AID FOR TRADE AND GREEN GROWTH: STATE OF PLAY

AGENDA ITEM 7

Joint Meeting of the Development Assistance Committee and the Working Party of the Trade Committee on Aid for Trade
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This paper has been revised based on comments received specifically around the issue of technology transfer.

The paper provides details on the OECD green growth strategy and focuses on what lessons the aid-for-trade community can learn from this work. The paper reviews the current literature on aid for trade and green growth as well as broader work on green growth and developing countries and the role of development co-operation. It provides an overview of the aid-for-trade flows that support environmental objectives with examples of particular projects. The paper highlights that environmental objectives have long been articulated in aid programmes and that although ODA is a relatively minor contributor to green growth, its role can be catalytic.

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EXECUTIVE SUMMARY

This paper provides details on the OECD green growth strategy and focuses on what lessons the aid-for-trade community can learn from this work.

Trade is an important part of the development dimension of the strategy; from the transfer of technology to the transfer of skills, knowledge and behaviours. Climate change and policies taken to mitigate it will shift patterns of comparative advantage. These potential changes in trade patterns, including new opportunities arising from achieving low-carbon standards, need to be integrated in the aid-for-trade agenda.

This paper reviews the current literature on aid for trade and green growth as well as broader work on green growth and developing countries and the role of development co-operation. In addition, it provides an overview of country views, aid-for-trade cases stories and the aid-for-trade flows that support environmental objectives with specific examples of particular projects.

The analysis highlights that environmental objectives have long been articulated in aid programmes and that ODA -although a relatively minor contributor to green growth- can play a catalytic role. Introducing a stronger focus on the objective of green growth in development cooperation thus reinvigorates the need for holistic development policies, such as aid for trade.

This discussion will continue and be further explored at the WTO Committee for Trade and Development, through the OECD Green Growth and Developing Countries Report and through global efforts at Rio +20.
AID FOR TRADE AND THE GREEN GROWTH AGENDA

1. Introduction

1. During the Second Global Review of Aid for Trade in 2009, OECD Secretary-General Gurría said that aid for trade should contribute to a cleaner environment and more sustainable growth. “Aid for trade can play a big role in supporting those development goals we all share... it can also help developing countries build capacities that in turn can contribute to a healthier environment and to fighting poverty.”1 His call was further re-enforced at the Third Global Review in 2011 by WTO Director-General Pascal Lamy who stressed the importance of explaining why aid for trade can support broad policy objectives climate change adaptation, energy generation and sustainable development. In so doing “we will be promoting deeper coherence within the Initiative and with the broader international context.”2

2. Many problems are global in nature and can only be addressed through international co-operation - an integrated approach is needed to tackle climate change, energy sustainability, biodiversity loss, food security and poverty alleviation. Yet often policy responses are incoherent and fragmented. UN Secretary General Ban Ki-moon emphasised this point at the Third Global Review when he called for a more comprehensive resolution of interconnected global challenges and suggested that aid for trade was transcending artificial divides. Therefore, one solution to these issues will mean a solution for all. In particular, “if we address climate change properly, I think we can do much better to address all other remaining issues, including aid-for-trade issues.”3

3. It is with a view to tackling some of the great challenges facing the world that the OECD launched work on a Green Growth Strategy (GGS). In June 2009, a Ministerial Declaration on Green Growth was signed by all OECD Members acknowledging that ‘green’ and ‘growth’ can go hand-in-hand. Ministers tasked the OECD with developing a Green Growth Strategy bringing together economic, environmental, technological, financial and development aspects into a comprehensive framework. In May 2011, Ministers endorsed the strategy which suggests that green growth can open up new sources of growth through greater efficiency and productivity of natural resources, innovation, and new markets for green technologies, goods and services.

4. The active participation of developing countries in achieving global green growth is essential but this can occur only if green growth delivers economic growth and development benefits to them in a rapid and sustainable manner. Trade is an important aspect of the development dimension of the GGS and indispensable for accelerating the diffusion of green growth. Aid for trade will help ensure that trade plays this key role in transmitting new knowledge, technology and behaviour to developing countries. OECD Ministers recognised the importance of aid for trade for this agenda witnessed by their declaration at the 2010 Ministerial Council Meeting that “in light of our shared interest in fostering sustainable and inclusive growth, we will pursue efforts to facilitate trade and investment in environmental goods and services and to promote effective Aid for Trade.”

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1 www.oecd.org/document/21/0,3343,en_2649_33721_45260693_1_1_1_1,00.html
2 www.wto.org/english/news_e/sppl_e/sppl201_e.htm
5. This paper reviews the current literature on aid for trade and green growth as well as broader work on green growth and developing countries and the role of development co-operation. It provides an overview of the aid-for-trade flows that support environmental objectives with examples of particular projects under each category of aid for trade. The paper highlights that environmental objectives have long been articulated in aid programmes and that although Official Development Assistance (ODA) is a relatively minor contributor to green growth, its role can be catalytic and be used to support private sector development as well as stimulating investment and trade flows.

6. The remainder of this note is structured as follow. Section 2 discusses green growth and developing countries by setting out the issues and current literature as well as the forthcoming OECD report on Green Growth and Developing Countries. Section 3 reviews previous development co-operation efforts promoting sustainable development and green growth. Section 4 looks at the potential contribution of aid for trade to green growth and shows that some donors are already well advanced in designing aid-for-trade projects that attempt to balance economic development with sustainability and environmental improvement. Section 5 presents country views based on the 2011 aid-for-trade self assessment, cases stories. Section 6 analyses the 2008-2009 average environment related aid for trade commitment and lists some specific programmes and project. Section 7 offers some preliminary conclusions about aid for trade and green growth and points towards next steps.

