them in designing proportionate regulation and disclosure frameworks and in developing IGF policies. Furthermore, cooperation can support monetary and financial authorities in developing a digital infrastructure to facilitate automated disclosure and transition risk assessments and bring down the cost of lending and insurance products for MSMEs and households. For instance, regulators can design an automated disclosure infrastructure to source data directly from the real economy via the Internet of Things, such as smart meters. By combining the complementary aims of green finance and financial inclusion, such activities can help to improve the livelihoods of low-income households and the business prospects of MSMEs while simultaneously contributing to climate change adaptation and mitigation, minimising associated risks for the financial sector.

Recommendations in a nutshell:

- Promote IGF through market-shaping policies, such as creating an enabling regulatory framework for the development of relevant digital IGF services and customer protection in digital payment services.
- Build policymakers' capacity in developing IGF policies and in designing proportionate IGF regulation and disclosure frameworks.
- Support monetary and financial authorities in developing a digital infrastructure that will facilitate automated disclosures and transition risk assessments and lower the cost of green lending and insurance products for MSMEs and households.

Creating green demand: sustainable consumption and circular economy

Simply focusing on the supply side will not suffice to achieve sustainability. The growing purchasing power of middle-classes needs to be channelled into demand for the new green business models that are needed to promote green growth and jobs. Policy initiatives such as the G20's Lifestyle for Environment (LiFE) recognise the key role of demand and lifestyle changes, but lack implementation.

For future development cooperation, we see four areas of high potential: First, in the field of circularity, a stronger focus on waste avoidance rather than recycling (or landfilling). Recycling at scale is needed, but many materials are still not economically recyclable. Waste avoidance is more resource-efficient and more sustainable. Partner countries should be supported in reforming all waste avoidance steps from product design to use, re-use, re-purposing, and repair. These activities hold particular employment potential, since they substitute material with labour input. Where specific materials are problematic (such as plastic), local development and sourcing of alternative materials can be a job motor. Similarly, new business models for circular services need to be developed and adapted to local contexts. Since labour in the waste sector is often informal, reforms need to pay attention to inclusivity.

Second, partner countries will need systems design capacities and behavioural knowledge. Sustainability requires an overhaul of entire value chains and the complex creation of new industry-consumer systems, which needs a deep understanding of the interdependence of infrastructure, institutions and human behaviour. While infrastructure and institutions are often relatively well understood, integrating consumers as (re-)users and suppliers requires behavioural insights. This need is cross-cutting and spans all parts of the economy, such as, mobility choices, housing, all areas of consumption, and so on. Advisory services could be directed at the national level, for instance, on the impacts of green macro-level policies on citizen behaviour; or at municipal level on the design of citizen-friendly public transport, but also at private actors, such as NGOs (non-governmental organisations) seeking to design impactful consumer awareness campaigns, or firms looking for attractive green product design.

Third, fostering domestic and regional sustainable consumption is key for building green markets in partner countries. Efforts to address sustainable consumption by German development cooperation have largely focused on German consumers and their influence on production conditions in the partner countries. Local and regional sustainable consumption in the Global South have not yet been widely addressed. They are, however, key to the green transition, in particular for countries which cannot base their green growth on exports. Domestic (or regional) consumption is and will remain essential for economic development in these countries. While sustainability is increasingly anchored in international value chains, the incentives for "greening" in domestic markets are comparatively weak.

Fourth, development cooperation needs to identify and involve key actors who can act as catalysts (or dealbreakers). Supermarkets, for example, can aid the enforcement of Extended Producer Responsibility by banning products from non-compliant companies from their shelves. They are also key to forming consumption habits, for example, by offering and advertising products with sustainability labels, and are therefore a bridgehead in sustainable industry-consumer systems. Multinational chains are often subject to lead market consumer pressure, which can also support sustainability in local branches. Moreover, especially in Africa, local supermarket chains are expected to boom in the next decade, reflecting increasing local purchasing power, with considerable opportunity for local value creation.

