

GREENING AID FOR TRADE

Working Paper No. 4 in Trade and Environmental Sustainability Series

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Working Paper No. 4 in Trade and Environmental Sustainability Series

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1. Introduction

1.1 OUTLINE OF AID FOR TRADE

The 2030 Agenda for Sustainable Development recognizes trade as an essential means of implementation for the Sustainable Development Goals (SDGs). Aid for Trade (AfT) is a mechanism which aims to support developing countries in building the capacity and infrastructure so that they can benefit from and engage in trade. AfT is an integral part of the SDG 8, in particular target 8a. on increasing AfT support for developing countries and least developed countries (LDCs).

The Aid for Trade Initiative of the World Trade Organization (WTO) was launched in 2005 and supports four types of activities – each of which has important environmental implications:

- Technical assistance for trade policy and regulations (helping countries participate in negotiations, develop trade policies and strategies, and implement those policies (including WTO agreements) and strategies)
- Trade related infrastructure (building roads, ports, and and energy and telecommunication networks)
- Building productive capacity and supply side capacity, including trade development (assisting countries to diversify their exports) and improved supply chains
- Trade related adjustment (assisting developing countries and LDCs with the costs associated with trade liberalization and loss of fiscal revenue).⁴

Four sectors have received about three quarters of total disbursements: transport and storage, energy generation and supply, agriculture, and banking and financial services. AfT investments with an environmental objective predominantly support renewable energy projects, low-carbon transportation, and sustainable agriculture.

While the WTO Secretariat and the Organisation for Economic Co-operation and Development (OECD) work together to monitor AfT flows, and conduct periodic Global Reviews, projects are funded directly in beneficiary countries by bilateral and multilateral donors. South-South partners are also playing an increasingly important financing role. Within the WTO the topic of AfT falls under the responsibility of WTO Trade and Development Committee.

¹ World Trade Organization (2001), 'Doha WTO Ministerial 2001 Implementation issues and concerns, WT/MIN(01)/17', https://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_implementation_e.htm (accessed 25 Feb. 2021).

² UNCTAD (2008), Aid for Trade and Development: Global and Regional Perspectives, Geneva: UNCTAD, https://unctad.org/system/files/official-document/ditc20082_en.pdf (accessed 25 Feb. 2021).

³ World Trade Organization (2005), Doha Work Programme: Ministerial Declaration, World Trade Organization Ministerial Conference Sixth Session, WT/MIN(05)/DEC, Geneva: World

Trade Organization, www.wto.org/english/thewto_e/minist_e/min05_e/fnal_text_e.pdf (accessed 25 Feb. 2021)

⁴ World Trade Organization (2021), 'Aid for Trade', https://www.wto.org/english/tratop_e/devel_e/AfT_e/aid4trade_e.htm (accessed 25 Feb. 2021); Antonio Alonso, J. (2016), Aid for Trade: Building productive and trade capacities in LDCs, New York: UN Committee for Development Policy, <https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/CDP-review-2016-1.pdf> (accessed 25 Feb. 2021)

1.2 WHY GREEN AFT?

Developing countries are exposed both to economic and environmental risks, including commodity price shocks, climate change, natural disasters, and desertification. By focusing more on environmental considerations, “Green” AfT can help countries build resilience and support efforts to achieve the SDGs.

Although AfT makes up for almost a third of all Official Development Assistance (ODA) (UNEP, 2020), only recently have environmental dimensions been integrated to explore the focus on environmental considerations within projects. Moreover, there remain continued needs for further alignment of donor countries and recipients’ priorities.⁵ The concept of green AfT is of course related to a broader range of sustainability objectives including poverty reduction, green growth, and gender equality. There remains a large potential to harness AfT as a means to help developing countries build climate resilience and promote export diversification into green sectors⁶ as is increasingly being recognized by WTO members, particularly in view of the forthcoming Global Review 2022 which is likely to focus on environmental and sustainability objectives.

Any new environmental commitments or initiatives at the WTO are likely to be accompanied by calls for dedicated support for developing countries. The WTO’s 2013 Trade Facilitation Agreement (TFA), for instance, was accompanied by the creation of a special facility to ensure that developing and Least Developed Countries (LDCs) obtained the necessary assistance to fully benefit from that agreement.⁷ And in the Trade and Environmental Sustainability Structured Discussions (TESSD), AfT is a common topic. Attracting developing countries to potential TESSD topics like circular economy and trade⁸, environmental goods and services (EGS)⁹, sustainable agriculture, and fossil fuel subsidy reform (FFSR) will require support for increasing those countries’ capacity to participate actively in those policy areas.

With the planned implementation of the European Green Deal (and in particular a possible Carbon Border Adjustment Mechanism (CBAM) by the European Union (EU) from 2023, AfT may become more important to support LDCs and SIDS to adhere to any new rules and to counter any negative consequences. To this end, the EU could devise a coherent trade, climate, and development strategy to incorporate support for climate vulnerable country producers to comply with any new climate-related policies that affect trade.^{10,11}

⁵ See: Experts Discuss Greening Aid for Trade to Reach Sustainable Development | News | SDG Knowledge Hub | IISD

⁶ See UNEP (2020)

⁷ World Trade Organization (2021), ‘Trade Facilitation’, https://www.wto.org/english/tratop_e/tradfa_e/tradfa_e.htm (accessed 26 Feb. 2021).