2. Green Growth and Developing Countries

7. In fifty years, 3.4 billion people in developing countries will approach advanced country income levels with consumption, energy use, and emissions patterns to match (Spence, 2009). Therefore actions must be taken today to ensure that this economic growth is sustainable. Although today most developing countries contribute only minor shares to global greenhouse gas emissions, they will increase their emissions if they followed conventional economic growth patterns. Thus co-operation of developing countries is essential in efforts to move towards global green growth. This requirement is clearly recognised in the OECD Green Growth Strategy (GGS). But there is no “one-size-fits-all” prescription for implementing a green growth strategy. Advanced, emerging, and developing countries will face different challenges and opportunities in greening growth, as will countries with differing economic and political circumstances (OECD, 2011a). The OECD is further elaborating the implication of adopting the green growth concept for developing countries in its forthcoming report ‘Green Growth and Developing Countries Report.’ This report will bring together OECD-wide experience and expertise, building on its strengths in statistics, policy advice and indicators.

8. The report provides a conceptual outline for green growth in a developing country context. It does not limit itself to one category of developing countries; rather it strives to be as relevant as possible to both low and middle income countries. It reviews economic growth and environmental trends over recent years and speculates on how economic and social trends will evolve in the years to come. Based on this evidence, country clusters are established for analysis of countries which require similar approaches to foster green growth. Relevant national frameworks and a range of policy instruments, national and local, public and private, are articulated and details of how these can be supported by the international community through existing mechanisms and policy coherence for development will be set out. Work will also commence on how progress could be assessed – including through existing and new indicators and statistical capacity building to generate the relevant data.

9. Research related to green growth or the ‘green economy’ is already underway at global, regional and national levels. Although the exact terminology used differs, the ultimate objective is the same. Namely, to build a strategic green growth framework which could potentially deliver higher income, create jobs and sustain wealth while limiting the degradation of natural capital. UNEP’s report ‘Towards a Green Economy’ (2011) focuses on ten key economic sectors driving the transition to a green future. The World
Bank’s upcoming ‘Green Growth Report’ will examine the implications of green growth policies on physical, natural, human and social capital.

10. At regional level, UNESCAP (2008) has undertaken analytical work on what green growth means for the Asia-Pacific region through four pillars – eco-tax reform, sustainable infrastructure, greening of business and sustainable consumption. A recent report launched by the Asian Development Bank (2011) highlighted its strategic directions in supporting sustainable infrastructure, improving natural resource management and maintaining ecosystem integrity, and building environmental governance capacity in the Asia-Pacific region. In Africa, the UNECA, the African Development Bank and the African Union have all been active in promoting green growth. In fact a Green Growth Declaration was recently agreed to synergise environmental sustainability and economic growth in order to deliver more effective development benefits, such as poverty reduction and inclusive growth.

11. Many countries are also taking active steps in formulating green growth strategies and integrating green growth concepts into their national development plans, either independently or with support from international organisations and the donor community. Ethiopia, Rwanda and Vietnam are leading the way. Assisting national strategy planning are specialised international agencies that provide advisory services and research such as the Global Green Growth Institute. In addition, the Green Growth Best Practice Initiative and the Green Growth Knowledge Platform are facilitating knowledge exchange, highlighting where research gaps exist and where policy guidance is most needed.

12. There is widespread belief that trade and development can only come at the expense of the environment. However, environmentally sustainable growth and robust economic growth do not have to contradict each other. The greening of growth can contribute to poverty reduction by bringing more efficient infrastructure to people (e.g. in energy and transport) and by underpinning sustained long-term growth. It can contribute by alleviation of poor health associated with environmental pollution. And given the centrality of natural assets in providing incomes and economic opportunities to the world’s poorest people, it can minimise the risks of a legacy of costly environmental degradation as development proceeds (OECD, 2011a:20).

13. Some of the fastest growing economies in the world are currently in Africa. This impressive growth performance is often in large part a product of carbon intensive industries, driven by high commodity prices of non-renewable minerals and fuels. In spite of sustaining growth over the last ten years, and having weathered the economic crisis, many African countries have been unable to reduce poverty significantly. Unemployment and underemployment, particularly among the continent’s fast growing young population remains a major problem. Limited energy access impedes economic development and diversification in sub-Saharan Africa, with 74% of the population lacks access to electricity and 83% rely on biomass as their only source of energy. Food security is another concern even though agriculture accounts for 34% of the GDP of sub-Saharan African countries and employs about 70% of the population (UNECA, 2011).

14. There is a high degree of ambition and political support for green growth across the developing world but only insofar as it can lead to poverty reduction, higher social welfare and create green jobs. In addition, it must support the structural transformation of the economy to achieve higher productivity and more value added. Though there should be some caution exercised too, green growth is a multi-decadal process in which political and technical issues still need to be resolved. It requires the engagement of many stakeholders; not just of national governments but also municipal and local governments, the private sector, producers and consumers. The international community plays an important role in providing an enabling environment for a transition to green growth – building capacities, providing financing and technical assistance, and through voluntary technology transfer on mutually agreed terms and conditions
and mutual learning about innovation. In achieving this, development co-operation, including aid for trade, can potentially play a significant role.

3. Green Growth and the role of development cooperation

15. Providers of development co-operation have long given consideration to the environmental consequences of their actions. In 1985, the DAC and the Environment Policy Committee adopted recommendations on the environmental assessment of development assistance projects and procedures. In the early 1990s, the DAC further prioritised the environment and Ministers adopted a policy statement endorsing good practices for country environmental surveys and strategies, strategies for environmental impact assessment of development projects, and guidelines for aid agencies concerning global environmental problems.

