

Solar powered irrigation in
Zimbabwe.



**Environment,
trade and
sustainable
development**



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Mitigation of the effects of climate change

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Inclusion of gender equality and women's economic empowerment

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Transition to a sustainable economy

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Financing environmental objectives

Environment in trade strategies



86%

of developing countries have trade objectives that address environmental issues

Trade in environment strategies



88%

of developing countries have trade objectives in sustainable development strategies



96%

of developing countries point to agriculture as sector with economic and export diversification potential



66%

of developing countries indicate industry sector to face greatest challenges

Circular economy



43%

of developing country respondents have circular economy strategies

Women's economic empowerment



79%

of developing country respondents have policies to address the environment and support women's economic empowerment

Financing for climate mitigation or adaptation increasing since the Paris Agreement



14%

of climate finance in 2019 from private sector



35%

of Aid for Trade earmarked for climate mitigation or adaptation



Women harvest lemongrass to be distilled into essential oil, Chisapani, Nepal.

The growing awareness of the impacts of climate change is spurring Aid for Trade stakeholders to take action now to integrate environmental objectives into their sustainable development strategies. Simultaneously, trade objectives are now appearing more frequently in governments' sustainable development strategies; and similarly, trade strategies increasingly refer to environmental objectives.

This process, however, has just started to take shape. Environmental and trade objectives are frequently only broadly described, with little detail and few targets against which to measure progress. Comparisons of the different strategies to attain the objectives can be difficult.

Policy commitments were made by bilateral and multilateral donors together with south–south partners pursuant to the 26th United Nations Climate Change Conference (COP26) to align official development assistance (ODA) with the Paris Agreement and to expand climate finance. The Aid for Trade Initiative intersects with these financing plans given the role that trade in environmental goods and services plays in the transfer of technology, skills and know-how.

The 2022 joint OECD–WTO Aid for Trade monitoring and evaluation (M&E) exercise attempts to address this through a questionnaire which was sent to the Aid for Trade participants. Using the responses given in the questionnaire,

this chapter presents an analysis of the data, general trends in the findings and explicit examples based on the additional information the participants included in the questionnaire. The results of the M&E exercise have been divided into the following sections:

- mitigation of the effects of climate change on the environment, trade and sustainable development;
- inclusion of environmental objectives in sustainable development strategies to mitigate the effects of climate change and to integrate the United Nations Sustainable Development Goals (SDGs);
- barriers to the inclusion of environmental objectives in sustainable development strategies;
- integration of trade objectives into sustainable development strategies of developing countries;
- integration of environmental objectives into trade strategies;
- integration of environmental and trade objectives into Aid for Trade donor strategies;
- inclusion of gender equality and women's economic empowerment into sustainable development strategies;
- inclusion of circular economy objectives in sustainable development strategies;
- transition to a sustainable economy;
- financing environmental objectives in trade and sustainable development strategies.

Mitigation of the effects of climate change on the environment, trade and sustainable development

Responses from developing countries to the questionnaire accompanying the M&E exercise highlight the challenges of establishing objectives without sufficient knowledge about the expected trade effects of climate change.

In addition, developing countries identify the difficulty in accessing funding as a barrier to further integrating environmental objectives into trade and sustainable development strategies.

Burgos Wind
and Solar Farm,
Philippines.

Attaining net-zero carbon emissions

Greenhouse gas (GHG) emission levels, which are already the highest recorded in human history, continue to rise. The latest assessment by the Intergovernmental Panel on Climate Change (IPCC) concludes that if measures are not taken to avoid global warming of more than 3°C by 2050, irreversible impacts on natural and human systems will inevitably take place, pushing societies beyond their ability to adapt (IPCC, 2022).



Immediate and deep GHG emission reductions are necessary to limit global warming, as foreseen by the Paris Agreement under the United Nations Framework Convention on Climate Change, which aims to limit temperature rises to below 2°C with the target of 1.5°C by 2050.

A study by the International Energy Agency (IEA) concludes that attaining net-zero carbon emissions requires “a singular, unwavering focus from all governments” and in cooperation with the private sector, which is underpinned by government policy decisions (IEA, 2021):

“Devising cost-effective national and regional net zero roadmaps demands co-operation among all parts of government that breaks down silos and integrates energy into every country’s policy making on finance, labour, taxation, transport and industry. Energy or environment ministries alone cannot carry out the policy actions needed to reach net zero by 2050.”

“WTO members can do more to lower the cost of getting to net-zero carbon emissions. Cutting trade barriers to environmental goods and services is one place to start.”

**Director-General
Ngozi Okonjo-Iweala**



Amazon Rainforest,
near Manaus,
Brazil.

In a speech in April 2022 at the Instituto Rio Branco, Brazil, Director-General Ngozi Okonjo-Iweala spoke of the potential of WTO members to do more to lower the cost of achieving net-zero carbon emissions, and that removing trade barriers to environmental goods and services is one place to start.¹

26th United Nations Climate Change Conference

The COP26, held in Glasgow, United Kingdom, at the end of 2021, called for further efforts to reach the Paris Agreement targets of net zero. The draft decision of COP26, known as the *Glasgow Climate Pact*², emphasizes:

“the urgency of scaling up action and support, including finance, capacity-building and technology transfer, to enhance adaptive capacity, strengthen resilience and reduce vulnerability to climate change in line with the best available science, taking into account the priorities and needs of developing country Parties”.

This urgency is reflected in the responses given in the questionnaire, which recognize the need for action and referred to current plans on the transition to net zero. Respondents also highlight how the deliverables agreed at COP26 build on the work already undertaken for the United Nations 2030 Agenda for Sustainable Development (United Nations, 2015).

COP26 policy commitments

Policy commitments were made in the run-up to COP26 to align ODA with the Paris Agreement. Donors have pledged to support the transition to a low-carbon economy by expanding funding

devoted to mitigating and adapting to the effects of climate change, which is commonly called climate finance (see Box 1).

Although climate finance provided by developed countries has steadily increased since 2013, the US\$ 79.6 billion achieved in 2019 (OECD, 2021a) is still short of honouring the commitment to raising US\$ 100 billion every year. The *Glasgow Climate Pact*, agreed at COP26, calls for greater resource mobilization, including by engaging the private sector to help achieve net-zero targets.

Aid for Trade can help countries to build climate resilient economies and to promote export diversification into green sectors in support of the SDGs and post-COVID-19 recovery efforts (UNEP, 2020). Aid for Trade can also help to promote the creation of climate-smart infrastructure and energy generation and to address the challenges of technology transfer and alignment of trade regulations to environmental objectives.

The various commitments to expand the provision of climate finance and Aid for Trade are reflected in the questionnaire. The commitments made by donors fall into the following broad categories (see Table 1 for details):

- commitments focused on specific sectors (i.e. infrastructure, renewable energy, agriculture, health, education);
- commitments to focus on private-sector engagement;
- commitments to offer preferential loan conditions for renewable energy projects and schemes in response to climate change;
- commitments to include environment, climate and energy objectives in future trade agreements;
- commitments to mobilize public and private investments.



Director-General Ngozi Okonjo-Iweala addresses world leaders and stakeholders at the United Nations COP26 Climate Summit, Glasgow, United Kingdom.

Box 1

OECD DAC Declaration on a new approach to align development co-operation with the goals of the Paris Agreement on Climate Change, 27 October 2021

Ahead of COP26, the OECD Development Assistance Committee (DAC) issued in October 2021 a declaration on aligning development co-operation with the goals of the Paris Agreement. The declaration commits DAC members to use ODA and to “mobilise other resources to help developing countries access more technical opportunities to enable and accelerate a clean, sustainable and just energy transition on voluntary and mutually-agreed terms.”

The declaration further states:

“We will prioritise support to technologies focused on accelerating progress towards net zero systems, in particular renewable energy and energy efficiency. We could also consider carbon capture, utilisation and storage. We all make the same commitment as the G7 commitment to end new ODA for unabated international thermal coal power generation by the end of 2021...

“We, Austria, Belgium, Canada, Czech Republic, Denmark, European Union, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Korea, Luxembourg, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, United Kingdom and United States further commit to limit our ODA investments in fossil fuels to when there are no economically or technically feasible clean energy alternatives; and are part of host country transition planning, consistent with Paris Agreement and NDC commitments. ODA may be used to support efficiency improvements of existing fossil fuel based power generation facilities, as well as their decommissioning and we will notify the DAC of intended activities. We also recognise that in limited contexts – such as emergency and humanitarian crises – where access to grid-based power is unavailable, fossil fuel based power may still warrant ODA support.

.....

“We will use blended finance and risk mitigation instruments to stimulate more climate-related private sector investment. Attracting more private domestic and international finance for climate action requires enabling policy frameworks and investment climates. We will work with developing countries to help them increase sustainable investment opportunities and strengthen the requisite enabling conditions. We have learnt from COVID-19 vaccine development that investing early and being prepared to finance risky – but critically important – innovation can yield substantial results, increase access to new technologies and incentivise countries to invest in new mechanisms. ODA and other official finance can play a critical role.”