⁸ Also see <https://quno.org/resource/2021/7/circular-economy-and-trade-working-paper-no-1-tessd-series>

⁹ Also see [https://quno.org/resource/2021/9/environmental-goods-and-](https://quno.org/resource/2021/9/environmental-goods-and-services-working-paper-no-2-tess-series)

[services-working-paper-no-2-tess-series](https://quno.org/resource/2021/9/environmental-goods-and-services-working-paper-no-2-tess-series)

¹⁰ Also see

[https://ieep.eu/uploads/articles/attachments/0f93d0de-8ac8-491f-9756-31fc93cba720/What%20can%20climate%20vulnerable%20countries%20expect%20from%20the%20EU%20CBAM%20-%20IEEP%20et%20al%20briefing%20\(002\).pdf?v=63791839851](https://ieep.eu/uploads/articles/attachments/0f93d0de-8ac8-491f-9756-31fc93cba720/What%20can%20climate%20vulnerable%20countries%20expect%20from%20the%20EU%20CBAM%20-%20IEEP%20et%20al%20briefing%20(002).pdf?v=63791839851)

¹¹ EU initiatives on sustainable supply chains could be important here, e.g., on sustainable cocoa in Ivory Coast, Ghana, and Cameroon (also see https://ec.europa.eu/commission/presscorner/detail/en/ip_21_193)

Table 1: below lists some motivations for integrating green dimensions in Aft.

| MOTIVATION | DESCRIPTION | EXAMPLE APPROACH |
|--|---|---|
| Responding to demand | | |
| Global demand for green products and services is growing | The expanding international market for green products and services offers new opportunities for developing country exporters to increase export incomes and improve sustainability across the value chain. | Assist exporters in realizing opportunities in green products and services markets (including renewables, ecotourism and natural products). |
| Environmental performance is important to securing market share | Exporters are increasingly required to meet regulatory or private standards for environmental sustainability. Some of these attract a price premium, while others are mainstreamed requirements for market access. | Assist exporters attain market access through meeting regulatory and private, voluntary environmental standards. |
| 'Green' technologies and resource use efficiency can improve export competitiveness (also in response to CBAM) | Environmentally scarce and detrimental inputs - including energy, water, chemicals, waste and fuel—are among the largest business costs. More efficient resource management can increase productivity, profitability and competitiveness and provide quality and safety benefits. | Assist exporters to improve sourcing, use and management of resource inputs to reduce operating costs and improve competitiveness. |
| Considering Supply | | |
| Over-extraction, over consumption and depletion of natural resources threatens development outcomes in the long term. | Developing country economies and livelihoods are highly dependent on natural resources. Unsustainable resource use and deterioration of natural assets may lift exports in the short term, but undermine long-term income, employment and development. | Assist exporters to sustainably manage natural resources and mitigate negative environmental impacts, such as waste and emissions. |
| Developing countries are most vulnerable to climate change and other environmental challenges, which could undermine trade | The impacts of climate change—including severe weather events, higher temperatures and changes in rainfall patterns—are expected to vary between sectors and regions. Developing countries are particularly vulnerable given their limited capacity to cope with change. | Assist exporters to understand and adapt to environmental risks, in particular, climate change. |

From: Adapted from International Trade Centre (ITC) 2016. Available from: https://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/_EM_Guide_v10_final_150716_low_res.pdf

2. Links with trade policies: impacts of green AfT in the economic, social, and environmental dimensions

Given the demand and supply considerations described above and in recognition of how any trade policy change creates winners and losers, this section focuses on the links between Green AfT and trade policy, as well as the impacts of Green AfT on economic, social and environmental objectives and outcomes. There are different entry points in relation to greening AfT and trade policies, depending on the focus of AfT expenditures and the interests of beneficiaries.

For example, AfT investments in infrastructure to support cleaner energy production could be supported by trade policies that facilitate access to new technologies and standards adherence and compliance. There could be needs for AfT to support trade related adjustment, as a result of greening trade policy elsewhere, as discussed in the previous section. This includes adjustment to climate-related trade measures (including carbon tariffs) as well as enhanced environmental compliance within supply chains, that can have distributive effects on producers.

This section begins by reviewing how trade policy should become more aligned with environmental objectives in a normative sense before it proceeds to more descriptive analysis of how this is being undertaken in practice. A review of trade-related strategy documents for different types of developing countries shows some alignment between environmental, economic and social objectives, particularly as new drivers of recovery from Covid-19 are sought. Within this section, particular attention is drawn to the need for greater consideration of capacity constrained economies, as well as those which face difficult political economy considerations in the transition away from fossil fuels. These issues have important implications for different types of Green AfT and its governance, as well as issues related to justice (discussed in Section 3 below).

2.1 ALIGNMENT OF TRADE POLICY WITH ENVIRONMENTAL AND SUSTAINABLE DEVELOPMENT GOALS

Whilst an overarching framework is provided by the Sustainable Development Goals (SDGs) and Goal 8 in particular which calls for sustainable inclusive and sustainable economic growth, full and productive employment and decent work for all – where the specific target on AfT is included within target 8.a. – the specific links between greening AfT and trade policies requires careful elaboration and this will be highly context specific.¹² This is because efforts to improve the environmental sustainability of trade will also require significant investments in environmental law, institutions, and enforcement in developing countries (Deere-Birkbeck, 2021).

NOTE: This section was mainly written by Dr Jodie Keane, Senior Research Fellow, ODI, and incorporates comments received from Joachim Monkelbaan (Quaker United Nations Office), and from Dr Max Mendez-Parra, Sheila Page and Dirk Willem te Velde (Overseas Development Institute).