16. This prioritisation coincided with the UN Conference on Environment and Development (UNCED), the so-called Earth Summit in 1992 in Rio de Janeiro. In addition to its main business - agreement on a comprehensive plan for action to guide sustainable development policies into the 21st century - the UNCED also produced the Rio Declaration, 27 non-binding principles; a Statement of Forest Principles; and decisions to draft a desertification convention and hold two international conferences (i.e. on highly migratory fish stocks and on small island developing states). It also provides the occasion for the signing of two international agreements: a Framework Convention on Climate Change and a Convention on Biological Diversity (Führer, 1994). Twenty years on, a follow-up conference will take place in June 2012. The objective is to secure renewed political commitment for sustainable development, assess progress to date, identify remaining gaps and address new and emerging challenges. One of the themes of the conference is a green economy in the context of sustainable development and poverty eradication.

17. There have been long-running concerns that without major action, irreparable damage would be done to the resource base and natural environment in developing countries. The problems could become increasingly intractable and expensive, compromising current and future development prospects. In developing countries, poverty is both a cause and result of environmental degradation. “The imperative of protecting the environmental resource base for the benefit of today's and future generations is thus in itself a compelling reason for economic and social development. Without broad-based development, policies and practices securing sustainable use of natural resources will be difficult to attain” (Führer, 1994).

18. Contributing to environmentally sound and sustainable development has long been identified as a central task for development co-operation. It has been perceived that the vicious circle of underdevelopment that linked high population growth, poverty, malnutrition, illiteracy and environmental degradation could be broken only through economic and developmental strategies and policies which integrated the objectives and requirements of promoting sustainable economic growth; enabling broader participation of all the people in the productive processes and a more equitable sharing of their benefits; and ensuring environmental sustainability (OECD/DAC, 1989). In essence, donors have been promoting green growth for a long time. Current work on development co-operation and the environment is undertaken by the DAC through its Network on Environment and Development (ENVIRONET) which focuses on three critical pillars of "pro-poor green growth" in developing countries: (1) encouraging sound natural resources management and governance; (2) shaping climate resilient development; and (3) promoting low-carbon growth.

19. The OECD GGS focused mainly on OECD countries and emerging economies, and common challenges such as improving energy efficiency and shifting towards low-carbon development pathways. While OECD and other G20 economies have a particular important role to play, for the majority of developing countries, providing basic education, ensuring food security, and delivering essential services
such as water supply and sanitation will remain overarching priorities. For these countries green growth and poverty reduction need to go hand in hand and the international community can provide critical support to make this happen. The GGS also points towards the potential contribution of ODA in creating enabling conditions for green growth “targeting areas where incentives for private investment are limited and flows are scarce, including essential infrastructure and human and institutional capacity building” (italics added) (OECD, 2011a). The second part of this sentence is part of the definition of aid for trade. Though the contribution of development co-operation to green growth goes beyond providing concessional financial flows, and includes knowledge sharing, aid for trade can play a catalytic role in fostering greener growth.

4. Aid for Trade and Green Growth: the potential for synergies

20. Green growth promises great potential for developing countries and aid for trade could play a role in realising green growth. Aid for trade not only provides a short term boost to economy growth, through investment in infrastructure and trade promotion but it also seeks to improve the ability of developing countries to compete better in the global market place. This assistance must place developing countries on a sustainable growth path. Aid for trade covers traditional needs related to trade such as building capacities in trade policy and regulations, and addressing adjustment costs incurred by trade reforms. But aid for trade also provides support for building productive capacity, export diversification, trade-related infrastructure like transport and energy infrastructure.

21. The WTO Task Force Recommendations on Aid for Trade not only recognised sustainable development as a guiding principle of aid for trade but also recommended that donors strengthen the application of environmental impact assessments including relevant health and social issues at the project level. Donors have achieved considerable progress in harmonisation around environmental impact assessment (EIA). “This progress needs to be deepened, including on addressing implications of global environmental issues such as climate change, desertification and loss of biodiversity.” (WTO, 2006)

22. Donors and partner countries jointly committed to strengthen the application of EIAs and deepen common procedures for projects, including consultations with stakeholders; and develop and apply common approaches for “Strategic Environmental Assessment” (SEA) at the sector and national levels. The OECD published policy guidance on SEA in 2006, and has completed guidance on developing capacity for environmental management and governance as well as a review of country experience in applying SEAs. In the pursuit of green growth, the role of SEAs and capacity development for environment will be essential in policy planning and implementation. Tools such as SEA as well as capacity building for environment policy remain key issues in aid for trade contributing to green growth.

23. The green growth agenda has been embraced by many developing countries; some are already attempting to take advantage of emerging trade and investment opportunities. Many developing countries are looking at maintenance of ecosystem services through reforestation and restoration as crucial for enabling economic development. Rwanda is one of the most dynamic economies of sub-Saharan Africa. It has committed to expanding its GDP by 10% per annum without increasing its CO₂ emissions. Because Rwanda is landlocked it is expensive to import coal, oil and gas. Consequently planned irrigation projects now also need to double-up as micro energy generation projects: villages that need water also need electricity.⁴ In its recent National Strategy for Climate Change and Low Carbon Development, Rwanda states that low carbon development is a win-win situation. It reduces the dependence on imported oil, reduces Green House Gas (GHG) emissions and acts as a major economic stimulus as payments abroad are replaced by local expenditure for energy production. However financial support from the international community and the private sector is required to make this happen.

24. Developing countries can shift to lower-carbon paths while promoting development and reducing poverty, but this depends on financial and technical assistance available domestically and especially from high-income countries (Stern, 2009). As was stated in a previous OECD paper on aid for trade and green growth (OECD, 2010) and reiterated in Viljoen (2011), a possible avenue to assist the transition to green growth is through aid-for-trade programmes aimed at increasing the participation of poorer developing countries in international trade “while concurrently strengthening environmental goods and services trade-related infrastructure and minimising supply-side constraints” (Viljoen, 2011). ODI (2011) also makes the point that while donors are increasing resources to climate change mitigation and adaptation, there needs to be standardized checks to ensure compatibility between these programmes and aid for trade. This is necessary “in order to avoid competing demands between the priorities of the international system in mitigating climate change, with country priorities, and so that trade-related country policies and donor activities may be better monitored and evaluated.”

