

Environment, Sustainable Development and Aid for Trade

Aid for Trade Workshop
Tuesday, 31 March 2022



AID FOR TRADE Examen Global Review
AIDE POUR LE COMMERCE
AYUDA PARA EL COMERCIO

27 – 29 July 2022

Introduction

- Greenhouse gas emissions are already at the highest recorded levels in human history
- If measures are not taken to avoid global warming, irreversible impacts on natural and human systems will take place (IPCCC, 2022)
- Immediate and deep emission cuts are therefore required to limit global warming to limit temperature rises below 2°C by 2050
- A global response to this threat is evident. In the Glasgow Climate Pact, the outcome document of COP26 last year, **197 countries** emphasized:

“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... taking into account the priorities and needs of developing country Parties”

This urgency is reflected in the responses to the 2022 joint OECD-WTO Monitoring and Evaluation exercise

Mainstreaming environment in development strategies

- Responses highlight that respondents are integrating environmental issues in national strategies
- 51 of 53 (96%) developing countries that responded to the questionnaire indicated that environmental objectives are featured in development strategies.

Table: Regional breakdown of environmental objectives in trade strategies

Group	Number of responses	Percentage share per group
LLDC	12	100%
UN SIDS	9	100%
LDC	27	93%

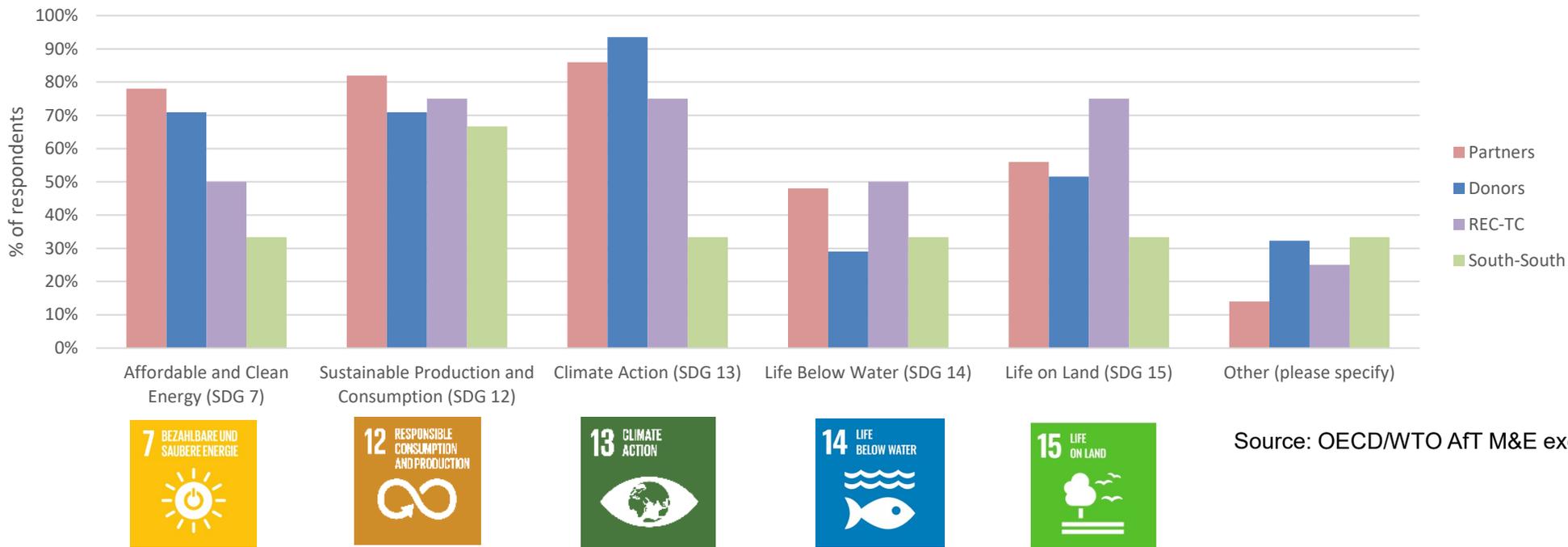
Source: OECD/WTO AFT M&E exercise (2022)

- **All** donors observed that environmental objectives was included in their development strategies

Environmental dimension of sustainable development reflected in national strategies

- Action on climate change is the spur for action, but the focus on environment issues goes beyond climate concerns
- Environment-specific SDGs feature in national development and aid for trade strategies