¹² More specifically, it is argued by Lammersen and Hynes (2016) that SDGs related to climate action and sustainability – Goals 13 (Climate Action), 14 (Life below Water), and 15 (Life on Land) – can be linked to the advancement of green growth and the provision of AfT; integrating the economic and environmental pillars of sustainable development

provides the basis for green growth by connecting economic, environmental, technological, financial, and development aspects into a coherent framework.

Within this context, there are more systemic issues to consider. This is in view of the absence of the WTO's enforcement¹³ of sustainable development, as compared to a reassurance that countries themselves are taking the necessary steps to reduce environmental harm in the least trade restrictive way (with GATT Art. XX providing an exception clause for the protection of the environment). The preamble of the WTO Agreement's commitment¹⁴ to promote sustainable development has predominantly rested on the mutual assurances of environmental protection afforded by countries' own legislative frameworks. It is this reassurance that has worn thin in view of the climate emergency and concerns regarding planetary boundaries and biophysical limits. Whilst the inclusion of green components within preferential trade agreements has increased over time, there has always been some uncertainty regarding how these promises translate into domestic legislation (Berger et al., 2017).

Now that some of the major players within the global economy are in pursuit of ambitious targets to mitigate climate change and avoid environmental degradation, on the one hand, historical antagonism regarding concerns about protectionism dressed up as environmentalism has arisen. On the other hand, in view of the widespread acknowledgement of the scale of the environmental challenge currently faced - as indicated by the level of ambition of the Paris Agreement - there seems to be more of a paradigm shift with a more concerted focus on how green trade policy measures can spur transformations on the ground (as evidenced by the number of new environment-related multilateral discussions). Some trade policy measures form part of recovery efforts from the Covid-19 pandemic, which are increasingly seeking to ensure economies are set on more sustainable development pathways, as discussed in the next Section.

2.2 GREEN RECOVERY, TRADE POLICY AND IMPLICATIONS FOR AFT¹⁵

Country responses to the socioeconomic devastation wrought by Covid-19 have provided opportunities to reorientate productive structures through stimulus and trade policy measures to accelerate transitions to lower carbon economies. In some cases, the links to trade policy are explicit, in others, more implicit, as a brief review of recovery strategies shows (Box 1). Donors are actively involved in influencing recovery strategies as financiers, as well as through technical support to ensure green recovery elements feature more prominently, with stronger links to trade policy as a means of implementation.

¹³ While the WTO Preamble is not binding on WTO Members, it has been used in legal disputes to interpret the provisions of the WTO Agreement (Deere-Birkbeck, 2021).

¹⁴ The Preamble to the WTO Agreement states that trade and economic endeavour "should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services, while allowing for the optimal

use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and to enhance the means for doing so in a manner consistent with their respective needs and concerns at different levels of economic development." Source: WTO (1995).

¹⁵ This section draws on Keane et al., (2021) and Keane et al., (2021) forthcoming.

Box 1: Green Recovery and Trade Policy Considerations

Asian country 1: At the highest levels, Asian country 1 has indicated its commitment towards the pursuit of net zero emissions. However, there are major needs for support for transitioning from fossil fuels and into renewables, with risks of stranded assets. There are demands for support to transition to renewable energy, including financial as well as addressing capacity constraints and developing appropriate trade and investment policy frameworks.

African country 1: In the case of African country 1, as the recovery strategy has evolved over time there has been greater focus on green and resilient supply chains, as well as the “Big Four” development priorities of food security, affordable housing, manufacturing and affordable healthcare. However, at the same time, there is a continued pursuit of Buy Local, Make Local, which has the potential to raise trade tensions as well as limit the import of green technologies without careful consideration of how trade and investment policy frameworks need to adapt.

Table 2 provides some specific examples of how recovery measures could be better aligned with trade policy for the countries included in Box 1, as well as some of the potential implications for AfT. It also shows how both economic and climate multipliers can both be high for specific economic measures adopted and their trade policy implications.

Table 2: Alignment of Green Recovery and Trade Policy and Implications for AfT

| COUNTRY | RECOVERY MEASURES | CLIMATE/ECONOMIC MULTIPLIERS | TRADE POLICY AND AFT IMPLICATIONS |
|-------------------|--|--|--|
| Asian country 1 | Special recovery package for construction | Potentially high, depending on use of environmentally friendly inputs and technologies | Currently no mention of how recovery will be supported by access to renewable energies and environmental goods and services and implementation |
| African country 1 | Rehabilitation of roads and access bridges | Low climate multipliers, but high economic multipliers | Currently no consideration of how climate-proofing existing infrastructure can be enabled by access to new technologies and implementation |

Adapted from Keane et al., (2021).

2.3 AFRICA'S GREEN RECOVERY

Focusing on other trade-related needs on the African continent (in view of it accounting for the largest share of LDCs), the African Union has articulated its green recovery objectives through the African Green Recovery Action Plan (GRAP). Efforts are underway to align with trade policy and the African Continental Free Trade Area (AfCFTA). The GRAP includes the following areas: climate finance; renewable energy; biodiversity and nature-based solutions; climate resilient agriculture; and green and resilient cities.

However, despite these high-level objectives, given the severe fiscal and capacity constraints within some African LDCs it is not possible to see the role of green trade policy clearly articulated in all cases (Table 3).¹⁶ This is a concern given how climate-related trade measures have the potential to affect major exports for LDCs, which indicates needs for new trade-related adjustment within Green AfT mechanisms.¹⁷ And it is despite a high level of ambition specified within nationally determined contributions (NDCs) - especially for adaptation to climate change, as well as its mitigation.