Source: See <https://www.oecd.org/dac/development-assistance-committee/dac-declaration-climate-change-cop26.pdf>.

Table 1: Commitments to expand the provision of climate finance and Aid for Trade

Donors	Responses in questionnaire
Inter-American Development Bank	The IDB points to trade objectives addressing the environmental dimension of sustainable development (IDB, 2019)
Australia	Climate change strategy includes commitments on the sectors of infrastructure, renewable energy, agriculture, health and education, with a focus on private-sector engagement Commitment for climate finance for 2020-2025 increased to A\$ 2 billion
Canada	Climate action is a key area in Canada's sustainable development strategy Climate finance doubled to CA\$ 5.3 billion for 2021-2026
European Commission	The Neighbourhood, Development and International Cooperation Instrument – "Global Europe" covers EU cooperation with third countries (2021-2027) The new development strategy details EU strategies to protect the environment, manage natural resources and tackle climate change (European Union, 2018) The European Green Deal (European Commission, 2019a): (i) notes the important role of trade policy and the WTO in advancing ambitious environment, climate and energy objectives; and (ii) highlights specific measures that the European Commission will propose to make the Paris Agreement an essential element for all future comprehensive trade agreements
Republic of Korea	Korea International Cooperation Agency has adopted a strategy on climate action and energy Economic Development Cooperation Fund (EDCF) prioritizes projects on renewable energy and climate change responses, with preferential treatment for loan conditions Target is a 40 per cent increase in EDCF projects
Russian Federation	Committed to all 17 SDGs and to balancing all dimensions of sustainable development
United Kingdom	Through British Investment International (BII), priority is given to sustainable infrastructure investment in low and middle-income countries BII is to help developing countries to take advantage of clean technology and to grow economies sustainably
United States	Climate change strategy set the following high-level targets for USAID to achieve by 2030: <ul style="list-style-type: none"> ▪ mobilization of US\$ 150 billion in public and private climate finance by 2030 ▪ reduction, avoidance or sequestration of 6 billion tonnes of CO₂-equivalent through USAID activities ▪ climate resilience improvements for 500 million people

Inclusion of environmental objectives into sustainable development strategies to mitigate the effects of climate change

Policy-makers increasingly recognize the need to include environmental objectives into sustainable development strategies. This process has been underway for some time, but the mounting evidence of the challenges posed by the effects of climate change adds to the sense of urgency.

Responses to the M&E exercise highlight the different environmental objectives donors and recipients are integrating into development strategies to mitigate the effects of climate change (see Table 2 for details). Examples of the types of environmental objective donors and recipients are including in development strategies include the following:

- objectives which increase growth and reduce poverty to foster climate-resilient sectors and climate-proofed livelihoods;
- objectives which strengthen national and local capacities to improve climate and disaster management;
- objectives such as decarbonization, climate adaptation and mitigation and phasing out subsidies for environmentally harmful fossil fuels;
- objectives which foster the use of digital technologies for sustainable energy management.

“The mounting evidence of the challenges posed by the effects of climate change adds to the sense of urgency.”

Pumping groundwater with the energy generated from solar panels, Jagadhri, India.



Table 2: Inclusion of environmental objectives in sustainable development strategies to mitigate the effects of climate change

Regions and donors	Responses in questionnaire
Africa	
Democratic Republic of the Congo	Protection of the environment and combating climate change prioritized to achieve a green, low-carbon and climate resilient development model for all sectoral strategies
Mali	The adaptive capacity of populations, ecology and economy to be improved to mitigate the effects of climate change
Mauritius	By 2030, 60 per cent of energy needs will be from renewable sources
Zambia	Domestic reforms to achieve environmental objectives to be supported by international assistance
Asia and the Pacific	
Bangladesh	Climate change issues to be addressed through SDG implementation
Fiji	Strategy to decarbonize the economy
Philippines	Strengthening national and local capacities to improve climate and disaster management
Latin America and the Caribbean	
Peru	Focus on decarbonization and climate adaptation
Donors	
Asian Development Bank	<p>Central goals in project development to be achieved through sustainable and nature-based solutions:</p> <ul style="list-style-type: none"> ▪ climate change mitigation ▪ ocean health ▪ disaster resilience <p>Strategy 2030 (ADB, 2019a) to scale up support:</p> <ul style="list-style-type: none"> ▪ to address climate change, disaster risks and environmental degradation ▪ to accelerate low GHG emission development ▪ to ensure a comprehensive approach to building climate and disaster resilience and increasing focus on the water–food–energy nexus
Australia	Climate change strategy commits to integrating climate change action across all development assistance programmes
Canada	<p>Strategy is to support developing countries' efforts to transition to low-carbon, environmentally sustainable and climate-resilient economies and societies through initiatives that:</p> <ul style="list-style-type: none"> ▪ reduce global greenhouse gas emissions ▪ improve climate resilience ▪ protect and sustainably manage natural resources and ecosystems
European Bank for Reconstruction and Development	<p>The EBRD "will support the acceleration of the transition to a green, low-carbon and resilient economy by (EBRD, 2020a):</p> <ul style="list-style-type: none"> ▪ aligning its activities with the principles of international climate agreements, ... ▪ enhancing policy engagement for the development of long-term low carbon strategies... ▪ scaling up investment by innovating across ... thematic areas such as green digital solutions, just transition, circular economy, natural capital and green value chain financing"
European Union	<p>The Neighbourhood, Development and International Cooperation Instrument – "Global Europe" addresses:</p> <ul style="list-style-type: none"> ▪ phasing-out subsidies for environmentally harmful fossil fuels ▪ stable and transparent energy markets ▪ deployment of smart grids ▪ use of digital technologies for sustainable energy management

Inclusion of environmental objectives into sustainable development strategies to integrate SDGs

Although climate change is a catalyst for action, the focus on environmental objectives goes beyond global warming. As shown in Figure 1, most responses in the questionnaire indicate that sustainable development strategies explicitly target SDGs 7 (affordable and clean energy), 12 (responsible consumption and production) and 13 (climate action). This approach aligns with the recommendations of the upcoming Sixth Assessment Report of the IPCC, which urges major action in the energy sector and a transformation of production and consumption practices.

SDGs are being integrated into sustainable development strategies in the following ways:

- by including goals and indicators that target the 2030 Agenda for Sustainable Development (United Nations, 2015);
- by including targets and provisions to fulfil the goals of the Paris Agreement;
- by including specific references to SDGs.

Of the 53 developing countries which responded to the questionnaire, 51 (96 per cent) include environmental sustainability as a priority in their development strategies. All responses from small island developing states (SIDS) and 27 of the 29 (93 per cent) responses from least-developed countries (LDCs) indicate that environmental objectives are a key priority in their sustainable development strategies. At a regional level, environmental objectives are highlighted as a key priority by all responses from Africa and Latin America and the Caribbean.

Various responses in the questionnaire also indicate that environmental considerations are included as a focus area in their COVID-19 pandemic recovery strategies (see Table 3 for details).

Figure 1: Percentage of Aid for Trade participants with sustainable development strategies which explicitly target SDGs, by respondent category

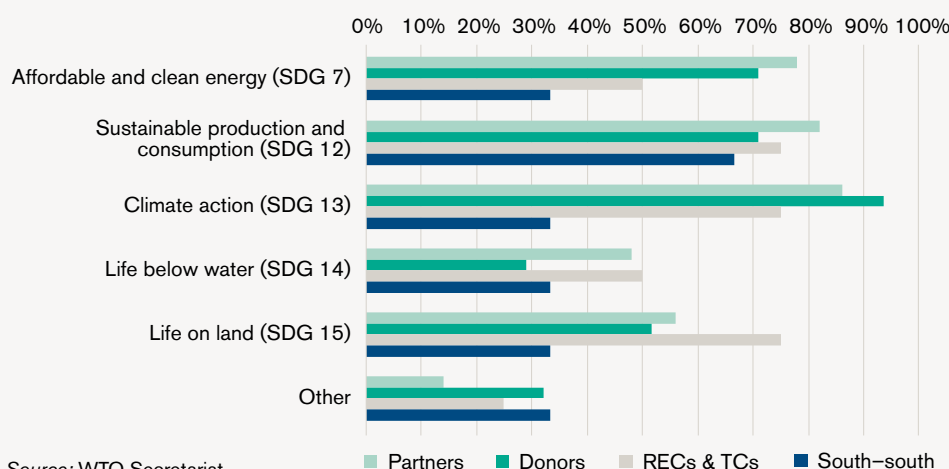


Table 3: Inclusion of environmental objectives to integrate SDGs in sustainable development strategies