Figure: The existence of Development strategies explicitly targeting SDG Goals



In fact, the emphasis on SDG12 and SDG 13 aligns with headline recommendations of the IPCC 6AR

Source: OECD/WTO Aft M&E exercise (2022)

- *Responses reveal that progress is being made in integrating trade into sustainable development strategies and vice versa*
- **45 developing countries** (88%) indicated that national strategies include trade objectives. On a regional level:

Table: Regional breakdown of trade objectives addressing the environmental dimension

Region	Number of responses	Percentage share per region
Pacific	6	100%
Asia	6	86%
Africa	21	91%
LACS	4	67%

Source: OECD/WTO AFT M&E exercise (2022)

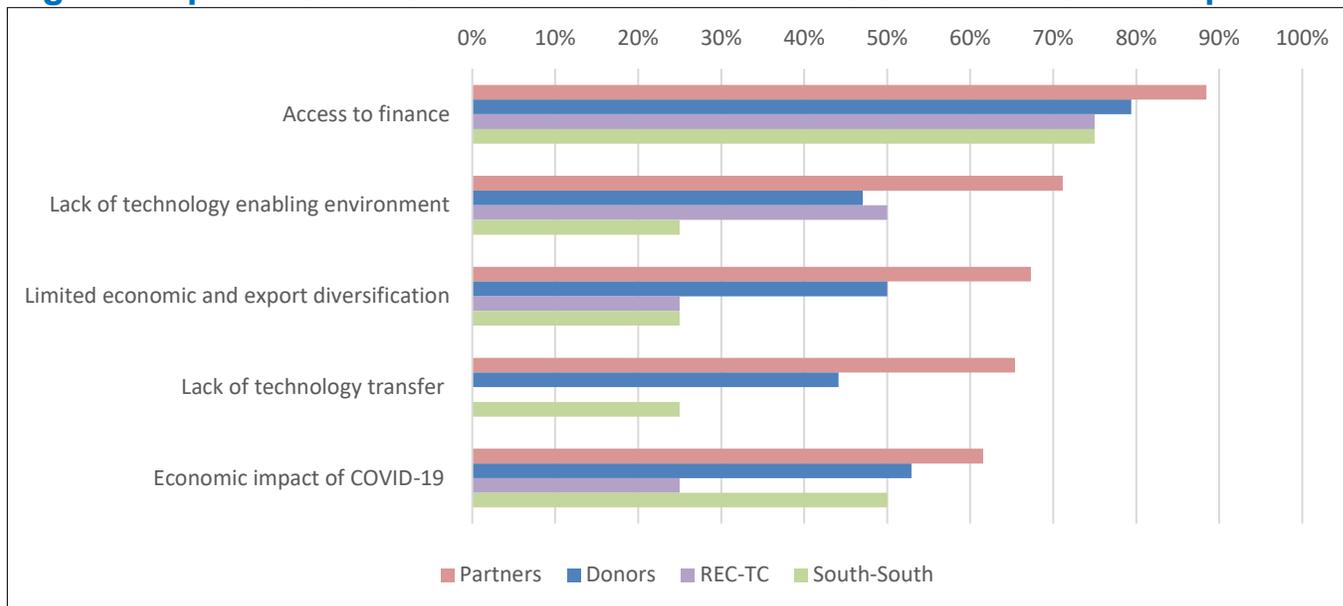
Countries dependent on forestry, fisheries and agricultural exports particularly link trade and sustainable development as integrated objectives

- Most references are structured as statements of intent with limited specify
- A lack of **clear targets** to measure progress towards environmental objectives

Additional factors hold back environmental mainstreaming

- Access to finance was perceived as a pressing issue in the context of a sustainable transition
- Escalating debt concerns due to the pandemic may heighten financial inaccessibility
- Infrastructural gaps and a lack of technology transfer options were pointed to as additional challenges

Figure: Top 5 obstacles to the transition towards sustainable development



*"We are in the process of setting up institutional frameworks to fight climate change...however, there is a deficit in mitigation and adaptation projects due to the lack of funding capacity, **as well as the lack of scientific knowledge about the expected effects of climate change on the country.**"*

- Democratic Republic of Congo

Circular Economy: An emerging area of focus

- Twenty three developing country respondents (43%) and 22 donors (63%) signalled that circular economic strategies are embedded into domestic policy frameworks
- 10 LDCs also indicated that circular economy was included in domestic policies