25. The World Bank has called for “enlightened aid for trade and modern infrastructure [which] should incorporate a green growth agenda that allows countries to adopt low carbon solutions built for the long term. When we talk about infrastructure, we implicitly include the global public good of climate change” (Fardoust, 2010). Aid for trade and green growth financing share many of the same objectives and if used in “a complementary and reinforcing manner, they may help build the economic resilience and supply-side capacity LDCs need to adapt and mitigate climate change and link to the world economy on better terms” (Ancharaz and Sultan 2010). Indeed, there is much scope for aid for trade and new sources of climate change finance to work together to help meet some of the expected costs of climate change (Keane et al, 2009).

5. Country views

26. The 2011 aid-for-trade monitoring exercise found mixed support for green growth as an objective of aid for trade. While some partner and donor countries as well as providers of South-South co-operation attached importance to the issue, support paled in comparison to other objectives such as expanding trade, increasing economic growth and reducing poverty.

27. Some bilateral donors (e.g. the Netherlands, New Zealand, Norway and Switzerland) consider strengthening the coherence between trade and environment as a strategic goal of the Aid-for-Trade Initiative. Most donors providing aid for trade also provide mitigation and adaptation finance. Thus, better co-ordination between institutions and programmes could reduce potential conflicts between competing demands and agendas (ODI, 2010). Based on their responses to the 2011 aid for trade questionnaire, only 7 of the 35 donors indicated that environmental sustainability was a major objective of their aid-for-trade programmes. Singapore worked with the WTO to launch a workshop on the topical subject of Green Innovation to examine the role of intellectual property rights in green technology diffusion and trade. “With our long-standing partners, such as the WTO and Japan, we have developed new programmes in trade and green innovation for the benefit of APEC and other Asia-Pacific economies.” (aid-for-trade donor questionnaire, 2011). Chinese Taipei also places importance on climate change and environmentally sustainable development in its programmes.

28. For partner countries, a similar picture emerges with 20 out of the 84 responses indicating that environmental sustainability is a major goal for the aid for trade they receive. For example, Trinidad and Tobago listed sustainable development as an important priority with expansion of the energy sector; realignment of the economy; revitalisation of the agriculture sector; expansion of tourism; and standardisation of environmental regulations; and development of alternative energy. However, it is likely that many partner countries did not prioritise green growth due to the perceived trade off with immediate employment, growth and poverty reduction challenges they face. In line with the principle of ownership, partner countries must drive this agenda and set their own priorities. There are concerns that green growth
will be used to justify trade barriers and that development co-operation may include green conditionalities (UNEP, 2010, OECD, 2011). For instance, the Maldives in their 2011 aid-for-trade questionnaire worried about the risk that climate change and green growth will become donor priorities not widely shared by partner countries. It noted that green growth cannot be a donor-driven agenda. Nevertheless, in the Maldives’ experience, donors are “willing to support areas such climate change and good governance, often more prominently than trade” (OECD/WTO, 2011).

29. Among providers of South-South co-operation, only Brazil and Mexico indicated that green growth was a major objective of their trade-related assistance. A major part of Brazil’s support will be in bio fuels and agriculture, particularly in Africa. China, Indonesia and Argentina did attribute some importance to green growth while Chile and India did not see it as an important objective.

30. Regional organisations have also engaged on the issue. UNECA said that beyond adaptation, Africa could “contribute significantly to climate change mitigation if it is given the means to improve its capacity to a cleaner development path.” There is unquestionably a growing interest in the opportunities of green growth and the challenges of addressing climate change adaptation but there remains a question on how appropriate aid for trade is as a channel to promote green growth in developing countries. Aid for trade could be leveraged to promote the development of productive capacities in green economic sectors and to support sustainable production and process methods in Africa. Also, African nations could request increased support within the Enhanced Integrated Framework, in order to identify which green sectors offer the most promising scope for building export capacities and analyse what measures should be put in place to that aim (UNECA, 2011:21).

31. Submissions of case stories provide a diverse picture of how sustainable development is also starting to influence the implementation of aid for trade on the ground. Various case stories were submitted providing specific examples of how aid for trade funding is promoting such areas as: organic standards and value chain development, compliance with sanitary and phytosanitary measures, sustainable land management and renewable energy. Table 1 provides examples of how case stories intersect with the categories of assistance identified by the Aid for Trade Task Force for global monitoring. Compiled using the joint OECD-WTO compilation of case stories, the list of case stories in table 1 is not exhaustive and may neglect case stories in which sustainable development is not a prominent objective. It includes case stories submitted by both the public and private sector.6

5 For an overview of the inter-relationship between SPS and sustainable development objectives, see: Implications of Climate Change on Sanitary and Phytosanitary (SPS) Issues and Development Objectives
6 All case stories can be accessed at www.aid4trade.org. Private sector case stories were submitted as part of an exercise led by the World Bank. Analysis of the case stories is included in "The Role of International Business in Aid for Trade: Building Productive Capacity in Developing Countries"
Table 1. Categories of Aid for Trade support and examples of sustainable development activities