Recommendations in a nutshell:

- Strengthen the focus of development co-operation on waste avoidance rather than (end of pipe) waste management, for example, through eco-design, repair and re-use systems.
- Support systems design capacities and behavioural knowledge, to integrate consumers in low-carbon and circular industry-consumer systems.
- Support greener local consumption, for instance, through labels and new business models.
- Develop new collaborations with key actors shaping systems of consumption and production, such as supermarkets and the regulators introducing eco-design guidelines.

Green hydrogen partnerships for local value and competitiveness

The global roll-out of green hydrogen (GH2) is essential for achieving net zero by 2050. GH2 is the only reliable option to decarbonise hard-to-abate industries. The lack of renewable energy in the Global North (for example, the European Union (EU), Japan, and South Korea) partly ties their industrial decarbonisation to the ability and willingness of the Global South to export GH2. However, the global market is still fraught with technological, market, and regulatory uncertainties. As GH2 can be produced basically everywhere where renewable electricity is abundant and cheap, and water is available, it is likely that price competition will limit the surplus from exports. This applies even more to countries outside pipeline distance from import hubs. Given these uncertainties, and considering the hype dynamics of the market formation, it is challenging for countries to find their position in future hydrogen trade. Most developing countries' strategies thus take a dual and gradual approach, first addressing own needs before considering exports. Without local off-takers, the uncertainties regarding exports involve risks of stranded assets. Also, many developing countries are no longer willing to produce commodities with imported technologies and export with very limited local value addition or knowledge spillovers.

The local use of GH2 also offers opportunities for economic development. Local hydrogen can enhance energy security and improve the trade balance, create jobs and enable technological learning. However, job effects of GH2 are mainly restricted to the construction phase. The operation of renewable energy plants and electrolysers will create only a few permanent jobs. The use of GH2 in hard-to-abate industries such as cement, refineries and fertilisers could create comparatively more jobs and give these industries a competitive green edge (particularly relevant for countries potentially affected by carbon border adjustment measures), while also supporting domestic climate targets.

Germany has a wide range of GH2 cooperation schemes, from support of bilateral advisory projects as well as pilots under the PtX Development Fund (BMZ) and PtX Growth Fund (Federal Ministry for Economic Affairs and Climate Action (BMWK)) to global hydrogen diplomacy financed by the Federal Foreign Office, to competence development and GH2 research grants funded by Federal Ministry of Education and Research (BMBF). This integrated, multi-instrument approach should be maintained.

We suggest four main areas for increased co-operation: First, Germany should continue offering strategic support to national hydrogen strategies, with two foci: i) increasing local value added, a fair distribution of income derived from exports, and due diligence in project design and subsidy allocation; and, ii) prioritising green hydrogen while being open to blue hydrogen (but only) as a bridge technology.

Second, cooperation should strengthen technical capabilities to reduce market and technological uncertainties. Germany can capitalise on its internationally recognised strengths, for instance, supporting industrial policy competencies, technology and market assessment, and technology-related policy advice; Technical and Vocational Training (TVET); and supporting scientific cooperation,

such as the International Masters Programme in Energy and Green Hydrogen (WASCAL, RWTH, FZ Jülich).

Third, solutions for more just and inclusive outcomes are needed. Entry barriers into the hydrogen economy are high due to technological sophistication, capital requirements and economies of scale. Industrial linkage potentials are limited, especially in low-income countries. Co-operation should therefore systematically explore alternatives for benefit-sharing, such as direct payments from hydrogen export incomes to citizens, or mandatory oversizing of energy projects and desalination plants to provide households with energy and water. German cooperation could take stock of such solutions globally and develop an advisory format to feed them into national and international debates.

Fourth, the ramp-up of the GH2 economy as a global public good requires more cooperation and coordination on the multilateral level. The wide network of Germany's energy and hydrogen partnerships should be used to initiate North-South and South-South dialogues on a variety of topics, for example, to encourage peer learning on hydrogen industrial policy, to address open questions around the international logistics of hydrogen trade, and to develop and harmonise standards. A multilateral competency centre and think tank on hydrogen technologies, markets and systems – similar to the IEA-TCP (International Energy Agency – Technology Collaboration Programme), but with a strong mandate by and focus on developing countries – should be considered.