Table: Regional breakdown of Circular Economy strategies in place

Region	Number of responses	Percentage share per region
LACS	6	67%
Asia	5	45%
Africa	10	40%
Pacific	2	33%

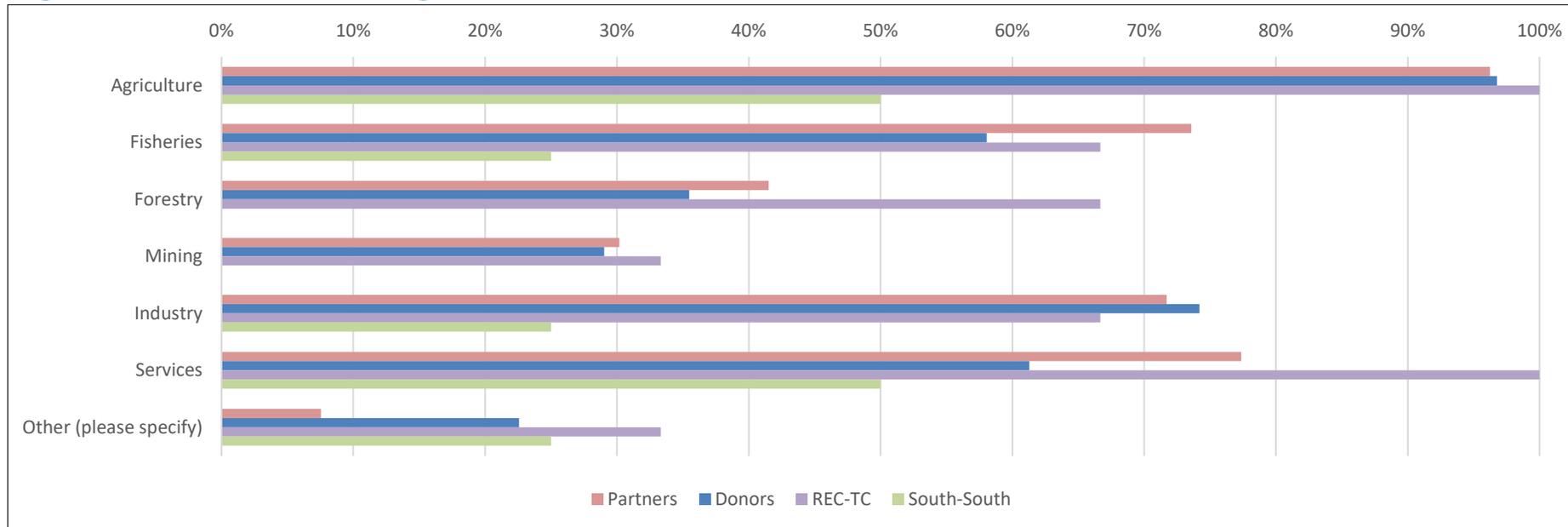
Source: OECD/WTO Aft M&E exercise (2022)

- However, progress is at a **formative stage**
- Responses reveals that most stakeholders associate circular economy with waste management practices
- Other aspects such as Product Life Extension (PLE) and Product-as-a-Service need to be further investigated

Sectoral Opportunities from a sustainable transition exist...

- Agriculture was highlighted as sector with high economic and export diversification potential from an environmental transition
 - Fifty one developing country partners (96%) and 30 donors (97%) indicated the same

