

An indicator-based assessment framework to identify country-specific challenges towards greener growth

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The EU aims to lead, compete and prosper as a greener, knowledge-based economy, growing fast and sustainably and creating high levels of employment. To mobilise new sources of green growth, social, economic and environmental policies need to be brought more closely together. Environmental policy monitoring has so far been centred on progress towards climate change and energy targets, and hence could not properly address inter-linkages between growth and policies supporting environmental objectives. New tools to identify and monitor policies which can achieve a faster transition to a greener economy are thus needed.

This paper explores the possibility to develop a framework to analyse Member States' policies to promote "green growth". It proposes an indicator-based assessment framework to detect progress in the shift to a competitive greener economy by evaluating Member States' performance in the following four areas: (1) reliance on cost-efficient environmental policy instruments; (2) sound use of public finances for environmental purposes; (3) reinforced markets providing "green" goods and services; and (4) increased total factor productivity resulting from measures aiming at environmental improvements. For each of these areas, we combine best available indicators in aggregated performance scores measuring the distance to the EU27 average and improvements over time. The tool we propose is flexible to incorporate new relevant indicators, as they become available, or to compare to other reference points. Besides, each area reflects a key link identified in the economic literature between environmental policies and economic growth and employment.

This indicator-based assessment framework can become an analytical tool – amongst others – to help design policies in the environmental area. Yet by no means would it become a "mechanical rule" for policymaking: it would need to be applied within the context of a country-specific analysis before any policy conclusions should be drawn.

We present results from a preliminary application of the approach for illustrative purposes and to check whether it is possible to draw policy findings from analysing the levels of environmental performance levels yielded by the tool. This test run confirms the tool is useful to provide a nuanced assessment of Member States' environmental performance, and contributes to identifying country-specific challenges to move to green growth. Besides, a test was also run to explore the interactions between macroeconomic and environmental challenges at Member State level, comparing performance in various dimensions of environmental policy with relevant aspects of macroeconomic performances.

These tests reveal the approach can underpin a nuanced assessment of Member States' environmental performance and might reveal a potential for improving economic performance by better addressing environmental challenges, whereas other tools for environmental policy monitoring cannot systematically detect this opportunity. Indeed, the framework we propose helps putting the progress made against environmental targets in perspective with economic constraints, and avoids making unrealistic requests for closing gaps to environmental targets when there is no leeway to do so. Conversely, it could help encourage those countries exhibiting under-performance on environmental grounds to introduce more forceful or more relevant interventions and catch up with countries contributing better to achieving EU environmental goals while experiencing similar macroeconomic constraints. In addition, the test run helps identify growth-enhancing policy interventions designed for environmental purposes, or at least situations where a country manages to address macro-economic weaknesses without losing sight of its environmental commitments. It can help analyse spill-over effects from lack of progress towards environmental goals on growth components, for countries where a divergence of environmental and economic performances is observed.

Overall, an indicator-based analysis of Member States' environmental performance can bring additional insight to identify the most appropriate structural reforms to tap new sources of growth and create new jobs, while addressing environmental challenges. The approach proposed in this paper needs now to be improved and developed.