Table 3: Green Recovery Elements and Implications for Trade Policy and AfT

| COUNTRY | RECOVERY STRATEGY | ALIGNMENT WITH NDC | TRADE POLICY AND AFT IMPLICATIONS |
|-------------------|---|--|---|
| African country 2 | Subsidy for electricity use | Limited, seeks scaling up of renewables | Greater consideration of renewables needed and transition from fossil fuels |
| African country 3 | Investments in information technology | Adaptation efforts, links to SMEs. Youth employment | Cross border ICT integration, competition policy |
| African country 4 | Support for households, including reduced kitchen gas costs | Limited alignment given emphasis on renewables | Needs greater consideration |
| African country 5 | Renewable and fossil energy power plants | Commits to expansion of off-grid solar | Services, subsidies, tariff schedules, competition and investment – support for energy transition |
| African country 6 | Incentives for agro-processing | Seeks sustainable intensification of small-scale farming | Support for sustainable small-scale production |

Adapted from Keane et al., (2021).

Newly updated NDCs can provide an indication of demands for trade related support for transition and alignment with green trade policy and support measures like Green AfT. However, a concerted effort across multiple agencies is required to translate country ambitions into trade and investment policy roadmaps, particularly for capacity constrained countries. Currently the NDCs do not consider interactions with trade.

¹⁶ Keane et al., (2021) forthcoming.

¹⁷ See Gore et al. (2021).

2.4 ECONOMIC, SOCIAL AND ENVIRONMENTAL IMPACTS OF GREENING AfT

What may be the impact of moving from conventional AfT - with its rather more limited number of environmental indicators - towards greener AfT? How do we define Green AfT? We already know that the AfT initiative has been successful in supporting trade outcomes for recipients, reducing poverty and enhancing growth (Cali and Te Velde, 2011; Basnett, 2012), though more could be done to support structural economic transformation, particularly for African economies (Winters and Cirera, 2015). More recently, Hoekman and Shingal (2021) observe considerable heterogeneity in the trade effects of AfT allocated to individual services sectors, indicating the importance of country-specific diagnostics in targeting AfT allocation.

What is less clear is what the impact has been of the estimated cumulative total of AfT disbursements to date on the environment. And what could be the potential impact should AfT move towards a greener approach (Table 4), that could better support climate change mitigation and adaptation efforts? In this sense, it is useful to compare the resources disbursed through the AfT mechanism to date - which amount to over \$400 billion since 2006¹⁸ - compared to those demanded in terms of climate finance and adaptation - \$100bn a year by 2020. Generally, the AfT mechanism is viewed positively by recipients. In comparison, access to climate finance remains challenging and it can take years for accreditation and resources to flow.

Table 4: Moving towards Green AfT

| CONVENTIONAL AfT DEFINITIONS | GREEN AfT EXAMPLES |
|---|--|
| Technical assistance for trade policy and regulations (helping countries participate in negotiations, develop trade policies and strategies, and implement those policies and strategies) | Support for environmental trade negotiations and development of improved environmental regulations |
| Trade related infrastructure (building roads, ports, and energy and telecommunication networks) | Support for climate resilient infrastructure, renewables and the transition from fossil fuels |
| Building productive capacity and supply side capacity, including trade development (assisting countries to diversify their exports) and improved supply chains | Support for diversification into green products, services and supply chains |
| Trade related adjustment (assisting developing countries and LDCs with the costs associated with trade liberalization and loss of fiscal revenue). | Adjustment to green trade policies elsewhere, such as BCAs and enhanced due diligence in supply chains |
| Other trade-related needs (if identified as trade-related development priorities in partner countries' national development strategies) | Support for green recovery objectives and NDCs |

¹⁸ See OECD (2021).

2.5 DIAGNOSTIC TRADE INTEGRATION STRATEGIES FOR LDCs

Already within some Least Developed Country (LDC) Diagnostic Trade Integration Studies (DTIS) and in the Enhanced Integrated Framework (EIF)¹⁹ there is consideration of demands for greener AfT as indicated by Table 5. This includes the case of Pacific Island State 1. However, in other cases, there is a complete absence of any discussion of climate change – which includes the DTIS for Asian Country 2; the DTIS for Asian Country 2 is currently being updated and so this situation is likely to change, particularly as the existing DTIS was developed before new guidelines were implemented in 2016 to include more specific environmental objectives. However, what is clear is that there is a need for the AfT mechanism to consider both the effect of interventions on the climate and environment, as well as the effects of the climate on trade-related investments. By definition, LDCs exhibit high degrees of environmental vulnerability.