Figure: Sectors that would gain the most as a result of a sustainable transition



Generally, perceptions align with factor endowments

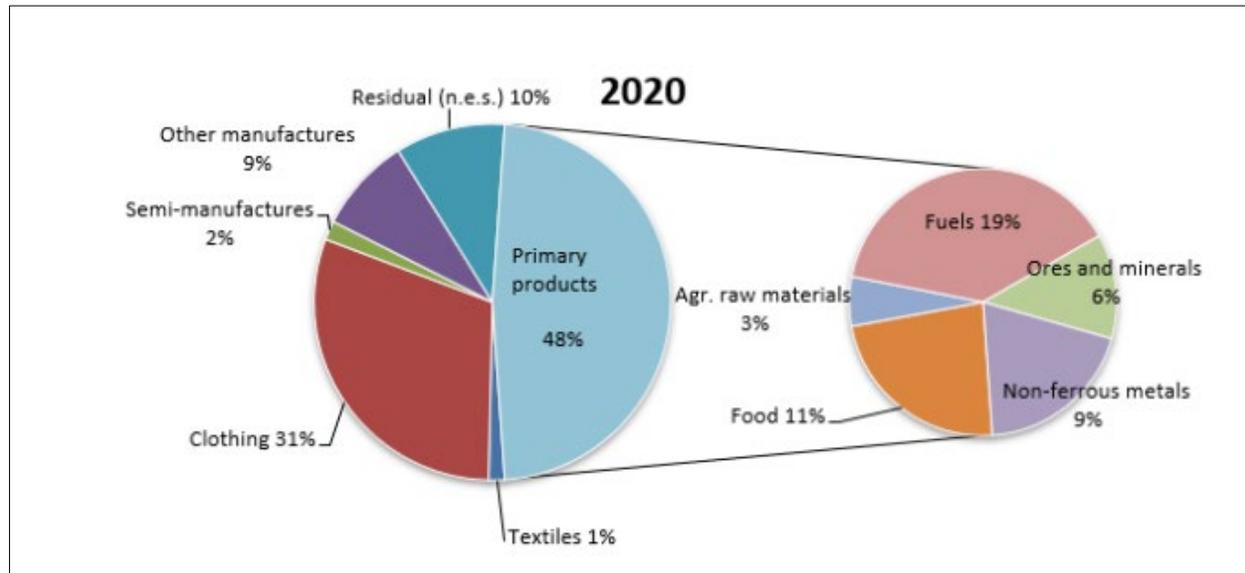
While certain sectoral challenges remain...

- **Industry, Mining and Agriculture** were pointed to by 30 developing countries as economic sectors facing the biggest challenge in the transition to sustainable development
- This is indicative of challenges in reframing sectoral activities in a sustainable manner, with value added potential
- Developing countries, especially LDCs, wield high primary product dependency. This can be inferred in Figure below

Sectoral challenges observed in the M&E exercise:

- MSMEs may struggle to comply with new regulations introduced by export destinations
- Industrialization transformation requires regulations, standards, certifications, environmental care, etc. also constitutes important challenges
- Environmental impact study methods may need to be reworked to comply with new requirements
- Difficulties in finding investments for the transition to sustainable development