Regions and donors	Responses in questionnaire
Africa	
Benin	SDGs specifically referenced: <ul style="list-style-type: none"> to accelerate structural transformation to enhance total factor productivity to improve value chain integration to strengthen the prospects of agricultural sector
Guinea-Bissau	Strategy promotes the sustainable management of natural capital through the establishment of a regulatory and institutional framework for sustainable development, biodiversity and the dual management of ecosystems
Mali	Environmental dimension of sustainable development considered in all aspects of the design, planning, implementation and monitoring of development policies
Mauritius	Strategy highlights sustainability and a green transition as key
Zambia	Economic recovery programme seeks to kickstart the economy towards a development path that emphasises sustainability in a stabilized monetary, external and fiscal environment
Asia and the Pacific	
Bangladesh	Strategy lays out holistic and cross-sectoral actions to improve productivity and to minimize disasters in densely populated regions
Fiji	Targets and provisions to fulfil the goals of the Paris Agreement and the 2030 Agenda for Sustainable Development (United Nations, 2015)
Nepal	Strategy lists environmental concerns as a key issue
Papua New Guinea	All sectoral plans reference sustainable development objectives
Philippines	Strategy contains a specific chapter on the environment, mentioning issues such as air pollution, infectious waste materials and urban agriculture
Sri Lanka	Strategy integrates sustainable development across the three pillars
Latin America and the Caribbean	
Colombia	Strategies incorporates SDGs
Paraguay	Strategy goals and indicators target the 2030 Agenda for Sustainable Development (United Nations, 2015) Establishment of an SDG commission
Peru	Strategy is to manage land in a sustainable manner to prevent and reduce risks and threats affecting livelihoods
Donors	
Republic of Korea	Korean International Corporation Agency has stringent social and environmental impact assessments for project development implementation

Barriers to the inclusion of environmental objectives into sustainable development strategies

Based on the responses in the questionnaire, some of the key barriers developing countries face when trying to include environmental objectives in sustainable development strategies are the following:

- a lack of access to finance;
- a lack of data measurement infrastructure;
- a lack of institutional capacity to refine environment–development linkages;
- a lack of technology transfer options.

Fiscal pressures caused by the COVID-19 pandemic create additional barriers to the transition to sustainable development (see Table 4 for details). Emerging research reveals that financial access may have been particularly affected. Projections by the United Nations Environment Programme (UNEP) indicate a significant reduction in new, greenfield, low-carbon projects (e.g. renewable energy)

for the foreseeable future, and this will be in both developed and emerging markets (UNDP/UNEP, 2020).



The photovoltaic farm covers an area of 20,000 m² and comprises 5,900 panels, Henrietta, Mauritius.

Table 4: Barriers to the inclusion of environment issues in policy frameworks

Regions	Responses in questionnaire
Africa	
Benin	A lack of environmental data seen as an obstacle in developing sustainable development strategies
Democratic Republic of the Congo	A lack of funding and scientific knowledge about the expected effects of climate change impeding the implementation of necessary sustainability projects A lack of finance poses difficulties in acquiring modern sustainability infrastructure
Madagascar	Establishing infrastructure such as renewable energy systems is especially expensive
Mali	COVID-19 pandemic has contributed to an economic contraction, affecting the ability to mobilize the domestic resources necessary and jeopardizing progress towards fulfilling the SDGs
Latin America and the Caribbean	
Colombia	Aid for Trade, foreign direct investment and international cooperation can help to allay technology transfer issues by harnessing domestic technological capacity building
Paraguay	Existing commitments (e.g. tax incentives for investment promotion) place financial constraints that restrict public policies to promote a low-carbon transition

Integration of trade objectives into sustainable development strategies of developing countries

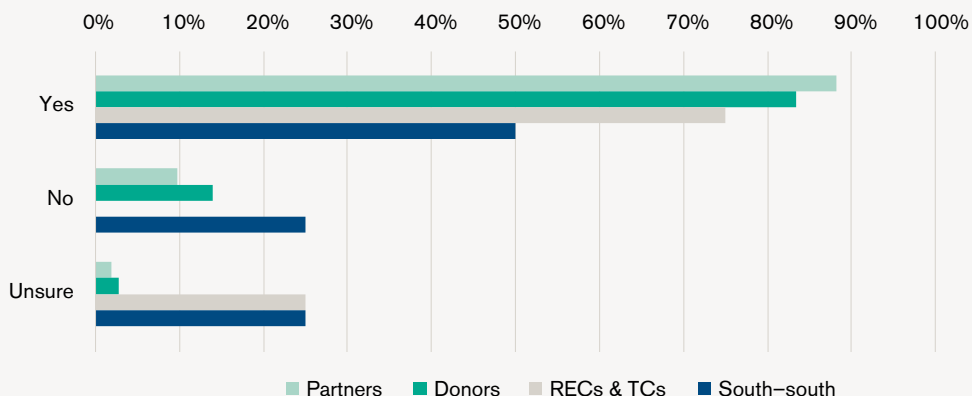
The 2030 Agenda for Sustainable Development (United Nations, 2015) considers international trade as “an engine for inclusive economic growth and poverty reduction, and contributes to the promotion of sustainable development”. It explicitly identifies trade as one of the main drivers for SDG implementation. Trade has also been recognized as an important variable for the environmental dimension of sustainable development.

“The 2030 Agenda for Sustainable Development identifies trade as one of the main drivers for SDG implementation.”

In a joint publication, the WTO and the UNEP identify trade as a key facilitator in the creation and expansion of markets for sustainable products and note that “trade can accelerate the diffusion of environmental goods and services to those places where they are most needed and help stimulate productive local capacity” (WTO/ UNEP, 2018). The report also identifies trade as a key facilitator in the creation and expansion of markets for sustainable products.

The M&E exercise illustrates that progress is being made in integrating trade into sustainable development policies and objectives. Of the 51 developing countries that responded to the questionnaire, 45 indicate that their national sustainable development strategies, policies or plans included trade objectives (see Figure 2 and Box 2).

Figure 2: Percentage of Aid for Trade participants with sustainable development strategies which include trade objectives



Source: WTO Secretariat.

Box 2

World Bank perspectives on the interface of trade policy and climate change

Since trade and global value chains play a major role in driving land use change and utilization of renewable natural resources, exporting and importing countries both need to align their trade policies with sustainable domestic policies. New opportunities will open-up for developing countries in trade as the world adapts to climate change.

While trade contributes to climate change, it can also be a central part of the solution through facilitating mitigation and adaptation. Global trade in environmental goods and services already stands at US\$ 1 trillion and is growing. Freer trade during times of crises induced by climate change crises can help to deliver essential goods to disaster-affected areas and support recovery.

A host of policy measures that can be taken includes:

- Reducing trade costs at the border to promote trade and lowering tariffs and non-tariff barriers on imports embodied with new technologies can drive productivity growth and adaptation.
- Identifying and developing carbon competitive goods and services that can drive the shift away from reliance on comparative advantages vulnerable to climate change.
- Global and regional integration agreements to develop common environmental goods and services standards and to address challenges with cross-border impacts (e.g. deforestation).
- Supporting green, resilient and inclusive development through trade reforms that reduce the current bias toward carbon intensive upstream goods. They can also support green trade liberalization by focusing on goods and services of priority interest to developing country exporters.
- Countries reviewing trade-related measures, such as intellectual property rights, that may restrict the diffusion of clean technologies to developing countries.

It is essential for developing countries to understanding the risks and opportunities for their trade and development strategies in mitigating the effects of climate change. Focused country studies are a useful way to provide a step towards a broader dialogue on ways to increase capacities and to identify opportunities for carbon mitigation to increase competitiveness in a climate-constrained world.

They are also critical to understand the investments in carbon measurement necessary to verify carbon competitiveness. Studies will also enable trade policy and trade facilitation reforms that will support adaptation and access to essential technologies and techniques.



Timber depot near Kinshasa, Democratic Republic of the Congo.

Partner responses in the questionnaire link trade and sustainable development, particularly among countries dependent on forestry, fisheries and agriculture exports (see Table 5 for details). In general, the questionnaire reveals the following:

- Three out of the four responses from regional respondents indicate the presence of trade objectives in their sustainable development strategies.
- Responses from landlocked developing countries also point to trade objectives in domestic sustainability frameworks.
- Responses from Africa (92 per cent) and Asia and the Pacific (78 per cent) indicate the inclusion of trade objectives in their sustainable development strategies.

Table 5: Integration of trade objectives into the sustainable development strategies of developing countries

Regions	Responses in questionnaire
Africa	
Democratic Republic of the Congo	National Forest Fund finances reforestation and conducts studies to promote the sustainability and legality of the timber trade with European markets
Senegal	Sustainable trade practices pursued in the development of export channels for wood, charcoal, wild harvest and agricultural and pastoral products
Zambia	Many policy interventions focus on reversing the unsustainable utilization of natural resources, including through trade
Latin America and the Caribbean	
Saint Lucia	<p>National plan, launched in 2018, aims to address critical risks and development priorities relating to climate change in an integrated and coordinated manner</p> <p>Trade features prominently in the context of tourism</p> <p>Interventions call for the creation of a carbon offset mechanisms to negate emissions incurred during inbound and outbound air travel, with funds collected through this programme used to fund local reforestation or renewable energy initiatives</p>

Integration of environmental objectives into trade strategies

Responses in the questionnaire indicate that Aid for Trade stakeholders recognize the importance of including an environmental perspective into trade strategies and objectives:

- 35 developing countries report that their trade objectives address the environmental dimension of sustainable development;
- 23 developing countries report that government strategies, policies and objectives on sustainable development are underpinned by extensive coordination and dialogue;
- 22 donors report that their dialogue with developing countries address the environmental dimension of sustainable development.