Table 5: Diagnostic Trade Integration Strategies (DTIS) and Climate/Environmental Considerations

| COUNTRY | MENTION OF CLIMATE CHANGE | MENTIONED OF LINKS TO TRADE AND CLIMATE POLICY |
|---------------------------------|---|--|
| Pacific Island State 1 (2009) | <p>Recommended actions: Any attempts to develop yield must be based on an understanding of environmental sustainability and climate change with reference to the tourism industry.</p> <p>Mentions carbon finance: voluntary carbon markets and forest carbon partnership facility; risks to skipjack stocks; and risks to coral health</p> | <p>Technical assistance to assess vulnerability and enhance preparedness and adaptation to climate change.</p> <p>Tourism strategy does not mention risks arising from climate change.</p> |
| Asian country 2 (2015 and 2016) | <p>Asian country 2 has an ambitious digital policy agenda that envisions utilization of information and communication technologies as pro-poor tools, "to eradicate poverty, establish good governance, ensure social equity through quality education, health care and law enforcement for all and prepare the country for climate change."</p> <p>From a broader perspective, natural disasters and global climate change pose major risks for Asian country 2.</p> | None |

Source: Diagnostic Trade Integrated Studies and Updates, various years
(<https://enhancedif.org/en/dtis>)

¹⁹ The Enhanced Integrated Framework for Trade-Related Assistance for the Least Developed Countries (commonly abbreviated as EIF) is a global development program with the objective of supporting least developed countries (LDCs) to better integrate into the global trading system and to make trade a driver for development. The EIF represents a

partnership between different stakeholders in international development assistance including several UN agencies, regional inter-governmental organizations and other donors. The EIF is being promoted by the WTO and the OECD as the preferred way to provide official development assistance to LDC's as part of the global AfT Initiative.

Looking ahead, it is clear that AfT as an international support mechanism will need to adapt. Given the dramatic improvements in the economics of green technology compared to those which are fossil-fuel based, and the global transition towards net zero, it is a misnomer to consider environmental objectives as trade-offs with economic and social goals: several green interventions can create twice as many jobs as conventional support measures;²⁰ investments in climate resilient infrastructure brings returns \$4 in benefits for every \$1.²¹ Given the imperative of structural economic transformation for development, as well as in order to adapt and mitigate climate change, it will be important to avoid limiting uses of old technologies and processes, and support competitiveness within future trading conditions.²²

However, varying country circumstances will have different implications for types of Green AfT, its provision and impacts. The major structural changes that will be needed require more than just consideration of how existing flows and mechanisms of AfT could be greener, but also how the mechanism can work more effectively with sources of climate finance in order to support the scale of transformation within fossil-fuel dependent economies and ensure just transitions.

In addition, it is important to consider how many of the longstanding issues around conventional AfT could become accentuated by the movement towards greener types, including concerning governance, additionality, as well as how to monitor impacts. At its inception, the AfT initiative responded to calls by developing countries for a greater focus on productive capacities. Over time, more specific mechanisms for LDCs have also responded to calls for improved governance of disbursements to avoid some of the tensions within conventional donor and recipient aid relations. However, these tensions do still remain. Within this context, first, it is important that efforts to green AfT are accompanied by broader institutional improvements within the overall system of trade, environment and economic governance. And second, there is need for a better understanding of how turning AfT green will help or hinder exports from developing countries and economic diversification.

²⁰ See: How to create twice as many jobs by integrating climate policies in COVID-19 economic recovery packages – An illustration from Cyprus (worldbank.org)

²¹ See: Putting Climate into Action in Green, Resilient and Inclusive Development (worldbank.org)

²² Indeed, The Technology Mechanism established under the Paris Agreement (Art. 10) seeks to accelerate, encourage and enable innovation for long-term global response to climate change

3. Justice aspects and developing countries

3.1 CONSIDERATIONS OF FAIRNESS AND RESPONSIBILITY IN ENVIRONMENT-TRADE DISCUSSIONS

A key theme of environment-trade tensions is how to ensure that responsibilities for environmental protection, sustainable use, and restoration are fairly applied within and between countries. A core priority is to find new ways to integrate considerations of fairness and responsibility into environment-trade discussions, recognizing that developing countries bear the greatest share of the economic costs of global environmental degradation and, at the same time, have the least resources available to support their transition towards more environmentally sustainable production and trade. Moreover, most smaller developing countries and LDCs have not significantly contributed to the environmental degradation, e.g., climate change.²³

In international environmental diplomacy, the responsibility of developed countries to support environmental action in developing countries is well-established, as is the notion that the economic burden of responding to global environmental problems should not fall on LDCs. The growing offshore environmental footprint of developed country consumption (through imported products) further reinforces the case for developed country aid to developing countries to support environmentally sustainable production and trade, build environmental resilience of their production and trade, and enable adaptation to changing environmental conditions.

Box 2: Examples of how green AfT can help developing countries build resilience and support efforts to achieve the SDGs include:

- Providing capacity-building support to help business take advantage of new green export opportunities and integrate into sustainable supply chains;
- Supporting the development of climate-resilient key trade-related infrastructure;
- Supporting climate change adaptation measures to enhance key export sectors such as tourism and agriculture;
- Promoting investment in renewables and the use of more efficient technologies in production processes; and
- Supporting trade policies that protect the ecosystems that underpin economic activity and trade.

²³ According to the Least Developed Countries Report 2017 by UNCTAD, less than 1 per cent of historical anthropogenic greenhouse gas emissions are accounted for by the least

developed countries. Available at <https://unctad.org/press-material/ldc-least-developed-countries-report-2017-facts-and-figures>

Options to boost the contribution of AfT to greening economies include:

- Raising awareness among donors and partner countries about the potential of AfT to promote resilience and green growth;
- Working with beneficiaries to help identify trade and environmental challenges and priorities;
- Mainstreaming climate and environmental considerations in AfT planning and projects; and
- Securing additional AfT funding including through working with sources of climate finance

Based on comments by Stacey Mills at webinar on greening AfT hosted by IISD on 25 June 2021

At the multilateral level, progress on the green trade agenda will require efforts to green existing trade-related capacity building for developing countries and to increase assistance for green trade.²⁴ WTO rules, non-WTO trade agreements and multilateral environmental agreements (MEAs) all include provisions committing developed countries to the provision of technical assistance and capacity building to developing countries.

