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Improving Competitiveness:

Environmental and Social Considerations of Sectoral Reform

USAID promotes enterprise competitiveness as a primary way to achieve broad-based economic growth in today's global economy. Environmental policies that sustain the quantity and availability of natural resources on which economic production ultimately depends will make that economic growth sustainable. Policies that promote sound environmental management practices by enterprises also help those enterprises to lower their costs, and make it easier for them to access a wider range of markets, including more profitable markets. That is why getting environmental policies right is essential for improving entrepreneurship, business development, competitiveness, and trade on a sustainable basis in USAID's host countries.

How Environmental Policy and Practice Affects Enterprise Competitiveness

- *Preventing pollution improves production efficiency.* Pollution is waste: purchased inputs that are discarded instead of being incorporated into salable output. Policies that encourage enterprises to prevent pollution (rather than treating it and moving it elsewhere) also support and encourage production efficiency. Preventing pollution means using less raw materials, energy, and water, and therefore reducing costs, while treating pollution increases costs.
- *Sound environmental management reduces costs and risks.* Government policies that encourage enterprises to systematically and continually improve their resource efficiency help those enterprises to lower their costs. Resource efficiency leads to lower input costs, fewer environmental penalties, lower borrowing and insurance costs, lower management costs, and lower costs of health-related worker absenteeism. Improving resource efficiency also reduces the risk of environmental liability.
- *Good environmental laws improve a country's competitiveness.* Sound environmental regulations properly enforced maintain a high quality of environmental resources, such as water, that can continue to be accessed for production at minimum cost (e.g., without requiring expensive treatment) over the long run.
- *Conforming to international standards gives access to more final markets.* Major market blocs like the EU, free trade agreements, and high-value niche markets increasingly require that products for these markets are both environmentally friendly and were produced in safe and environmentally friendly ways. The required means for demonstrating safe and environmentally friendly production processes is usually audited conformance to international standards like ISO 9000, ISO 14001, HACCP, EUREPGAP, Green Globe 21, FSC (Forest Stewardship Council), Responsible Care, and more. Government policies and programs that support conformance to international standards promote broader access to world markets.
- *Good environmental performance gives access to the supply chains of global corporations.* Becoming part of the supply chain of a global corporation represents a major opportunity for

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enterprises in developing and transitioning countries to begin benefiting from the globalizing economy. Large corporations increasingly require their suppliers to demonstrate that they comply with local environmental regulations and have in place environmental management systems (EMSs) that lead to continual improvement in their environmental performance. Policies and programs that support environmental compliance and EMSs make a major contribution to the competitiveness of a country's enterprises.