Responses to the M&E exercise also indicate that the export strategies of developing countries reflect their environmental concerns and focus on the interactions between environmental concerns, sustainable development and trade

objectives (see Table 6 for details). Example strategies developing countries gave in their responses include:

- encouraging domestic firms to acquire environment-related international standards that improve sustainability and increase export competitiveness;
- promoting environmentally responsible and ethical business behaviour among all actors in the export value chain;
- establishing systematic coordination mechanisms to support sustainable development;
- including trade issues in dialogues;
- establishing cross-ministerial coordination and implementation committees.

Tapping geothermal energy from depths of 2 km will help towards climate change mitigation goals, Muara Laboh, Indonesia.



Table 6: Integration of the environmental objections into trade strategies

Regions and donors	Responses in questionnaire
Africa	
Madagascar	Sustainable development objectives are prioritized in the National Green Export Review, which primarily examines coffee and legumes value chains
Mali	Trade policy considers the environmental dimension in its overall objective, of creating an environment conducive to the development of trade, with a view to its contribution to sustainable economic growth and poverty reduction
Mauritius, Zambia	A cross-ministerial coordination and implementation committee exists
Asia and the Pacific	
Bangladesh	Export policy encourages domestic firms to acquire environment-related international standards that improve sustainability and increase export competitiveness
Fiji	Environmental objectives are integrated into trade policies
Nepal	One of the guiding principles of the trade policy is to ensure sustainable development and environmental protection and consistency with environmental objectives, including conformity with multilateral environmental agreements such as the Convention on International Trade in Endangered Species (CITES) and the Montreal Protocol
Pakistan	Trade policy refers to the importance of environmental sustainability A cross-ministerial coordination and implementation committee exists
Papua New Guinea	Trade policy devotes a chapter to highlighting interlinkages between trade and sustainable development objective to enforce environmental laws in a trade context
Latin America and the Caribbean	
Guatemala	Committee for trade and sustainable development functions as the central agency that examines the intersections between environmental commitments and trade
Peru	Export policy seeks to promote environmentally responsible and ethical business behaviour among all actors in the export value chain Export policy promotes the development of a competitive and sustainable export portfolio by: <ul style="list-style-type: none"> managing international standards for exportable supply developing export capacity for biodiversity products promoting sustainability in the development of an exportable supply Export policy minimizes the use of resources and conserves the quality of soil, air and water, while simultaneously ensuring export competitiveness
Donors	
Inter-American Development Bank	Integration and Trade Sector Framework points to trade objectives addressing the environmental dimension (IDB, 2019) Annual Regional Policy Dialogue held in 2021 focused on the environmental considerations in the trade agenda of Latin America and the Caribbean, and members discussed the trade policy measures taken to advance public policy objectives on the environment and climate change

Integration of environmental and trade objectives into Aid for Trade donor strategies

Responses in the questionnaire indicate that environmental objectives are included in sustainable development and Aid for Trade donor strategies:

- SDG 13 (climate action) is explicitly targeted in the development strategies of 22 donors;
- SDGs 7 (affordable and clean energy) and 12 (responsible consumption and production) are goals in the development endeavours of 22 donors.

Responses in the questionnaire indicate that the trade objectives of 36 donors form part of their sustainable development strategy policy (see Table 7 for details). Examples include calls for the following:

- cross-border trade that helps to promote sustainable development (particularly in agriculture and food sectors);
- sustainable use of ecosystem services and natural resources;
- transparent and effective regulations for investments and trade in natural resources;
- incorporation of sustainability principles in trade agreements;
- construction and maintenance of socially and environmentally sustainable infrastructure;
- sustainability-centric clauses and priorities embedded into trade objectives.

Oyster farming monitors the temperature and water that prompts spawning and fertilization that speeds up the maturity of the oysters, near Fiji.





Preparing carrots for market, Chimaltenango, Guatemala.

Table 7: Integration of environmental and trade objectives into Aid for Trade donor strategies

Donors	Responses in questionnaire
Asian Development Bank	<p>Critical institutional objectives include (ADB, 2019a):</p> <ul style="list-style-type: none"> ▪ mitigating climate change ▪ building climate and disaster resilience ▪ enhancing environmental sustainability <p>Sustainability-centric clauses and priorities are embedded into the Trade and Supply Chain Finance Program</p>
Canada	<p>Development strategy calls for the incorporation of sustainability objectives in free trade agreements</p>
European Union	<p>Programmes include:</p> <ul style="list-style-type: none"> ▪ preventing illicit wildlife trade ▪ reducing emissions from deforestation and forest degradation ▪ voluntary partnership agreements to address illegal logging and the illicit trade of timber products <p>The European Green Deal (European Commission, 2019a):</p> <ul style="list-style-type: none"> ▪ outlines the aim to make the Paris Agreement an essential element for all future comprehensive trade agreements ▪ highlights the important role of trade policy and the WTO in advancing ambitious environment, climate and energy objectives
Germany	<p>Aid for Trade strategy prioritizes the SDGs to achieve sustainable trade</p>
Inter-American Development Bank	<p>Integration and Trade Sector Framework prioritizes the construction and maintenance of socially and environmentally sustainable infrastructure (IDB, 2019)</p>
Sweden	<p>Development policy calls for sustainable use of ecosystem services and natural resources, including transparent and effective regulations for investments and trade in natural resources</p>
Switzerland	<p>Transparency and sustainability principles (especially environmental) form key pillars of implementing OECD-FAO <i>Guidance for Responsible Agricultural Supply Chains</i> (OECD/FAO, 2016)</p>
World Bank	<p>The World Bank seeks to support countries and private-sector clients by maximizing the impact of climate finance while providing improvements in adaptation and resilience and reductions in GHG emissions (World Bank, 2021a)</p>

Inclusion of gender equality and women's economic empowerment into sustainable development strategies

Responses in the questionnaire include 42 developing countries and 28 donors, which indicate that existing policies that address the environmental dimension of sustainable development also promote gender equality and women's economic empowerment (see Table 8 for details). Example strategies include:

- integrating gender equality and women's economic empowerment into environmental objectives;
- requiring gender assessments and action plans at the project level;
- including gender equality in policies and standards;
- prioritizing women's economic empowerment in budgeting processes.

There is a discernible trend to greater scrutiny of the "quality" of the development that is being promoted and to the sustainability of supply chains, notably on the part of bilateral donors. One prominent aspect of this process is that concerted efforts are being made by developing countries and their financing partners to integrate women's economic empowerment objectives into climate-related financing programmes.

"Concerted efforts are being made to integrate women's economic empowerment objectives into climate-related financing programmes."

Women-owned cooperative processing grains, Guéchémé, Niger.



Table 8: Inclusion of gender equality and women's economic empowerment into sustainable development strategies

Regions and donors	Responses in questionnaire
Africa	
Madagascar	Implements investment compatibility assessments for environmental issues, with gender considerations part of the process
Equatorial Guinea	Development strategy refers to women's economic empowerment and sustainability
Mali	Environment and employment strategies outline women's economic empowerment and sustainability objectives
Asia and the Pacific	
Indonesia	Employs gender responsive climate budget tagging to prioritize women empowerment in the budgeting process
Latin America and the Caribbean	
Colombia	Ratified its commitments to the United Nations Framework Convention on Climate Change to achieve gender mainstreaming at all levels of climate change management in accordance with decision 20 of COP26 "Gender and Climate Change"
Guatemala	Committee for trade and sustainable development functions as the central agency that examines the intersections between environmental commitments and trade
Peru	Environment strategy adopts gender and intercultural priorities in climate change objectives
Donors	
Asian Development Bank	Manages the Australian Climate Finance Partnership, which promotes gender equality and better economic opportunities for women and girls
Australia	Conducts Aid for Trade activities that combine women's economic empowerment and environmental objectives: <ul style="list-style-type: none"> ▪ Pacific Horticulture and Agricultural Market Access Plus Programme ▪ Australian Climate Finance Partnership
Canada	Helped steer an update to gender policy at the Green Climate Fund (GCF, 2019), which requires gender assessments and gender action at the project level
European Union	Women's economic empowerment and environmental sustainability have been mainstreamed in all EU actions
Germany	Development strategy seeks to make global supply chains responsive to gender and ecological sustainability (BMZ, 2016)
Inter-American Development Bank	Of projects approved in 2021: <ul style="list-style-type: none"> ▪ 70 per cent included one or more components to tackle climate change ▪ 75 per cent addressed gender issues
Norway	Development strategy sets the framework for international gender equality efforts, with a new action plan in progress
Sweden	Supports the International Organization for Standardization in its development of voluntary standards that integrate both environmental and gender dimensions and develop gender inclusive standards
United Nations Industrial Development Organization	The global programme Economic Empowerment of Women in Green Industry (UNIDO, 2021) conducts national studies to help policy-makers and practitioners to establish frameworks that integrate gender into green industry policies
United States	The USAID template <i>Initial Environmental Examination</i> provides additional information on how its mandatory environmental compliance processes incorporate gender issues

Inclusion of circular economy objectives into development strategies

A total of 23 developing country respondents (including 10 LDCs) signal they have circular economy strategies, policies or objectives in their national development framework (see Table 9 for details). In addition, 22 donors, two regional economic communities or transport corridors and one south–south partner also indicate circular economy objectives. Examples of initiatives included:

- the African Circular Economy Alliance, which is a government-led coalition of African to promote the adoption of circular economy practices across the continent, focusing on

food systems, plastics and packaging, electronics, fashion and textiles and the built environment.