3.2 AFT TRENDS AND NEEDS BEFORE AND IN THE WAKE OF THE COVID-19 PANDEMIC²⁵

While responding to the calls mentioned in the above sub-section, and to fully incorporate the justice and developmental aspects into both the process and the outcomes of AfT, a careful examination of the current context of AFT will be quite relevant.

Three broad trends could be observed in AfT before the Covid-19 pandemic.

Firstly, there has been some movement towards more general support for economic diversification and structural transformation in recognition of the needs and demands of developing countries and LDCs. While conscious of the urgent needs of social sectors (education and health, for example), many developing countries and LDCs were emphasising the importance of structural transformation of their economies for their sustainable growth and development.²⁶

Secondly, and with growing recognition of inter-linkages between trade on the one hand and issues such as gender, micro, small and medium enterprises (MSMEs), digitalisation and

²⁴ Deere Birkbeck, C. (2021), Green Aid for Trade and beyond: Trade, green economic transformation, and developing countries, Winnipeg: IISD and Forum on Trade, Environment and the SDGs, forthcoming.

²⁵ Sections 3.2 – 3.4 were written by Rashid S Kaukab, Executive Director, CUTS International Geneva, taking into

account the comments by Dr Jodie Keane, Senior Research Fellow (ODI) and Joachim Monkelbaan (QUNO).

²⁶ For example, please see Istanbul Programme of Action for LDCs, adopted by the UN LDC V in 2011. <https://www.un.org/ohrlls/content/istanbul-programme-action>

environment etc on the other, a move away from “trade-only” silo-ed approaches could be discerned. In fact, a number of indicators have been developed to measure the relevance and impact of specific AfT interventions on these other issues.²⁷ While positive, this move towards a multi-issue approach was often driven by AfT providers with beneficiary countries following the agenda.

Thirdly, one could also discern among the traditional donors an increasing trend to justify their aid in self-interested terms.²⁸ Arguably, this shift has possibly accelerated since Covid-19 with budgetary pressures on developed countries resulting in reduced foreign aid budgets, which would need to be used to achieve multiple (foreign policy), ranging from national security to trade promotion and sustainable development etc. One could also see a closer alignment of development assistance with donors’ foreign policy objectives, including through merging of independent development agencies with the ministries of foreign affairs (for example in Canada, Australia and, most recently, the UK).

Covid-19 pandemic and response measures sent powerful shock waves that have affected all aspects of economies and societies (Stephen Brown, 2021). The impact on AfT has manifested itself in two broad ways. One, the shrinking of AfT funding envelope due to both the reduction in overall ODA budgets of major aid providers and the need to direct the available funding to the more pressing challenge of the provision of Personal Protection Equipment (PPE), vaccines, etc. Two, the focus of the recipient countries has been to respond to the more immediate (and ongoing) aftermath of the pandemic to provide urgent support to people and businesses that may not be aligned with their longer-term developmental agendas increasingly based for achieving the Sustainable Development Goals (SDGs).

3.3 GREENING AFT: OPPORTUNITY, CHALLENGES AND RISKS²⁹

At the same time, and as is often the case in the aftermath of substantial shocks, there is an opportunity amid these formidable challenges. This can be the time to reset AfT for the next decade as part of the process to build back better. Ideally, the resetting should be based on the lessons learnt from the key developments in AfT before Covid-19 as well as the urgent adjustments made in AfT necessitated by Covid-19. The resetting of AfT will also be an opportune moment to increase its coherence with environmental objectives for at least two reasons. One, because there is³⁰ greater realisation of the links between economic activities

²⁷ These indicators include four specifically related to environment, i.e. climate change adaptation, climate change mitigation, desertification, and bio-diversity. Presentation by Olivier Cattaneo, Head, Policy Analysis and Strategy Unit, Cooperation Directorate, OECD at the Green Aid for Trade Session at the WTO Trade and Environmental Sustainability Structured Discussion (TESSD) on 27 May, 2021.

²⁸ The impact of COVID-19 on development assistance, Stephen Brown. *International Journal* 2021, Vol. 76(1) 42–54 <https://journals.sagepub.com/doi/pdf/10.1177/0020702020986888> accessed on 23 September 2021.

²⁹ Some of these points were made by third author Rashid Kaukab in his presentations to the session titled “Green Aid for Trade” of the meeting of the Trade and Environmental Sustainability Structured Discussions (TESSD) at the WTO on 27 May 2021; and the IISD-TESS webinar on “Greening Aid for Trade and the SDGs” on 24 June 2021.

³⁰ A practical opportunity for constructive discussions on the issue is also provided by the Trade and Environmental Sustainability Structured Discussions (TESSD) at the WTO which includes greening AfT on its agenda.

and environmental footprints, not the least due to the perceptibly reduced levels of environmental pollution in many parts of the world during the early period of the pandemic. Two, greening AfT would have better overall acceptance as part of a larger exercise of resetting AfT as part of the building back better process.

This promising opportunity can be realised by taking fully into account one major challenge and two key risks.

The major challenge is the apparent dichotomy of the need to do more with less. Meaningfully integrating environmental considerations into AfT will require commitment of larger financial and human resources. On the other hand, the overall amounts of development assistance may well contract due to the adverse economic impacts of the pandemic on major donors. While coherent approaches and synergies among various channels of development assistance can reduce this gap through efficiency gains, real impact will remain elusive without increasing the amounts for AfT. This is an absolute necessity to ensure that enough is done to make a real positive change. Otherwise, adding environmental criteria to AfT projects and programmes may be perceived as an additional conditionality.