Recommendations in a nutshell:

- Germany should strategically support national hydrogen strategies, including a just transition approach and prioritising green over other "colours" of hydrogen.
- Strengthen industrial policy think tanks, technology and market assessment agencies, technology-related policy advice as well as skills development.
- Explore distributive mechanisms to spread the gains and ensure societal acceptance.
- Invest more in multilateral cooperation, encouraging international peer learning and collaborative efforts to address key obstacles to hydrogen market ramp-up.

Converting the necessary shift to sustainable cities into an economic stimulus package for massive employment generation

Urbanisation trends in low- and middle-income countries require innovative ways to develop compact cities with mixed neighbourhoods and building uses. In the next thirty years, African cities will be home to an additional 950 million people (OECD [Organisation for Economic Co-operation and Development], 2020). This needs i) the development of green and affordable housing; ii) the retrofitting of existing buildings; and iii) integrated land-use and mobility planning for low-carbon and space-efficient mobility. All these measures have enormous employment potential. Construction is one of the biggest employment generators, with low entry barriers for unskilled and semi-skilled workers. The urban sustainability shift might therefore turn into a pro-poor economic stimulus package, also entailing opportunities for small firms and innovative start-ups.

The construction and mobility sectors offer particular opportunities for a just transition. In construction value chains, employment opportunities include retrofitting green, blue and hybrid infrastructure, local value chains for alternative raw and reused materials, installation and service/maintenance

jobs for building-related green technologies, and a shift from Portland cement to sustainable LC3 cement and other, bio-based materials. In mobility, employment opportunities include mass transit infrastructure and operations, maintenance, and IT services; and the manufacturing and operation of railways and electric vehicles. Additionally, investment in transit-oriented development (TOD) around mass-transit stations can create permanent employment in local retail or gastronomy; and increase land value.

In addition to direct employment in construction and related services, building compact green cities with mixed-use neighbourhoods has other co-benefits: population density correlates with higher productivity, wages and jobs. Firms need proximity to inputs and clients and benefit from better mobility and reliable access to public services. Workers benefit from short commutes and may adjust consumption to local retail and services. Female work is facilitated if commuting between home, work, and childcare is fast. Gearing green city planning towards these benefits requires anticipating the required skills over time and across key sectors. Some of the jobs may only be temporary, for instance, for a specific rail or bus rapid transit system construction. Analysing and anticipating the necessary transfer of, for example, low-skilled construction workers across sectors should become an essential part of an integrated employment agenda for sustainable cities. In parallel, positive direct and indirect employment effects of mixed-use dense areas close to a railway station require more attention.

The Avoid-Shift-Improve (ASI) Framework already used in the mobility and construction communities in development cooperation could be used for structuring such a shift, with a strong emphasis on Avoid and Shift measures. We also advise integrating informal systems in both sectors mentioned, such as self-construction in non-formal settlements and paratransit operators. As both sectors are mainly male-dominated, a gender-inclusive approach is essential to ensure that the urban green transition is just.

Recommendations in a nutshell:

- Make sustainable urbanisation a more explicit priority in the “sustainable economic development” portfolio, given its potential for job creation and enterprise development.
- Support partners in integrating land-use, construction and mobility planning to stimulate employment in compact, mixed-use neighbourhoods and buildings.
- Develop tools for anticipating green jobs potential and skills required within cities.
- Systematically plan for skilling and reskilling for green jobs within and across sectors, including time effects (for instance, job permanence, long-term industrial capacity building).
- Support innovative green business models along the whole construction value chain.
- Foster transit-oriented development in urban programmes; discourage urban sprawl.

Support green industrial policy and enlarge policy space in trade rules

Industrial policies to facilitate structural transformation towards more productive and better-remunerated activities, technological learning, and upgrading are key to promoting economic development. Yet, development agencies have rarely systematically adopted a perspective of productivity-enhancing structural transformation (with few exceptions, including UNIDO (United Nations Industrial Development Organization) and JICA (Japan International Cooperation Agency)). Core institutions of industrial policymaking – technology foresight agencies, coordinating platforms for industry upgrading and policy think tanks dealing with structural change or upgrading strategies – have not been key partners in German cooperation. Sectoral approaches have been applied successfully in rural development and energy system reforms, but only rarely in industry and services. German cooperation has a strong track record in vocational training – yet without systematically deriving skills development from

sector upgrading strategies. Likewise, promoting decent work via labour standards has been high on the agenda, yet the scope for better work is limited unless industries manage to upgrade into more lucrative market segments – which has not been in the focus of German cooperation.