- the Pacific Regional Infrastructure Facility, which supports the development of a regional resource circulation and recycling network through resource recovery from solid waste streams of Pacific Island economies.

An analysis of responses in the questionnaire shows that most aid for trade stakeholders associate circular economy practices with waste management.

Table 9: Inclusion of circular economy objectives into development strategies

Regions and donors	Responses in questionnaire
Africa	
Côte d'Ivoire	Waste recycling and waste-water recovery policies pursue circular economy objectives
Asia and the Pacific	
Philippines	Solid waste management policies such as the Ecological Solid Waste Management Act of 2000, Toxic Substances and Hazardous and Nuclear Wastes Control Act of 1990 and sustainable public procurement promote circular economy practices
Donors	
Asian Development Bank	The ADB is developing a circular economy framework to support investment and technical assistance activities
Australia	Projects support collaborations with the private sector and entrepreneurs to develop innovative solutions to increase resource efficiency
Canada	Projects to support collaborations with the private sector and entrepreneurs to promote the circular economy in the use of plastics and plastic products
European Union	Adoption of its circular economy action plan
Netherlands	Development strategy and the Aid for Trade circular economy objectives are in line with the Government's roadmap to a circular economy by 2050 Member of the Platform for Accelerating the Circular Economy
United Nations Industrial Development Organization	Supports the circular economy (UNIDO, 2019), including through the Global Alliance on Circular Economy and Resource Efficiency and work of its Industrial Resource Efficiency Division

Transition to a sustainable economy

The transition to low-carbon growth and environmentally sustainable production processes will likely have wide-ranging trade impacts. The transformation will promote a shift in demand patterns, whereby many goods and resources (e.g. minerals and rare earths necessary for the energy transition) will be in greater demand, including for recycled materials, and others will experience a decline (e.g. hydrocarbons). It will also pave the way for accelerated business transformations that place greater priority on supply chain scrutiny, standards compliance and circular economy principles.

Responses in the questionnaire reveal stakeholders' perspectives on how the transition to sustainable development might impact them at a sectoral level, both in terms of opportunities and challenges (see Table 10 for details).

Sectoral dependency

For some developing countries, these changing patterns of global demand are a cause for concern given their dependence on a narrow

export basket. WTO statistics indicate that primary products involving mining and agricultural activities account for nearly half of all LDC exports. High product concentration in sectors sensitive to environmental risks exposes LDCs to export volatilities caused by climate change impacts and the transition to low carbon growth (see Figure 3).

Other small economies (e.g. those in the SIDS category) also face similar challenges, and not only on the export side. For instance, Saint Lucia notes that it was fully dependent on fossil fuel imports for its energy needs. Its annual energy import bill, estimated at US\$ 513.9 million, is equivalent to 23.9 per cent of aggregate imports. In this context, a green transition would both reduce fossil fuel dependency and help alleviate balance of payment pressures.

In total, 51 of the 53 partners (96 per cent), 30 of the 31 donors (97 per cent) and more than 95 per cent of responses from Africa, Asia and the Pacific, and Latin America and the Caribbean indicate that agriculture has high economic and export diversification potential arising from a transition to sustainable development (see Figure 4).

Figure 3: Dependence of least-developed countries on a narrow export basket

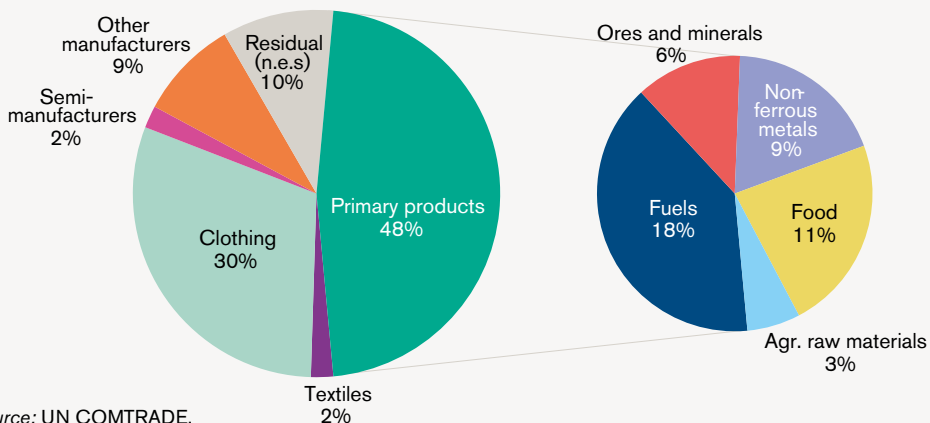
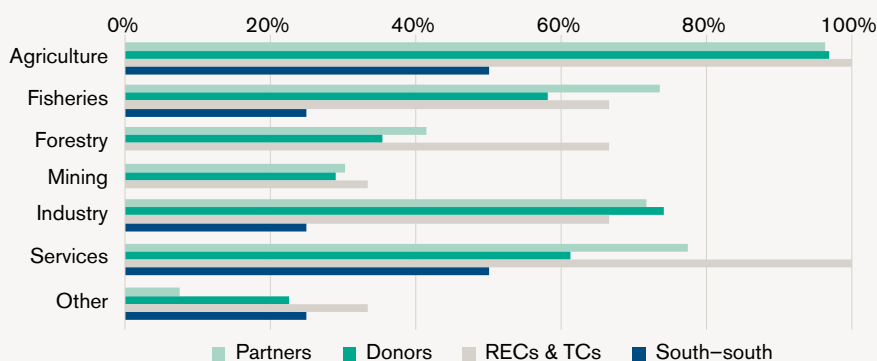


Figure 4: Sectors expected to benefit from a transition to sustainable development, by respondent category



Source: WTO Secretariat.

Partner perceptions of sectoral opportunities align with their factor endowments. For instance, the Democratic Republic of the Congo notes that harnessing sustainable agricultural practices yields national benefits due to the vast quantities of arable land and its favourable climate. Such assets are expected to help to boost agricultural production and to provide several benefits in the context of economic diversification.

Yemen notes that the agricultural sector is key for sustainable development, as it was the largest employer. Similar sentiments are echoed by Zambia, which signals the need to support this sector to guarantee economic prospects, food supplies and enhance sectoral export potential. To promote sustainable agriculture and export diversification in Equatorial Guinea, the Enhanced Integrated Framework (EIF) has financed an Aid for Trade project (see Box 3).

Box 3

Promoting sustainable agriculture and export diversification in Equatorial Guinea

The three-year project is worth around US\$ 1.4 million and is spearheaded by the United Nations Development Programme (UNDP) and the ministry of commerce, supported by the ministry of agriculture. Coordinated with the EIF, the project is to expand the productive capacity of Equatorial Guinea by applying sustainable agroecological production methods and post-harvest innovations by:

- introducing innovative systems and enabling the transfer of technologies in production and trading systems of selected sectors (animal, vegetable);
- promoting secure income channels through strengthened agricultural value chains and an inclusive and participatory approach to learning.

The project will directly benefit more than 300 agro-entrepreneurs, which will be divided into ten groups of 30 people (women, youth, mixed) and 25 technicians, together with government officials.



Owner of the Lady Edwina fishing company, Apia fish market, Samoa.

Fisheries and tourism sectors

Fisheries and tourism sectors also emerge as an area for sustainable development. The responses of all nine SIDS highlight the importance of the economic and export diversification potential of these sectors in the transition to sustainable development, which included the following:

- pursuing sustainability principles to conserve fish stocks and allow for a sustained flow of fish exports;
- creating a sustainable blue economy, in which economic growth is promoted while ensuring the sustainability of marine resources;
- developing eco-tourism as a tool to mitigate biodiversity loss;
- diversifying into other service sectors to ensure resilience and growth.

Responses to the questionnaire indicate that many donors have increased their activities to support a transition to sustainable development. Recent initiatives led by Australia, together with countries in the Pacific, regional organizations and multilateral development banks, have focused on the sustainability of fish stocks. The aim is to ensure long-term income streams and to improve market access.