Merchandise Export Structure of LDCs

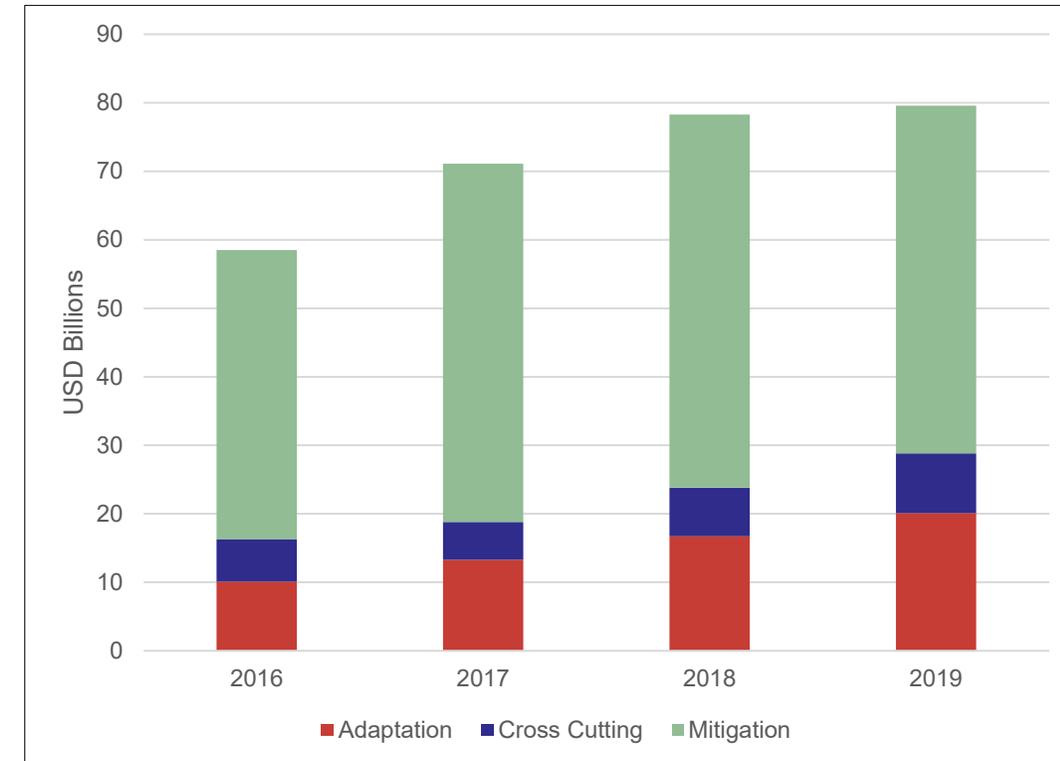


Source: WT/COMTD/LDC/W/69

Future trajectories in climate-oriented development finance

- Climate finance measures are intertwined with aid for trade financing.
- Though climate finance has seen an upward trend in recent years, it has fallen short of the USD 100 billion target set at COP 15 in 2009
- The OECD declaration to align development cooperation with Paris Agreement goals may help to accelerate resource mobilization
- Similarly, aligning donor commitments to the “Climate Finance Delivery Plan” can help to meet the USD 100 billion target by 2023

Figure: Thematic split of climate finance provided and mobilized



Source: OECD (2021)

Importance of climate finance for developing countries was highlighted by DG Okonjo-Iweala in her remarks in Davos on May 25

Mobilizing Private Sector to Attain Climate Goals

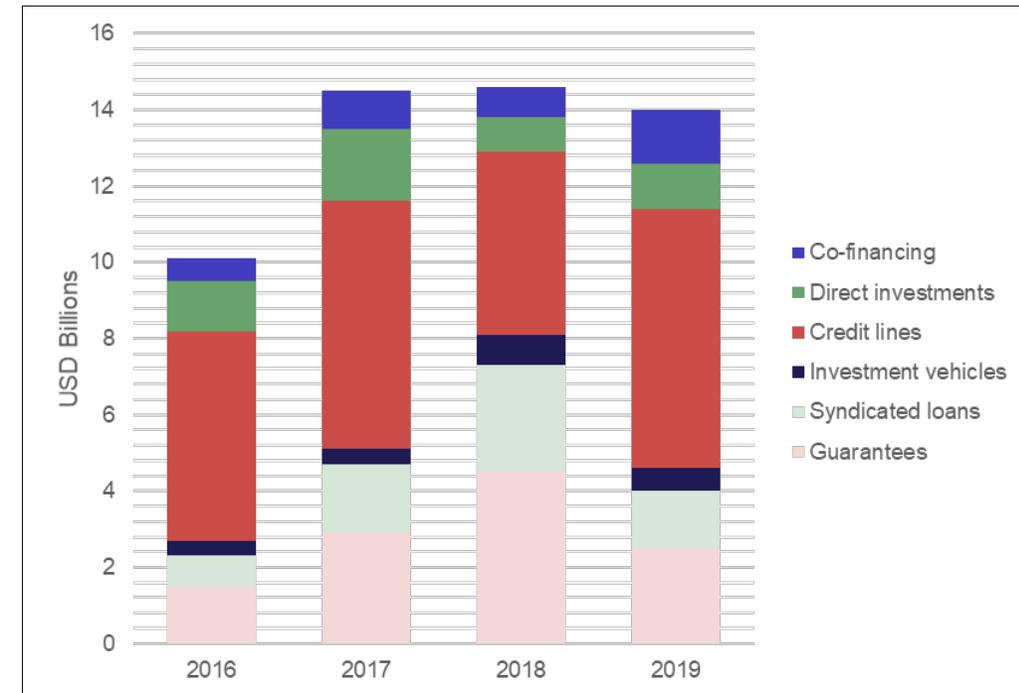
- Private sector financing has witnessed increased traction as of late
- Mobilizing the private sector is a critical target area for the Glasgow Climate Pact, which:

“Encourages Parties to continue to explore innovative approaches and instruments for mobilizing finance for adaptation from private sources”



Aid for Trade can play an important role in mobilizing private finance to take advantages of a net-zero economy

Figure: Private finance mobilised per mechanism



Source: OECD (2021)

Conclusion

- Responses to the 2022 WTO OECD M&E exercise suggests a growing awareness of risks associated with climate change
- This awareness is spurring action to integrate environmental objectives in developing objectives
- But the process remains at a formative stage with limited specificity and broad objectives
- Greater understanding of the opportunities and challenges in enabling a transition to sustainable development
- The circular economy is an emerging area of interest for both developing countries and financial partners
- Climate finance, increasingly intertwined with aid for trade financing, can be expected to increase over the coming years
- Aid for trade can play an important role by helping to support the private sector take advantage of opportunities during a net zero transition