Two key risks relate to the approaches that can erode collective ownership of a green AfT agenda, i.e., a top-down approach and/or a mechanical approach.

It is a fact that the main impetus for greening AfT is coming from mostly the stakeholders in developed countries, including the development assistance agencies and civil society. It will not be incorrect to say that most of the important groundwork to define relevant criteria, its measurement, monitoring and evaluation etc. is being undertaken by the same stakeholders and international organisations. The engagement of and inputs from stakeholders in developing countries – governments (including through coordination between trade and environment ministries), private sector and civil society – are quite limited. This poses the real risk of lack of ownership of the Green AfT agenda by the recipients who would be half-hearted partners to implement something that would have been designed elsewhere, no matter how thoroughly and sincerely. A sense of ownership among the recipients of AfT, on the other hand, will go a long way towards successful implementation.

This risk can be mitigated to a great extent by involving stakeholders from developing countries into the process to develop the methodology and criteria for integrating environmental considerations into AfT. Their involvement should neither be an afterthought nor participation towards the end of the process to mostly endorse the outcomes. Rather, their inputs should be diligently sought and incorporated. A participatory approach – as opposed to a top-down approach – will lead to a sense of collective ownership among both the AfT providers and the recipients. It will also improve the quality of the methodology and criteria as that will be based on the real experience of the stakeholders on the ground.

If the risk of a top-down approach is something that the AfT providers should be conscious of and avoid by adopting a participatory approach, the risk of a mechanical approach is to be avoided by the recipients. There is enough anecdotal evidence to suggest that the recipients

sometimes treat fulfilling various criteria as a mechanical exercise, i.e. ticking boxes. There are several reasons for that from inefficiency to lack of resources. Without in any way justifying such a mechanical approach, it is important to note that it often happens when the over-worked staff of recipients is asked to fill ever greater number of forms for the projects of same sizes.

The risk of a mechanical approach can be mitigated by keeping the AfT environmental criteria simple, realistic and in sync with the other criteria to ensure that the additional required effort is minimal and also meaningful for the recipients. Increasing the size of the projects and providing additional resources to fulfil the environmental criteria will also be needed.

3.4 ADDRESSING JUSTICE ASPECTS THROUGH SYNERGETIC AFT

There are good reasons to incorporate environmental considerations into AfT and the effort to build back better after the pandemic provides an exciting opportunity for doing that. At the same time, as the above brings out, such an exercise must be cognizant of the challenges and the risks. Main ingredients of a successful exercise will include:

- Truly participatory process where beneficiary stakeholders are equal participants
- Realistic and well-understood substantive methodology and criteria
- Adequate financial resources to ensure appropriate interventions and impact

Below Table 6 provides some concrete examples of integrating appropriate environmental dimension in the traditional AfT definitions in a holistic and synergetic fashion. This is based on the recognition that the traditional AfT definitions are still relevant and the resilient recovery from Covid 19 pandemic is a top priority for developing countries. Hence the table attempts to build on the traditional AfT definitions by looking at both the "Green" and "Covid 19 recovery" AfT examples to illustrations where all three are integrated. This should help better synchronise various elements in line with the needs of the recipients and the objectives of the providers.

Table 6: Synergetic Approach to Greening AfT – An Illustration

| CONVENTIONAL AfT | GREEN AfT | COVID 19 RECOVERY AfT | SYNERGETIC AfT |
|---|---|---|--|
| Technical assistance for trade policy and regulations (helping countries participate in negotiations, develop trade policies and strategies, and implement those policies and strategies) | Technical assistance for environmental trade negotiations and development of improved environmental regulations | Technical assistance for developing and implementing trade policies resilient to shocks | Technical assistance for developing and implementing holistic and resilient trade policies Technical assistance for improving coordination between trade (WTO) and environmental (UNFCCC) negotiators |
| Trade related infrastructure (building roads, ports, and energy and telecommunication networks) | Support for climate resilient infrastructure, renewables and the transition from fossil fuels | Support for digital infrastructure to promote e-commerce | Support for complementary and climate-resilient physical and digital infrastructure |
| Building productive capacity and supply side capacity, including trade development (assisting countries to diversify their exports) and improved supply chains | Support for diversification into green products, services and supply chains | Support to adapt to the shock to supply chains | Support for regional and sub-regional supply chains for green goods and services |
| Trade related adjustment (assisting developing countries and LDCs with the costs associated with trade liberalization and loss of fiscal revenue). | Adjustment to green trade policies elsewhere, such as BCAs and enhanced due diligence in supply chains | Support to bear the costs of trade disruptions (e.g. that are hardest hit like tourism) | Support to bear the total adjustment costs (due to multiple reasons) to critical trade sectors |
| Other trade-related needs (if identified as trade-related development priorities in partner countries' national development strategies) | Support for green recovery objectives and NDCs | Support for longer term sustainable recovery and resilience | Support to align trade policy and performance to the achievement of SDGs |

4. Ways forward

Increasing the sustainability impact of AfT will require coordination between all sources of finance and the integration of AfT within a large set of initiatives. In this context, there is a need for fostering a more integrated approach between multiple, but currently disconnected, sources of assistance that support greener economies in developing countries. This includes ODA, environmental and climate financing, trade finance, blended finance (green bonds) and AfT, the Green Climate Fund, and the Global Environment Facility – as well as wider international economic policy frameworks also relevant to the trade priorities of developing countries, such as debt relief.