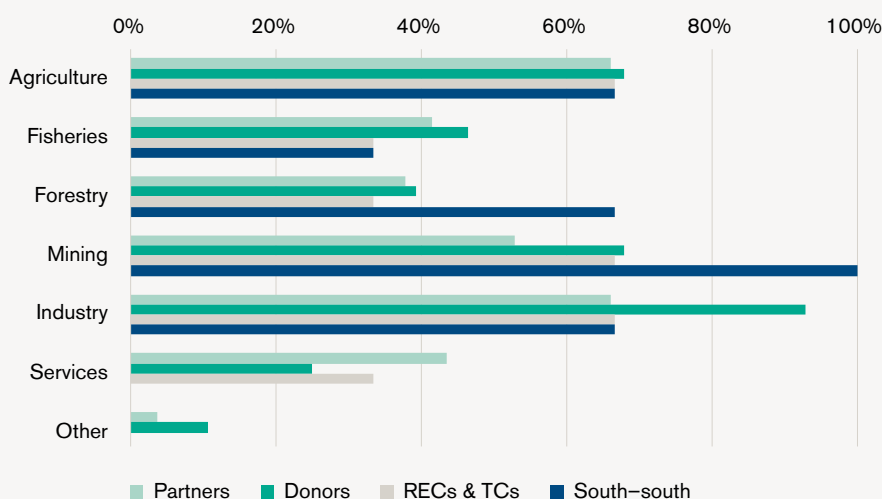
Agriculture and industry sectors

There is growing awareness of the trade opportunities and risks at play during the transition to sustainable development. Agriculture is one sector that stands to benefit from the move and enjoys economic and export diversification potential in the views of respondents. In contrast, achieving sustainable industrialization is recognized by all respondents as a more challenging task (see Figure 5).

Developing country perceptions are influenced by existing comparative advantages and trade footprints. Of the developing country respondents, 30 indicate the agriculture and industry sectors face the greatest challenge in transitioning to sustainable development. They highlight that:

- small-scale farmers may struggle to comply with new agricultural regulations introduced by export destinations such as the EU market (see Box 4);
- environmental impact studies for large mining operations and industrial investments may need to be reworked to comply with new requirements;
- domestic economies which rely heavily on one sector (e.g. mining in Zambia) can face detrimental societal effects if export volumes contract;
- finding investment for the transition to sustainable development is burdensome on public finances.

Figure 5: Economic sectors facing the greatest challenge from the transition to sustainable development, by respondent category



Source: WTO Secretariat.

Box 4

Farm to Fork measures in Peru

Peru expects Farm to Fork measures established in the European Union to reduce export volumes. The EU market represents 55.7 per cent of Peru's total agricultural exports. The Farm to Fork measures present particular challenges for Peruvian companies and supply chains not sufficiently acquainted with the new product requirements.

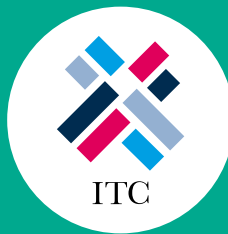
Given that nearly 97 per cent of the agricultural work force in Peru is small-scale family farms, there will be a negative impact on development.

A cacao farmer in Peru inspects the quality of the pod.



Table 10: Sector-specific challenges with the transition to sustainable development

Regions and donors	Responses in questionnaire
Africa	
Comoros	Development plan is the creation of a sustainable blue economy and to develop eco-tourism as a tool to mitigate biodiversity loss
Equatorial Guinea	Finding investment for the transition to sustainable development is proving to be a challenge due to depleted public finances post-COVID
Madagascar	Environmental impact studies for large mining operations and industrial investments need to be reworked to comply with new requirements
Mauritius	Pursuing sustainability principles can aid in the conservation of resources and allow for a sustained flow of fish exports
Saint Lucia	Although tourism plays an important role, diversifying into other service sectors is key to ensuring resilience and growth (e.g. IT and other professional services) Transition to sustainable development in the industrial sector hindered by the lack of capital to retrofit plants and re-engineer manufacturing processes Lack of technological know-how and expertise, particular among micro, small and medium-sized enterprises (representing 80 per cent of the business community)
Zambia	Contraction in mining exports would pose societal effects as the sector contributes substantially to the domestic economy
Latin America and the Caribbean	
Guatemala	Lack of knowledge of new requirements for the EU market (e.g. restricted pesticides) poses challenges to export potential if left unaddressed
Peru	Companies and supply chains are not sufficiently acquainted with the new product requirements for the EU market
Donors	
Australia	Working with countries in the Pacific, regional organizations, and multilateral development banks to ensure fish stock sustainability, create long-term income streams and improve market access Fisheries sector primarily supported through partnerships with the Pacific Community and the Pacific Islands Forum Fisheries Agency
International Trade Centre	GreenToCompete strategy supports micro, small and medium-sized enterprises in the green economic transition Work on resource efficiency and circular production has helped more than 400 companies to improve their environmental footprint



EXPERT OPINION

Going GreenToCompete

By Sarah Mohan, Associate Programme Officer,
and Barbara Ramos, Chief Research and Strategies for Exports, ITC

Climate change impacts follow an inequitable path. Micro, small and medium-sized enterprises (MSMEs) in developing countries face physical climate threats, such as extreme weather events. They will also be at the receiving end of measures being negotiated to counter the damage of a warming planet. Governments are designing regulations to reduce emissions. Lead buyers are seeking suppliers with climate credentials (Lund *et al.*, 2020). Climate-related trade policies could eventually affect developing country exports.*

In this context, many MSMEs perceive environmental change as a competitiveness risk. On average, 68 per cent of the companies interviewed for the International Trade Centre (ITC) SME Competitiveness Surveys in sub-Saharan Africa cited significant physical environmental risks to their businesses, higher than the 54 per cent in developed countries that said the same (AXA Group and UNEP, 2015; ITC, 2019). Policy was also a concern, with a quarter of MSMEs perceiving environmental regulation as an obstacle to their business.

Although many MSMEs are concerned about the consequences of a changing climate, most have not yet invested in measures to prepare for it. Sixty per cent of large firms reported that they had invested in at least one measure to reduce exposure to environmental risks, according to ITC data. In comparison, just 38 per cent of MSMEs had done so.

ITC is working to put MSMEs on the winning side of the balance sheet of the planet's future. GreenToCompete is ITC's strategy to support MSMEs in developing countries in leveraging trade for a green transition. With a focus on climate change, circularity and biodiversity, GreenToCompete supports countries at three levels: the firm, business ecosystem and policy.

First, ITC enables MSMEs to compete through business practices and green finance that grow solutions to environmental challenges. Second, ITC collaborates with business ecosystem stakeholders, including market partners, to unlock the services and connections that MSMEs require to realize green business opportunities. Finally, ITC support builds the capacity of stakeholders in developing countries to advocate for MSME interests in climate policy frameworks.

ITC's Climate Competitiveness Assessment Tool, resource efficiency and circular economy coaching, and Standards Map, among others, are helping MSMEs augment their climate competitiveness. By placing MSMEs at the core of a green transition, it is possible both to address the climate crisis and to build the competitiveness of the businesses on which much of the global population depends.

* These measures, known as border carbon adjustments, have to date excluded most relevant sectors for MSMEs in developing countries. However, there may be long-term implications for developing countries and MSMEs within them (see UNEP/WTO (2009) and <https://intracen.org/news-and-events/events/demystifying-the-eus-carbon-policies-and-impact-on-trade>).

Financing environmental objectives in trade and sustainable development strategies

Climate finance

Climate finance is increasingly intertwined with Aid for Trade financing, notably in the area of renewable energy infrastructure. Energy poverty is a critical supply side constraint for many developing countries and one of many points of intersection between Aid for Trade and climate finance.

Engagement between the public and private sector to help to finance the transition to a low-carbon economy is on the rise. This is an area where Aid for Trade, and various key stakeholders, can play a catalytic role by helping to mobilize finance for green supply-side infrastructure and by supporting the private sector to take advantage of opportunities in the low-carbon economy.

Mobilizing the private sector

Private climate finance is a target area for growth as identified in the *Glasgow Climate Pact*³, which “calls upon multilateral development banks, other financial institutions and the private sector to enhance finance mobilization in order to deliver the scale of resources needed to achieve climate plans, particularly for adaptation”.

“COP26 highlights an increasing focus on engaging the private sector as an actor to attain net zero targets and to mobilize finance.”

COP26 also highlighted an increasing focus on engaging the private sector as an actor to attain net zero targets and to mobilize finance to achieve these goals, through initiatives such as the Glasgow Financial Alliance for Net Zero, which comprises over 450 firms in 45 countries that control US\$ 130 trillion in assets. It commits signatories to set robust, science-based near-term climate change targets.