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<thead>
<tr>
<th>Category of assistance: Trade policy and regulations</th>
<th>Examples from case stories submitted</th>
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<tbody>
<tr>
<td>Training of officials in trade policy relating to environmental goods and services and environmental protection measures, specific trade obligations of multilateral environment agreements and participation in regional and multilateral trade/environment negotiations</td>
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<th>Category of assistance: Trade development</th>
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<th>Examples of actions in support of sustainable development</th>
<th>Examples from case stories submitted</th>
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<tr>
<td>Institutional support and business support services for environmental goods and services, including trade promotion, market analysis and development</td>
<td>Argentina: Technical assistance to fishermen in Nicaragua to improve their sustainable fishing techniques, Denmark: African business partnership (Ugandan African Organic and the Danish company Solhiulet), International Solidarity Foundation of Finland Nicaragua: Export of organic coffee and honey Nicaragua, Nestlé Nespresso: Accelerating Progress on the AAA Sustainable QualityTM Program in Central America, Peru: Public-Private Partnership and Biodiversity: The case of Maca, Switzerland: Economic Success through Resource Efficient and Cleaner Production</td>
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7 IICA submitted two further case stories on capacity building for active participation in the WTO SPS Committee CS Ref. no. 252 and application of the IICA’s Performance, Vision and Strategy (PVS) tool. CS Ref. no. 253

8 STDF submitted two further case stories on indicators to measure the performance of national SPS systems (CS Ref. no. 250) and use of economic analysis methodologies to inform SPS decision-making (CS Ref. no. 268)
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<th>Category of assistance: Trade-related infrastructure</th>
<th>Examples from case stories submitted</th>
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<td>Examples of actions in support of sustainable development</td>
<td>Asian Development Bank: Green Power Development Project - Cross-border Power Export from Dagachhu</td>
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<td>Qualcomm - Using Technology to help Fishers and Entrepreneurs</td>
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<th>Category of assistance: Building productive capacity</th>
<th>Examples from case stories submitted</th>
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<tr>
<td>Examples of actions in support of sustainable development</td>
<td>European Union: Support to the coffee sector in Cameroon</td>
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<td>Germany: Introducing Rainforest Alliance Certification to Cocoa Production in Côte d’Ivoire</td>
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<td>New Zealand: Women in Business Development Incorporated, Samoa</td>
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<td>Spain: Development of sustainable fishing capacities in the Gulf of Fonseca, Honduras</td>
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<td>Switzerland: Impacts of Certification for Sustainable Production on Coffee Producers in Tanzania</td>
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<td>UNCCD: A common agenda for trade and agriculture to achieve sustainable land management in Uganda</td>
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<td>Walmart: Direct Farm and Fertile Soil</td>
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<th>Category of assistance: Trade-related adjustment</th>
<th>Examples from case stories submitted</th>
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<tr>
<td>Examples of actions in support of sustainable development</td>
<td>Overseas Development Institute: Aid for Trade and Trade Related Adjustment in the context of Climate Change</td>
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Source: WTO Secretariat analysis of case story replies
6. **Aid for Trade in support of Green Growth**

32. This section will examine how much aid for trade provided by donors has environmental objectives. Since 1998 the DAC has monitored aid targeting the objectives of the Rio Conventions through its Creditor Reporting System (CRS) using the so called “Rio markers.” Every aid activity reported to the CRS should be screened and marked as either (i) targeting the Conventions as a ‘principal objective’ or a ‘significant objective’, or (ii) not targeting the objective. In 2008–2009, on average, only USD 75.2 billion was screened. For reference, total bilateral sector-allocable ODA (including members not reporting on the environment policy marker), averaged USD 82.0 billion in 2008-2009 (2008 constant prices).

![Figure 1. Environment Focus of Bilateral ODA by Sector](chart.png)

Source: OECD Creditor Reporting System (CRS) and OECD (2011b)

33. Aid to “general environmental protection” (i.e. environmental policy and administrative management, biosphere protection, bio-diversity, site preservation, flood prevention/control, environmental education/training, environmental research) is by definition marked with targeting the Rio Convention as “principal objective.” While general environment protection only totals 4% of bilateral ODA in the sample screened for environmental objectives, it covers 17% of total aid to the environment. Aid to “water, supply and sanitation” account for the largest share of aid to the environment, with 25% of the total flows. While aid for trade represented 32% of the sample screened for environmental objectives, it represents 41% of all aid to the environment.
34. Typical examples of aid-for-trade projects with environmental objectives include infrastructure projects designed with comprehensive and integrated environmental protection and management components; activities promoting sustainable use of energy resources (power generation from renewable sources of energy); and energy conservation. Examples of aid for productive capacities include sustainable management of agricultural land and water resources; sustainable forest management programmes, combating land degradation and deforestation; sustainable management of sea resources; adoption and promotion of cleaner and more efficient technologies in production processes; measures to suppress or reduce pollution in land, water and air (e.g. filters); increasing energy efficiency in industries; and sustainable use of sensitive environmental areas for tourism (OECD, 2011b).

**Transport**

35. Many developing countries have economic infrastructure deficits (i.e. transport, communications and energy), which constrains their adaptive capacity. Addressing these transport bottlenecks is important but the implications in terms of emissions also need to be considered. A climate lens should be applied to make infrastructure resilient to anticipated climate change-related impacts” (OECD, 2009:180) For instance, the World Bank through its Clean Investment Funds is already working to provide developing countries with public transportation systems which reduce the emission impacts. Other donors are also providing support for a range of low-carbon transport options, particularly urban public transport, mostly in middle-income countries. France provided USD 63 million to Morocco to partly finance a tramway in Rabat. Japan supported Mass Rapid Transport in New Delhi (USD 816 million), Jakarta (USD 496 billion), and Bangkok (USD 648 million). In general, railway provision is viewed as a low-carbon transport option compared to road or air transport and many rail projects are marked with the environment objective.

**Energy**

36. Access to energy is one of the main constraints that prevent poorer regions from developing their industry and diversifying their economic output. Growth diagnostic studies and business surveys in many developing countries regularly identify constraints such as lack of grid electricity. Electricity shortages can also lead firms and rich households to use generators which tend to pollute more. Typically, levels of investment in the electricity sector in developing countries are around 50% of needs. Credit constraints mean that the cheapest available options are often chosen as opposed to those that deliver environmental benefits (ODI and DfID - 2009). This suggests that donor involvement in renewable energy technologies typically results in a win-win situation for developing countries: reducing costs and reducing emissions. New and improved technologies in energy production, such as solar power, biomass, micro-hydro power and biofuels, linked with new approaches to electricity generation and distribution could reduce the costs and improve the technical feasibility of energy supply in poor developing countries and allow non-oil producing countries to become more energy self-sufficient. They would also bring a range of benefits, including reduced dependence on fossil fuels, reduced poverty and lower energy bills for firms and households (OECD, 2011a: 24).