The BMZ's recent core theme strategy for the first time recognises the importance of industrial policy. The challenge now is to apply this new orientation to challenging partner country industries, such as the automotive industry, chemicals, fertilisers, or industries that have greater potential in a greener economy, from bio-substitutes for plastics to urban rail. Furthermore, international trade law limits industrial policy space, above all for instruments such as excessive tariffs or export bans. If the need for inclusive, green and productivity-enhancing transformations is recognised, the space for green industrial policy instruments in trade rules needs to be re-assessed and potentially adjusted. It is particularly important to empower partner countries to develop and implement their own industrial policy strategies, and ideally enlarge their fiscal space, for example, to implement green subsidies.

Existing trade regulations impede the distinction between "beneficial" and "detrimental" subsidies. The Agreement on Subsidies and Countervailing Measures (SCM) of 1995 contained permissible ("non-actionable") subsidies for specific purposes (for instance, specific research endeavours or environmental compliance). Regrettably, this catalogue lapsed more than twenty years ago. Lately, there is interest in revisiting the demarcation between "good" and "bad" subsidies with an environmental perspective.

To tackle this challenge, WTO (World Trade Organization) members could learn from the Agreement on Agriculture and its systematic reduction of agricultural subsidies. A pivotal element of this agreement involved "traffic lights" which could also enhance the differentiation between industrial subsidy categories in the SCM: trade-distorting subsidies ("amber box"): subsidies with minimal trade-distorting impacts ("green box"); and subsidies exempt from caps on total expenditure ("blue box"). While agreement on these categories in the context of industrial subsidies is difficult (for instance, what constitutes a blue box subsidy), the EU should promote a reform of trade rules in this regard, together with other WTO members.

At the same time, it is essential to take account of the needs of developing countries. Subsidies need to be proportionate (that is, environmental benefits should exceed trade distortion costs), do not adversely affect less-industrialised countries or vulnerable populations, and are partially dedicated toward climate finance or other support to promote fiscal space. An integral element of blue box expenditures would thus entail the responsibility of financial and technical support to low-income countries. Moreover, there should be special and differential treatment for green industrial policies by developing countries.

In addition, the EU and other WTO members should support preferential market access for green goods, technology, and services from developing countries. Moreover, WTO members should ensure inclusive harmonisation of sustainability and other product and service standards and promote green technology transfer to developing countries, in accordance with Article 66 of the Trade Related Intellectual Property Rights Agreement (TRIPS) and Art. 27 of the UNFCCC. Wealthy states and other donors should also support a fund for the transfer of green technologies.

Recommendations in a nutshell:

- Promote core institutions of industrial policy, such as technology foresight agencies, co-ordinating platforms for industry upgrading, and policy think tanks.
- Promote the green transformation through the trading system, for example, by working towards rules to allow clearly defined green industrial subsidies, preferential market access for green goods and services from low-income countries, or technology transfer.

Conclusions

Many cooperation agencies are currently shifting their programmes towards environmental sustainability. Quite how these shifts interact with economic development opportunities, and how they can be made inclusive, is, however, in many cases still unclear. It is evident that the challenges in the Global South will differ from those in the North. It is, therefore, imperative to co-develop successful and locally adapted programmes that consider both national development and local and global environmental interests. This input paper aims to support development cooperation actors to focus their communication with international partners on feasible co-benefits and opportunities, without downplaying or ignoring risks and the pressure of time. After all, the feasibility of green transformations hinges on acceptance, not only by policymakers, but also by enterprises, consumers, and voters.