Various outcomes agreed at COP26 involve private-sector commitments, and other initiatives include:

- the Global Energy Alliance for People and Planet, led by the Rockefeller Foundation, which aims to extend clean productive-use energy to 1 billion underserved people;
- the Climate Finance Partnership Fund, run by BlackRock, which actively seeks to engage the private sector;
- over 30 financial institutions with US\$ 8.7 trillion of global assets, which have committed to eliminating investment in activities linked to deforestation;
- six major vehicle manufacturers and over 30 countries agreed to hasten the decarbonization of road transport through a global shift to zero-emission vehicles by 2040.

According to the Climate Policy Initiative (Macquarie *et al.*, 2020), private-sector climate-related activities are most common in:

- renewable energy investment (mainly on-shore wind and solar photovoltaic, but also geothermal, modern biomass, small hydroelectricity and biofuels to a lesser extent);
- energy efficiency investment (energy saving investment for housing, buildings, transport and industry);
- waste management.

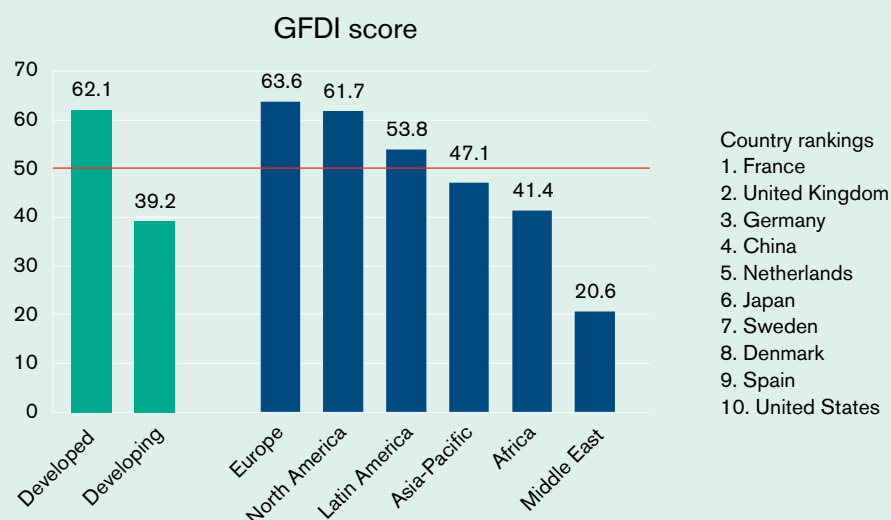
Global green finance development index

The global green finance development index (GFDI), jointly developed by the International Finance Forum (IFF) and the International Institute of Green Finance (IIGF) of the Central

University of Finance and Economics, Beijing, is a quantitative measure of progress focusing on three areas: policy and strategy; product and market; and international cooperation. It aims to provide consistent information on the global development of green finance (see Box 5).

Box 5

Global green finance development index and country rankings



The results show that the development of green finance is uneven, with an average GFDI of 50 for the 55 countries surveyed (see red line), and is highest for developed countries and the regions of Europe and North America.

The IFF points to a number of issues and challenges in global green finance development, as well as some possible solutions, including:

- putting in place an effective policy framework;
- promoting financial innovation to develop more diversified green finance products and services;
- promoting harmonization in definitions and disclosure standards;
- strengthening international cooperation in developing green finance.

Source: IFF (2021).

The International Finance Forum (IFF, 2021) finds:

“Despite the encouraging progress, green finance development faces many challenges. These include uneven development across countries, limited diversity in products and services, lack of consistency in green finance definitions and disclosure standards, and the negative impact of the COVID-19 pandemic. To address these challenges, the report calls for continued policy support, more financial innovations to develop diversified green finance products and services, and greater harmonization of green finance definitions and disclosure standards within and across countries. It also calls for closer international cooperation, especially in harmonizing definitions and standards, promoting sound investment principles and practices, developing human capital and

building capacity, facilitating climate-related financial flows to low-income and vulnerable countries, and improving green finance statistics and data collection.”

South–south partners and Aid for Trade financing

South–south partners are also integrating environmental concerns into their Aid for Trade financing. In 2021, China issued the *Green Development Guidelines for Overseas Investment and Cooperation*⁴ (see Box 6) and a report on China's Belt and Road Initiative states that 2020 was the first year that renewable investments in Belt and Road countries exceeded investments in coal, and that for the first half of 2021, these countries did not receive any coal-related financing (Nedopil Wang, 2022).

Floating solar photovoltaic panels in Viet Nam.



Box 6

Green Development Guidelines for Overseas Investment and Cooperation

In 2021, the Government of China issued a policy to encourage Chinese businesses to integrate green development throughout the whole process of overseas investment and cooperation. The Green Development Guidelines for Overseas Investment and Cooperation* was jointly issued by the ministries of commerce and Ecology and the Environment.

The guidelines recommend that Chinese enterprises “follow international green rules and encourages “companies to adopt international or Chinese standards in investing activities where local laws and regulations are non-existent or too lenient.” The guidelines encourage the practice of environmental impact assessments in accordance with internationally accepted standards. By including the three environmental aspects of pollution control, ecological protection and climate change, the guidelines break new ground by aligning Chinese overseas investment with the Paris Agreement.

The guidelines recommend that Chinese businesses support investments in solar, wind and other forms of clean energy. The guidelines also cover trade, by requiring companies to speed up integration with the global green supply chain, carry out green procurement and purchase environmentally friendly products and services. The guidelines are specifically addressed to some of the most important financial institutions: the China Development Bank, the Import–Export Bank of China and the China Export and Credit Insurance Corporation (Sinosure).

In June 2021, the Belt and Road Initiative International Green Development Coalition, ClientEarth and the Beijing Institute of Finance and Sustainability conducted a two-day workshop on environmental and climate risk mitigation with the largest financial institutions in the Belt and Road Initiative. Although the process is not without difficulties, these institutions are developing key policies, such as categorization of projects based on environmental risks, requirements for environmental standards, impact assessments, third-party evaluations, information disclosure and public participation, grievance mechanisms, and even potential fossil fuel exclusion policies.

Source: Text adapted from https://en.ndrc.gov.cn/news/mediarresources/202108/t20210810_1293453.html.

* See <https://www.clientearth.org/latest/documents/green-development-guidelines-for-overseas-investment-and-cooperation-english-translation>.

Spotlight: WTO work on trade and environment

The 1994 Ministerial Decision on Trade and Environment* created the Committee on Trade and Environment (CTE):

- “(a) to identify the relationship between trade measures and environmental measures, in order to promote sustainable development;
- (b) to make appropriate recommendations on whether any modifications of the provisions of the multilateral trading system are required, compatible with the open, equitable and non-discriminatory nature of the system”.

The CTE is open to the entire WTO membership, with some international organizations as observers. With its broad mandate, the CTE has contributed to identifying and understanding the relationship between trade and the environment in order to promote sustainable development. Although the CTE has not recommended any changes to the rules of the multilateral trading system, its work has led to some trade and environment issues migrating to negotiations.

WTO joint initiative on trade and environment

In November 2020, a group of 50 WTO members announced their intention to intensify work on trade and environmental sustainability at the WTO by organizing “structured discussions” for interested WTO members as well as a dialogue with external stakeholders.** The Trade and Environmental Sustainability Structured Discussions (TESSD) are intended to complement the work of the CTE and other relevant WTO bodies and to support the objectives of the WTO, which envisages a global trading system that protects and preserves the environment in accordance with sustainable development.

The Ministerial Statement on the TESSD initiative***, adopted in 2021, sets out future work in areas such as trade and climate change, trade in environmental goods and services, the circular economy and sustainable supply chains. There are currently 71 WTO members participating in the initiative, including members from all regions and at all levels of development.

* See Annex II of *Meeting at Ministerial Level*, GATT document MTN.TNC/45(MIN), 6 May 1994.

** *Communication on Trade and Environmental Sustainability*, WTO document WT/CTE/W/249, 17 November 2020.

*** *Trade and Environmental Sustainability Structured Discussions (TESSD)*, WTO document WT/MIN(21)/6/Rev.2, 14 December 2021.



EXPERT OPINION

Green industrial development: just transitions to green energies and circular economies

Nilgün Tas, Deputy Director, Department of Environment, and Chief, Industrial Resource Efficiency Division, United Nations Industrial Development Organization (UNIDO)

Aid for Trade partner countries prioritize industry and United Nations Sustainable Development Goal 9 in efforts to achieve economic and export diversification, and note that industry may face the biggest sustainable development challenge. UNIDO is, however, convinced that we have most of the technologies, knowledge and skills to both maintain economic growth and to address the triple global crises of climate change, biodiversity loss and pollution. Just transitions to green, low-carbon economies in least-developed and developing economies will require partnerships, collaboration, capacity building and finance for engaging in green product and energy markets.

A green energy transition is a must to address about half of carbon emissions. UNIDO's Global Green Hydrogen Programme and Partnership* promotes green hydrogen to support inclusive and sustainable industrial development and commitments under the Paris Agreement on Climate Change.