37. ODA for power generation has been increasing on average and in 2009 stood at almost USD 3 billion – over 40% of which funded power generation from renewable sources (see figure 3). There may also be an important role for bio-fuels where it does not compete with food production, e.g. Brazil has in partnership with the UK, transferred its bio-ethanol technology to Mozambique. Such technologies can help developing countries reduce their oil imports. Mozambique itself is a good example of the economic potential of energy being a major exporter of electricity (produced with hydro-electric power) to both South Africa and Zimbabwe.

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9 For more on adaptation to Climate change, see OECD (2009) Integrating Climate Change Adaptation into Development Co-operation: Policy Guidance.

Priorities for green growth in energy include, (i) deploying on-grid renewable technologies using climate change related funding to cover incremental costs, (ii) developing off-grid renewable power and cooking and heating technologies with co-benefits for development and (ii.) supporting energy efficiency programmes through capability building and knowledge sharing (Stern, 2009). Reforming regulations and adjusting taxation around energy would also make a difference. Taxation can create perverse incentives, e.g. in Nepal, because of differences in prices, kerosene is usually mixed with gas/diesel to power vehicles. While this makes sense in terms of prices, it is highly polluting.

39. Nationally Appropriate Mitigation Actions (NAMAs) are a new concept of national voluntary greenhouse gas emission reduction measures reported directly to the UN Framework Convention on Climate Change (UNFCCC). For the partner countries which have articulated their NAMAs, many call for new renewable energy policies, laws and projects. An increasing share of ODA to energy is now going to renewable energy (hydro electric, solar, wind). This change of prioritising different sources of energy was highlighted in the recent discussions between South Africa and the World Bank about a USD 3.7 billion loan for a coal-fired power plant. The World Bank Vice President for Africa claimed that “without an increased energy supply, South Africans will face hardship for the poor and limited economic growth.”11 The US, UK, the Netherlands, Italy and Norway registered their opposition on environmental grounds to the loan by abstaining from the vote. Nevertheless the loan was approved with endorsement from all developing countries. This case highlights the difficulties of balancing economic necessity and energy security with adverse environmental consequences and that low carbon and environmentally-friendly energy approaches are not automatically win-win solutions.

40. For solar power, Japan provided USD 90 million in ODA Loans for Egypt in 2008. The project aims to produce electricity, by the construction of 150 MW integrated solar combined cycle power plant which is an alternative to thermal power plants, thereby contributing to mitigation of climate change. A number of feasibility studies, research ventures in solar and renewable energy are also currently being funded with ODA. In 2010, Spain lent USD 139 million to Morocco for the construction of the

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11 www.guardian.co.uk/business/2010/apr/09/world-bank-criticised-over-power-station
Solar-Thermal plant at Ain Beni. These donor projects highlight the potential of solar power in North Africa. It is estimated that further investment in solar power in North Africa could support the deployment of about 1 gigawatt of solar power generation capacity – tripling today’s global concentrated solar power (Zoellick, 2011). In wind energy, Spain provided almost USD 300 million to Tunisia for wind energy parks in Metline and Kechabta in the region of Bizerte.

41. Disaggregated solar is also a good option for isolated island groups. The European Union, for example, funded a USD 5.7 million project in Kiribati. Furthermore, the European Union provided USD 10 million to Federated States of Micronesia for solar power. The overall objective of the programme was to alleviate poverty by improving access to clean, affordable electricity, and to reduce dependency on fossil fuels. Japan also provided support to the Federated States of Micronesia (USD 5.7 million). This project aimed to promote clean energy utilisation and achieve emissions reductions by installing a photovoltaic system. Japan also promotes clean energy providing solar photovoltaic system (300 KW) and technical training to Uruguay (USD 7.8 million).

Figure 3. Aid for Trade with Environmental Objectives in 2009 (percentage)

Source: OECD CRS

42. With transport and energy having large green growth potential, it is not surprising that of all aid-for-trade categories, it has the highest proportion of aid with an environmental objective. In 2009, almost 30% of aid to economic infrastructure had an environmental objective. This has doubled since 2007 (see figure 4). However, these figures likely underestimate the extent that environment is an objective due to under-reporting of the environment marker. The proportion for building productive capacity is much smaller and, as would be expected, trade policy and regulation projects have only limited environment objectives (just over 5% of support to this category in 2009).

Agriculture

43. Climate change threatens to shift world patterns of comparative advantage in the production of many crops and livestock products. In tropical environments, even small changes in average temperatures can alter the suitability of key crops and yields can be negatively affected by altered growing conditions and by new parasites and pests which thrive in a new climate (Liu et al, 2008). Environment and health
standards are becoming more important for producers in developing countries to penetrate international markets. The absence of internationally agreed standards may also heighten the risk of environmental concerns being used as an excuse for protectionism, reducing the scope for countries to use trade as a tool for development. Aid for trade through the Standards and Trade Development Facility (STDF)\(^\text{12}\) is one way of counteracting green protectionism by assisting partner countries to put in place the structures and know-how they need to meet minimum environmental and health standards.