German development cooperation is explicitly addressing the challenge in its new core theme strategy “Sustainable economic development, training and employment”. In this input paper, we hope to provide innovative elements to the discussion. We chose the above six policy fields since they seem to hold particular promise for synergistic co-benefits between greening and inclusive economic development. That said, the above list is neither comprehensive nor static. The green and just transformation spans all areas of the economy, and indeed of society, which makes a truly comprehensive list impossible. Similarly, other areas may become important in future, such as the bioeconomy. Some of these areas were covered in an earlier paper by Altenburg et al. (2022).

To achieve lasting changes in the above policy fields, coordination within ministries and between ministries is needed, both in the partner countries and within Germany. The BMZ has reinforced its exchange and cooperation process between its environmental and economic units, which is crucial to building a coherent policy agenda and communicating with one voice. Furthermore, development policy needs to focus its efforts on the large levers of a just transition. These levers are more likely to be on the macro- than on the micro-level, such as eco-social fiscal reforms, the introduction of eco-design regulations, the use of behavioural insights to create green demand, or the implementation of market ramp-up schemes for new green technologies, such as H2Global for green hydrogen.

References

Altenburg, T., Brandi, C., Bauer, S., Brüntrup, M., Malerba, D., Never, B., Pegels, A., Stamm, A., To, J., & Volz, U. (2022). *Ökologische Strukturpolitik: Ein starker Profilbaustein für die deutsche Entwicklungszusammenarbeit* (IDOS Discussion Paper 8/2022). German Institute of Development and Sustainability (IDOS). https://doi.org/10.23661/idp8.2022

BMZ (Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung). (2023, August). *Strategiepapier Nachhaltige Wirtschaftsentwicklung, Ausbildung und Beschäftigung*. https://www.bmz.de/resource/blob/182690/bmz-papier-nachhaltige-wirtschaftsenwicklung.pdf

Kuipers, H., Sander, A., & Young, D. (2023, 24 February). *Listening for the Signals in the Green Economy Transition.* https://www.bcg.com/publications/2023/listening-for-signals-in-green-economy-transition

OECD (Organisation for Economic Co-operation and Development). (2020). *Africa's Urbanisation Dynamics 2020. Africapolis, Mapping a New Urban Geography.* https://www.oecd.org/publications/africa-s-urbanisation-dynamics-2020-b6bccb81-en.htm

Dr Tilman Altenburg is Head of the research programme “Transformation of Economic and Social Systems” at the German Institute of Development and Sustainability (IDOS).

Email: tilman.altenburg@idos-research.de

Dr Anna Pegels is a senior researcher in the programme “Transformation of Economic and Social Systems” at the German Institute of Development and Sustainability (IDOS).

Email: anna.pegels@idos-research.de

Mauricio Böhl Gutierrez, Dr Hanna Fuhrmann-Riebel, Franco Jauregui Fung, Dr Daniele Malerba, Dr Babette Never, Dr Andreas Stamm, Dr Rita Strohmaier, and Professor Dr Ulrich Volz are (senior) researchers in the programme “Transformation of Economic and Social Systems” at the German Institute of Development and Sustainability (IDOS). **Professor Dr Clara Brandi** is Head of the research programme “Transformation of Economic and Social Systems” at IDOS.

Published with financial support from the Federal Ministry for Economic Cooperation and Development (BMZ).

Suggested citation:
Altenburg, T., Pegels, A., Böhl Gutierrez, M., Brandi, C., Fuhrmann-Riebel, H., Jauregui Fung, F., Malerba, D., … Volz, U. (2024). *Greening economies in partner countries: priorities for international cooperation* (IDOS Policy Brief 2/2024). IDOS. https://doi.org/10.23661/ipb2.2024

Disclaimer:
The views expressed in this paper are those of the author(s) and do not necessarily reflect the views or policies of the German Institute of Development and Sustainability (IDOS) or those of the Federal Ministry for Economic Cooperation and Development (BMZ).

IDOS Policy Brief / German Institute of Development and Sustainability (IDOS) gGmbH

ISSN (Print) 2751-4455
ISSN (Online) 2751-4463

DOI: https://doi.org/10.23661/ipb2.2024

Tulpenfeld 6, 53113 Bonn
Email: publications@idos-research.de
https://www.idos-research.de

Printed on eco-friendly, certified paper.