Just transitions to green energies and circular economies are two sides of the same coin. The other half of carbon emissions and 90 per cent of land-related biodiversity loss are due to resource use for products we all consume to satisfy societal needs: from nutrition to housing, infrastructure, mobility, transport, consumer and capital goods, communications and all other services (IRP, 2019).

Wasting a product, part or material that can be reused, repaired, refurbished, remanufactured, recycled many times over or regenerated in nature creates huge economic losses, in addition to adverse environmental and health impacts.

Industries and firms that improve resource efficiency and implement circular economy practices produce sustainable and circular products, save costs, improve their competitiveness and

resilience, and create decent jobs, while safeguarding the environment. UNIDO's resource efficient and cleaner production (RECP) and transfer of environmentally sound technology (TEST) programmes that have spanned the globe since 1994 provide ample evidence of these co-benefits.

In Indonesia, 149 small and medium-sized enterprises (SMEs) save US\$ 19.6 million per annum, accompanied with 350 thousand tonnes of greenhouse gas emissions, 2.6 million m³ of water and reduce 2.2 million m³ wastewater emissions annually.** In a TEST programme in the Southern Mediterranean, 125 SMEs saved €41.7 million per annum, with associated environmental benefits (UNIDO, 2020). UNIDO's Global Eco-Industrial Parks Programme (GEIPP) targets existing industrial parks and support the circularity actions of the SMEs based there to create similar co-benefits.†

Industry is a core player in circularity on the supply side, although governments have the most important role. Only they can create favourable environments for businesses to engage in circular practices and enable consumers to push up demand for circular products and adopt sustainable lifestyles, as demonstrated by members of the Global Alliance on Circular Economy and Resource Efficiency (GACERE).††

International trade has the potential to become a key enabler of just transitions green energies and circular economy. Common definitions and classifications for green and circular products as they cross borders (e.g. remanufactured goods), trade facilitation (e.g. digitalization) to enhance traceability and transparency in supply networks, and integration of circularity across trade and economic cooperation agreements will go a long way in closing circles globally.

* See <https://www.unido.org/green-hydrogen>.

** See https://www.unido.org/sites/default/files/files/2020-11/INS-100224_RECP_TE-2019.pdf.

† See <https://hub.unido.org/about-eco-industrial-parks>.

†† See <https://www.youtube.com/watch?v=OYgasG8UWWo>.

Multilateral development bank commitments

African Development Bank Group

The African Development Bank Group launched its Climate Change and Green Growth Framework at COP26. The framework comprises a strategic policy, a long-term strategy for 2021-2030 and a five-year action plan for 2021-2025. Targets include:

- allocating 40 per cent of project approvals to climate finance by 2021, with equal proportions for adaptation and mitigation;
- including climate finance into all bank investments;
- securing significantly increased access to climate finance for low-income African countries (a target of US\$ 25 billion by 2025) and positioning Africa's financial sector at the forefront of financing innovations.

Asian Development Bank

Environmental concerns form a core priority of the Strategy 2030 (ADB, 2019a):

"Key responses identified under operational priority 3 of Strategy 2030 include scaling up support to address climate change, disaster risks, and environmental degradation; accelerating low GHG emission development; ensuring a comprehensive approach to build climate and disaster resilience; ensuring environmental sustainability; and increasing focus on the water-food-energy nexus."

As part of its sustainability initiatives, the ADB Trade and Supply Chain Finance Program ensures alignment with global environmental standards and helps the promotion of standards among partner banks. Environmental dimensions are also incorporated in regional cooperation and integration plans and a 2022 guidance note (ADB, 2022).

Asian Infrastructure Investment Bank

The Asian Infrastructure Investment Bank (AIIB) announced a target of 50 per cent of overall approved financing by 2025 will be directed toward climate finance as part of its commitment

to align operations with the goals of the Paris Agreement by 1 July 2023.⁵ In October 2021,⁶ AIIB reported:

- expanded focus on adaptation and resilience;
- climate finance accounted for 41 per cent of the infrastructure portfolio in 2020;
- cumulative climate finance approvals of US\$ 50 billion by 2030.

European Bank for Reconstruction and Development

The EBRD Green Economy Transition aims to achieve a green finance ratio of more than 50 per cent of its annual investments by 2025 (EBRD, 2020b), which will involve:

- aligning with the Paris Agreement
- enhancing policy engagement to develop long-term, low-carbon strategies and climate-resilient pathways
- innovating across thematic areas, including green financial systems, industrial decarbonisation, sustainable food systems, energy systems integration, cities and environmental infrastructure, sustainable connectivity, green buildings and natural capital".

The EBRD's approach seeks to use the full range of the EBRD's financial instruments and work closely with donors such as the Climate Investment Fund, the European Union, the Global Environment Facility, the Green Climate Fund and other bilateral donors.

Inter-American Development Bank

The IDB points to Vision 2025 as an example of an institutional strategy prioritizing the environmental dimension (IDB, 2021a), with actions to foster resilience, climate change mitigation and adaptation as one of the five pathways to accelerate recovery from the COVID-19 pandemic.

In addition, the IDB *Climate Change Action Plan 2021-2025* seeks to allocate USD 24 billion to climate and green finance projects as part of the IDB's annual minimum 30 per cent climate-finance goal (IDB, 2021b). The action plan seeks to support members through the following:

- policy support building on efforts to support the revision of nationally determined contributions;
- alignment of its operations with the Paris Agreement;
- mitigation and temperature goals focusing on making operations consistent with members' low-carbon development pathways;
- adaptation and climate-resilience to manage physical climate change risks;
- identifying opportunities to make operations more climate resilient;
- scaling up climate finance and operationalizing approaches to bridge the climate-finance gap and effectively support countries and private-sector clients to accelerate the transition to sustainable development;
- reporting on activities responding to climate change;
- building on the multilateral development bank climate-finance methodology;
- internal actions to align its corporate activities with decarbonization and climate resilience objectives.

Islamic Development Bank

The Islamic Development Bank refers to its *2020-2025 Climate Change Action Plan* (IsDB, 2020)⁷:

"The 5-Year Climate Change Action Plan sets out how the IsDB mandate on climate change will be implemented with its clients and various stakeholders in line with the Paris Agreement and the MDB Paris Alignment Framework. It also sets out modalities for achieving IsDB's climate finance target of 35% by 2025.

"The Bank is increasing its effort to ensuring that all its activities and operations contribute to the global Paris agreements goals by systematically integrating climate mitigation opportunities and adaptation measures in its investments and lending operations. This includes jointly working with other MDBs for a harmonized approach to Paris Alignment.

A shopkeeper has electricity until 11pm in her neighbourhood as a result of a community project in Port-au-Prince, Haiti.



To create sustainable systems, climate considerations have been mainstreamed in the Bank's different sector policies and related operational strategies, including agriculture and rural development, energy, transport, health, urban development and water policies."

World Bank

The *Climate Change Action Plan 2021-2025* (World Bank, 2021a) aims to advance its green, resilient and inclusive development approach. Through the action plan, the World Bank Group (WBG) "will support countries and private sector clients to maximize the impact of climate finance, aiming for measurable improvements in adaptation and resilience and measurable reductions in GHG emissions" (World Bank, 2021a):

"The new Action Plan represents a shift from efforts to 'green' projects, to greening entire economies, and from focusing on inputs, to focusing on impacts. ...The WBG is committed to aligning its financing flows with the objectives of the Paris Agreement ... that is consistent with pathways toward low-carbon and climate-resilient development."

The WBG will align all new operations starting 1 July 2023, where an operation is considered aligned when (World Bank, 2021a):

"(i) on climate mitigation, it actively contributes to decarbonization pathways (e.g., renewable energy) or supports activities that do no harm (e.g., education system reform); and (ii) on climate adaptation and resilience, it fully addresses climate risks. Operations that neither harm nor contribute to climate outcomes are considered aligned so long as they fully address any exposure to climate risks and are not inconsistent with country policies on low-carbon, resilient development. Operations that are considered universally non-aligned include the mining of thermal coal, electricity from coal, extraction of peat, and electricity from peat. The WBG announced in 2017 that it will no longer finance upstream oil and gas projects starting in 2019; it has not financed any oil pipelines since 2014."



Women at a community meeting discuss the reconstruction of their village, Yogyakarta, Indonesia.



Renowned for its durability and elegance, teak is a valuable resource, Jepara, Indonesia

Endnotes

1. See https://www.wto.org/english/news_e/spno_e/spno24_e.htm.
2. See https://unfccc.int/sites/default/files/resource/cma2021_L16_adv.pdf.
3. *Ibid.*
4. See <https://www.clientearth.org/latest/documents/green-development-guidelines-for-overseas-investment-and-cooperation-english-translation>.
5. See <https://www.aiib.org/en/about-aiib/who-we-are/infrastructure-for-tomorrow/green-infrastructure/climate/index.html>.
6. See <https://www.aiib.org/en/news-events/news/2021/AIIB-to-Fully-Align-with-Paris-Agreement-Goals-by-Mid-2023.html>.
7. See <https://www.isdb.org/climate-change>.