44. Agriculture is an important part of Rwanda’s Green Growth Strategy. The strategy aims to expand crop varieties, local markets and manufactured products and exports in support of the sustainable intensification and climate resilience of small-scale farming. This multi-faceted initiative will involve diversifying agricultural production and enhancing the agriculture value chain. It is planned that through the development of decentralised village-based agricultural processing centres that incorporate low-carbon sources of energy, such as biogas-digesters and solar driers. Such initiatives will be complemented by developing niche export crops under organic and fair-trade branding. (Rwanda 2011:22). Branding such as organic and fair-trade tea, coffee and sugar, including the ‘Greening the Tea’ initiative will increase adaptive capacity while reducing greenhouse gas emissions (mitigation) by addressing not only crop production, but also processing technologies that are currently energy and biomass intensive. Developing adaptation capacity in the export crop sector will also increase resilience to future temperature changes which are already impacting on coffee production in Kenya (Rwanda, 2011:42).

45. Aid to agriculture has increased in recent years and as donors respond to food crisis and food security, it is likely to increase further. Climate change is already affecting agriculture production and therefore trade opportunities. Climate impacts on developing countries are likely to be diverse and each region will have to adapt its production processes to future conditions. As a consequence donors are actively involved in a number of projects which promote sustainable agricultural development: from improving water availability, efficient spray irrigation systems, irrigation technology transfer and best practice, self-sufficiency for water and support to urban farming. One quarter of all agricultural development project support in 2009 and 40% of support to agriculture water resources had an environmental objective (see figure 5).

46. For instance, the US organised workshops in 2008 supporting rural production of sustainable coffee and bananas. The World Bank provided loans of USD 30 million in Uzbekistan to increase the productivity, financial and environmental sustainability of agriculture and the profitability of agribusiness in the project area. They aim to strengthen Water User Associations (WUAs), provide investments in demonstration plots in the districts for applied modern irrigation techniques and provide rural training and advisory services. In 2009, Norway provided USD 6.3 million to Malawi for sustainable agricultural development. The programme aims to improve the capacity of rural communities to effectively and sustainably utilise their natural resource base to produce sufficient food, generate income and employment and to influence the socio-economic policies that affect their livelihoods. Spain supports Peru to build new productive capacities and impulses for policies of sustainable development with social and institutional agents of the Catamayo basin as well as strengthening sustainable production is other countries in Latin America. Korea has provided USD 21 million for irrigation in Mali to assist the government of Mali contribute to sustainable growth of agro-pastoral and fish production by maximising the use of irrigated areas through increased control of water and flood areas.

\(^{12}\) See STDF background note on Climate Change, SPS issues and development
(www.standardsfacility.org/files/ClimateChange/STDF_Coord_292_BackgroundNote_Jun09.pdf).
47. In agriculture, building productive capacity will have to include climate-proofing agricultural yields. Climate change may force some countries to diversify their export base away from a small range of agricultural goods. Climate change adds a new motive for, and constraint on, export diversification; the likely physical effects must be considered in production and trade strategies (Keane 2010). New policies could create new export opportunities for products that achieve low-carbon emission standards, and these should be included in strategies exploring new export opportunities (Cirera 2009). These potential changes in trade patterns, as well as new opportunities arising from achieving low-carbon standards, need to be integrated in the aid-for-trade agenda.13

**Forestry**

48. Deforestation and degradation are significant sources of global greenhouse gas emissions. Forestry threatens tropical forest resources in developing countries but creates significant economic opportunities. A major policy to mitigate the carbon output from deforestation is the ‘reduce emissions from deforestation and forest degradation’ (REDD) mechanism established under the UNFCCC. The mechanism provides incentives to diminish deforestation and reduce its contribution to climate change. The scope of the debate has recently been expanded beyond emissions from deforestation to include activities such as supporting sustainable management of forests and carbon stock enhancement through tree planting or natural regeneration and by fighting against illegal logging. But halting deforestation will require major development support, including for agricultural productivity and governance (Stern, 2009).

49. Donors already contribute to green growth in the forestry sector as is evident from the 2008 aid-for-trade data. Examples of projects include Germany providing ecological landscape restoration and desertification control in China. Germany also provides USD 2 million for sustainable forestry in Turkmenistan with the goal of developing a model for the conservation and extension of carbon sinks under the specific climatic conditions of Turkmenistan. The reforestation of two ecological zones is to be

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13 Cirera (2009) “Changing the Aid for Trade Debate towards Content,” IDS In Focus Policy Briefing.
initiated. Finland also provides USD 12 million to support jointly with the World Bank sustainable forestry and rural development in Laos. The Netherlands provide resources for Fostering Environmental Stewardship, Social Responsibility and Good Governance in Africa's Heartland.

50. Many donors also contribute to the World Bank Forest Carbon Partnership Facility (FCPF). The FCPF will help developing countries establish credible estimates of national forest carbon stocks, identify sources of forest emissions and develop incentives for conserving forests and investing in sustainable forest management. Finland provides USD 10 million for the FCPF which assists developing countries in their efforts to reduce emissions from deforestation. It has two objectives: to build capacity for REDD in developing countries and to test a programme of performance-based incentive payments in some pilot countries. AusAid provides support to improve sustainable forest management and the development of national forest, and forest carbon, monitoring systems in Indonesia.

Tourism

51. There are opportunities for green growth for trade in services such as tourism. Tourism is increasingly a major source of growth, employment, income and revenue for many developing countries, particularly Least Developed Countries (LDCs). The UN World Tourism Organisation (UNWTO) aims to better position tourism in the development agenda and promotes coordinated, effective and efficient technical assistance and support to developing countries. The UNWTO has identified aid for trade as an important instrument for this effort. In its publication Roadmap for Recovery: Tourism and Travel, it urges tourism stakeholders to work with aid agencies to support the aid-for-trade agenda. Development assistance for tourism “could be used for capacity building, technology transfer, and green infrastructure/jobs” (UNWTO, 2011).