While boosting AfT will require new resources, as well as enhanced partnerships, it can build on what is already in place. Across the range of international and stakeholder organizations engaged on environment and trade issues, a vast array of worthy AfT platforms, pilot projects, initiatives and collaborations already exist but are underfunded. Scaling-up resources for the plethora of existing initiatives is one clear pathway forward, as is establishing goals and methodologies for mainstreaming environmental considerations across AfT activities, supported by reporting systems for monitoring progress. As important as AfT may be, developing countries [have repeatedly] underlined that the growing emphasis on trade-related assistance to developing countries must not be a substitute for fairer trade rules and policy space to pursue national development strategies (CUTS International, 2005).

Another priority is to mainstream attention to environmental goals in AfT planning and projects, especially, for instance, infrastructure projects with significant potential for environmental implications, but also through specific support for ‘green’ projects, such as those focused on supporting climate-smart agriculture, natural resource value chains, and sustainable tourism.³¹ To this end, AfT environmental indicators need to be improved.

A third dimension is to add new resources to advance green goals through long-standing developing country priorities, like economic diversification and the scaling up of green exports. A related cross-cutting priority is building the competitiveness of micro, small, and medium-sized enterprises (MSMEs) in sustainable production and trade, including by fostering investment in supply-side capacity, trade finance and the ability of companies to meet environmental standards and acquire certification where relevant. In addition, developing countries require support to align trade with environmental policies, implement relevant provisions of trade agreements and environmental standards, identify national priorities on environment and trade, and engage effectively in related international negotiations.³²

On the climate front, green AfT priorities could include support to developing countries for climate-resilient production, adoption of climate-related standards, low carbon transportation systems, decarbonization of key polluting industries and participation in

³¹ World Trade Organization (2021), ‘Aid for Trade Workshops’, https://www.wto.org/english/tratop_e/devel_e/AfT_e/AfTworkshop50219_e.htm#sustainable (accessed 26 Feb. 2021).

³² ITC (2013), ITC at the WTO’s 4th Global Review of Aid for

Trade, ‘Mainstreaming environment into aid for trade: improving sustainability of global value chains’, <http://www.intracen.org/Mainstreamingenvironment-into-aid-for-trade-improving-sustainability-of-global-valuechains/> (accessed 26 Feb. 2021).

low-carbon supply chains.³³ In addition, countries that are especially vulnerable to climate impacts call for support for trade-related adaptation in the context of climate shocks and natural disasters, and climate-resilient ports as well as projects that support climate change adaptation among producers and exporters.³⁴

Finally, for many countries, greening trade requires massive economic transformation with implications for foreign exchange earnings and powerful commercial constituencies at the national level. Governments need financial support to address stranded assets, tackle employment losses, and retrain workers, as well as access to investment and technologies so that they can seize new opportunities in green industries and sectors. Efforts to improve the environmental sustainability of trade will also require significant investments in environmental law, institutions, and enforcement in developing countries.

These and other sustainability aspects of AfT need to be addressed at MC12 (e.g., through a Ministerial Declaration on AfT), including in discussions related to TESSD. In a wider perspective, reform of AfT could be better grounded given the objectives and specific targets of the SDGs. The forthcoming Aid for Trade Global Review provides an important opportunity to discuss how AfT can become greener while taking into account the needs and perspectives of developing countries.

Finally, to realize these opportunities and advance the discussion on mainstreaming environmental considerations in AfT and accelerate action on making trade work better for people and the planet, the following is required:

- Increasing awareness among donor and partner countries of the economic and environmental benefits of building climate resilience and leveraging trade to promote green growth.
 - Consulting widely with all relevant stakeholders to discuss the potential challenges and opportunities associated with mainstreaming environment in AfT and building consensus.
 - At the WTO, members can use regular meetings of the Committee on Trade and Development (which is the WTO body charged with the Aid for Trade Initiative) and the Committee on Trade and Environment to identify priorities, opportunities, and challenges related to green AfT and to develop concrete proposals for next steps.”
- add a bullet point saying: "Using meetings of the Committee on Trade and Development, the Committee on Trade and Environment, and TESSD to identify priorities, opportunities, and challenges related to green AfT and to develop concrete proposals for next steps.
- Developing a user-friendly methodology for systematically incorporating environmental and climate change objectives (adaptation and mitigation) in AfT projects building on current WTO dialogues and existing workstreams.
 - Identifying champions, from among both developed and developing country stakeholders, to lead on driving the Greening AfT initiative forward, building an evidence base, establishing a monitoring and evaluation system, as well as piloting different and synergetic approaches.

³³ ITC (2015), 'Environmental Mainstreaming: A Guide for Project Managers', ITC News, 17 October 2016, <http://www.intracen.org/news/Environmental-Mainstreaming--A-Guide-for-Project-Managers/> (accessed 25 Feb. 2021); ITC (2018), Publications Catalogue, 'SME Competitiveness Outlook 2018: Business Ecosystems for the Digital Age',

<https://www.intracen.org/publication/SME-Competitiveness-Outlook2018-Business-Ecosystems-for-the-Digital-Age/> (accessed 25 Feb. 2021).

³⁴ UNEP and Environment and Trade Hub (2020), Aid for Trade: A vehicle to green trade and build climate resilience

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