52. In 2009 there were many examples of such support with USD 146 million being provided by donors to the tourism sector. Donors who themselves have large tourism industries such as Spain and Italy provided substantial support. Some 82 projects (20% of the total number of projects) with amounts totaling USD 36 million have a principal environmental objective. The largest project from the Millennium Challenge Corporation to Namibia represents a transfer of USD 17 million. It is a tourism project (Compact Activity) for “Ecotourism Development for Communal Conservancies Activity.” Demark provides USD 1 million to Nicaragua for Sustainable Tourism in the Biosphere Reserve in the province of Rio San Juan which contributes to the protection of natural resources and generates economic and social development in local communities that strengthen civil society and reduces poverty. Spain also assists Nicaragua and others supporting the “qualification, promotion and marketing of national eco-tourism through public policies.”

Other Important Trade Aspects of Green Growth

53. Beyond the potential synergies, there are a number of potential threats stemming from the green growth agenda such as green protectionism. Aid for trade aims to promote trade and to build trade capacity in developing countries but this will count for little if developed countries close their markets. Some developed countries have argued for import tariffs against poorer countries which might take advantage of higher carbon outputs. Such threats antagonise developing countries anxious to provide improved living conditions for their citizens (Gurria, 2009). Border taxes would perhaps have significant negative effects and welfare losses for both the country implementing them and trading partners, making combating climate change more difficult.

54. Aid for trade has helped raise the profile of trade in partner country development strategies and in donor programming. Raising awareness of environmental opportunities among the trade and development communities is also essential. Aid financing (coupled with private sector initiatives) can act as a catalytic
flow, coupled with voluntary technology transfer on mutually agreed terms and conditions, to help safeguard the role of trade as a tool for sustainable development. The limited evidence, however, suggests that so far little is happening. Although the Clean Development Mechanism framework was designed to create technology transfer, only a limited number of projects do involve such transfers. The World Trade Organisation (WTO) Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement includes a number of provisions on technology transfer. For example, it requires developed countries’ governments to provide incentives to enterprises and institutions in their territories for the purpose of promoting and encouraging transfer technology to least developed countries (Article 66.2). Expediting patent applications for greener technologies would also help facilitate trade and technology transfer.

55. The aid-for-trade agenda also advocates trade liberalisation and appropriate sequencing of capacity building projects and trade reports. The agenda can contribute to improvements in trade policy which can inhibit green growth. Numerous tariff and non-tariff barriers remain in place around the world inhibiting the free flow of environmental goods (Steenblik and Kim, 2009). In addition, in some developing and emerging economies, high import tariffs on energy-consuming goods, like air conditioners and refrigerators, are also combining with subsidised electricity prices to encourage consumers to favour appliances that are cheap to buy but relatively inefficient to operate (OECD, 2011:47).

56. Climate change will have considerable consequences for the global trading environment and the prospects of developing countries. Jones and Olken (2010) examine historical data relating national weather variation to export performance. Their findings suggest that if a poor country is one degree Celsius warmer in a given year, its exports are lower by as much as 5.7%. While there is no effect on rich countries’ exports, their consumers will still suffer from reduced imports at higher prices. The fact that temperature affects exports suggest that trade is also an indirect channel through which climate change may affect the world economy. Green goods and services will create opportunities, but they will bring with them significant adjustments and trade-offs. The transition to a low carbon economy will adversely affect some industries and regions. Thus trade-related adjustment may be needed to ensure that producers can respond to such changes. Trade-related adjustment was originally important in supporting developing countries to put in place accompanying measures that assist them to benefit from liberalised trade.

57. Aid for trade is all about building resilience and capacities while promoting trade integration and economic development. There is clearly much that can be learned from the ongoing green growth discussion. Its growing prominence will mobilise new flows for the growth agenda in developing countries. The main sectors affected by policies in developing countries will likely be key parts of economic infrastructure and building productive capacity in forestry, agriculture and fishing. Though not necessarily trade related, choices made in these sectors now will influence future trade competitiveness, especially if carbon labelling, carbon pricing, international agreements such as REDD become more important, as seems likely.

7. Conclusions

58. Green growth is a new and important paradigm but development co-operation has many decades of experience stimulating and promoting sustainable development in developing countries. A renewed focus on green growth and development reinvigorates the need for broad-based development policies such as aid for trade.

59. Aid for trade finances major projects in renewable energy, sustainable agriculture and low-carbon transportation networks. This paper has given examples of such interventions, and the environmental

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14 Specifically, they look at how idiosyncratic annual temperature changes in a country explain that country’s export growth for particular products, holding constant worldwide trade patterns for each product and worldwide temperature changes. The findings confirm large negative impacts of temperature on poor countries.
objectives of aid-for-trade flows are already significant. Aid for trade also supports smaller but potentially catalytic efforts such as feasibility studies, pilot projects and technical training. In supporting the multilateral trading system it also strengthens the potential contribution of international trade to green growth and builds generic trade capacities which are essential in greening growth. It is thus already contributing strongly to sustainable development and green growth.

60. Its contribution to the green growth agenda though should be kept in perspective. Aid for trade and broader ODA flows are small relative to other development finance flows and the transition to green growth requires significant investment. In particular green growth initiatives can tap climate finance. There is more than USD 10 billion under operation in various climate funds, and developed countries committed to make USD 30 billion available as “fast-start” finance in 2010-2012 and USD 100 billion per year by 2020 (OECD, 2011a:72). Private investment will also be essential in the longer term.

61. This discussion will continue and be further explored at the WTO Committee for Trade and Development, through the Green Growth and Developing Countries Report and through global efforts at Rio+20. The WTO will hold a workshop on Aid for Trade and Sustainable Development in February 2012. This will provide an opportunity to discuss the trade and development dimensions of green growth in the broader aid-for-trade community. A revised version of this paper will be presented at the workshop along with contributions from other organisations, governments, think-tanks and academia. The Green Growth and Developing Countries report will be used to engage developing countries at Rio+20 in June 2012.
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