AID FOR TRADE AND THE GREEN GROWTH AGENDA

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The note highlights the potential role aid for trade can play in emerging green growth strategies and proposes that a note on this issue be presented during the second quarter of 2010.

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AID FOR TRADE AND THE GREEN GROWTH AGENDA

1. Introduction

1. The OECD’s role in aid for trade is to improve its effectiveness. During the Second Global review of aid for trade Secretary-General Gurria said that aid for trade should join up with the broader development agenda to 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.”

2. Greening the economy refers to the process of reconfiguring businesses and infrastructure to deliver better returns on natural, human and economic capital investments, while at the same time reducing greenhouse gas emissions, extracting and using less natural resources, creating less waste and reducing social disparities. Green growth must be shared growth. The World Bank suggests that developing countries can shift to lower-carbon paths while promoting development and reducing poverty, but this depends on financial and technical assistance from high-income countries.

3. Many problems facing the planet are global in nature and can only be addressed through international co-operation - an integrated approach is needed to tackle climate change, energy, biodiversity loss, trade, food security, growth and poverty alleviation. The immensity of the climate change problem is such that it must permeate through all of our thinking, including the areas of trade and development. Many developing countries depend on natural resource extraction/use and so will be very much affected by the green growth strategies of developed countries. There needs to be a discussion on ways to make aid for trade greener so that it can assist partner countries manage the threats and trade-offs that stem from climate change and take advantage of the opportunities of climate change mitigation. This approach is also complementary to the wider OECD work on green growth as a crisis response, and will help contribute to the OECD objective of creating a stronger, fairer and cleaner world economy.

4. This paper is not about greening trade (an issue that is amongst others addressed in the joint TC-EPOC), but about using aid for financing trade-related investments in a more sustainable manner. Aid for trade aims to help developing countries, particularly the least-developed, develop the trade-related skills and infrastructure that are needed to implement and benefit from trade agreements and to expand their trade. The objectives for aid for trade include increasing trade capacity, diversification, bolstering the private sector, regional integration and improving the conditions for economic growth and poverty alleviation.

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1 Remarks by Angel Gurría, OECD Secretary-General, for the launch of the second Global review on Aid for Trade Geneva, 6 July 2009 http://www.oecd.org/document/21/0,3343,en_2649_33721_43260693_1_1_1_1,00.html
2 UNEP Green Growth Initiative (GGI) http://www.unep.org/greeneconomy/
reduction. Aid for trade is a broad and somewhat nebulous concept. Trade needs by their nature inevitably overlap with many different needs e.g. transport infrastructure can affect trade, but also health, agriculture, disaster relief etc. Aid for trade is no substitute for a sound development strategy, but it can play a role in addressing challenges beyond the trade realm and help achieve broad development goals.

5. This note is intended to launch a discussion within the aid-for-trade community on where the green growth and the broad aid-for-trade agendas overlap. It suggests ways in which aid for trade can help partner countries achieve development and environmental objectives. The note outlines the issues and attempts to motivate further discussion rather than providing comprehensive treatment of the topic. The remainder of this note is structured as follow. Section 2 will explain the demand for this work from partner countries, regional and multilateral institutions as well as donors. Section 3 outlines how aid for trade can help and section 4 spells out more clearly how aid for trade can address some of the trade-offs and win-win situations presented by climate change. Section 5 suggests some next steps.

2. The Demand for and limits of Greener Aid for Trade

6. The green growth agenda has been embraced by many developing countries; some are already attempting to take advantage of emerging trade and investment opportunities caused by climate change. For instance, Rwanda embodies the understanding that maintenance of ecosystem services through reforestation and restoration is crucial for enabling economic development. Furthermore, the need for energy networks was clearly expressed in many responses to the Aid for Trade partner-country questionnaire and at the Global Review of Aid for Trade 2009. Some partner countries even went as far as identifying the need for renewable energy and innovative off grid energy solutions in their questionnaire responses. However it is likely that many partner countries will not prioritise green growth due to the 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.

7. 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. Finally, some 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.

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4 The Task Force on Aid for Trade outlined a broad set of activities which are encompassed by the aid-for-trade agenda. There are six categories of aid for trade: (i) trade policy and regulation, (ii) trade development, (iii) trade-related infrastructure, (iv) building productive capacity, (v) trade-related adjustment, (vi) other trade related needs

5 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 a landlocked country it is expensive to import coal, oil and gas. Irrigation projects now double-up as micro energy generation projects: villages that need water also need electricity. Source: http://www.odi.org.uk/events/report.asp?id=432&title=can-developing-country-needs-energy-be-met-without-causing-climate-change
3. **How can Aid for Trade help?**

8. There is a broadly perceived but misleading 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, particularly from a “well being” perspective. Aid for trade could play a role in making this possible.

9. Aid for trade not only provides a short term boost to the economy, through investment in infrastructure and trade promotion but it also seeks to improve the ability of developing countries to compete in the global market place. This assistance must place developing countries on a sustainable growth path. 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 trade growth is sustainable.

10. Aid for trade covers traditional needs related to trade such as overcoming constraints related to trade policy and regulations, and adjustment costs to trade reforms. But it also provides support for building productive capacity, toward diversification, trade-related infrastructure like transport and energy infrastructure. Aid for trade encompasses about 20% of ODA and is well placed to help developing countries build capacities that in turn can contribute to a healthier environment.

4. **Opportunities and Challenges**

11. Climate change is a significant threat to economic development and poverty reduction. Developing countries will bear the brunt of a problem not of their making. However they can act now to contribute to the international response to the challenges of climate change by following a greener growth path. In so doing they can take advantage of the emerging opportunities in energy, agriculture and trade.

12. Energy is one of the main constraints that prevent poorer regions from developing industry and diversifying their economic output. Africa needs energy to boost its own regional economies, including the electrification of the continent’s poor rural areas. Stable energy supply would boost agricultural productivity, and have positive impacts on health/sanitation, education, etc. Aid for trade covers energy and economic infrastructure and could help boost the productive potential of developing countries while stimulating the development of clean technologies. Although there are some efforts to promote clean energy and low carbon technologies in developing countries; the amount of investment required is high (and the opportunity costs of such measures should be evaluated). It is likely that many low-income countries can ill afford the opportunity costs involved. However it is also widely agreed that there is huge

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7 Total new concessional commitments which qualify as aid for trade reached more than USD 25 billion in 2007. On top of that, non-concessional lending from multilateral and regional organisations has added a further USD 27 billion in trade-related financing. Thus, in 2007 more than USD 52 billion was committed to tackle supply-side constrains in developing countries.

8 Growth diagnostic studies in many developing countries regularly identify constraints such as lack of grid electricity and poor infrastructure. Typically, levels of investment in the electricity sector in developing countries are around 50 percent 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 the adoption of clean energy technologies typically results in a “win:win” situation for developing countries: reducing costs and emissions.

potential for renewable energy in some developing countries which requires investment. There may also be an important role for biofuels where it does not compete with food production, e.g. Brazil has in partnership with the UK, transferred its bioethanol technology to Mozambique. Such technologies can help developing countries reduce their oil imports.  

13. Transport is an important and increasing source of emissions. Addressing the transport bottlenecks of developing countries is important but the implications in terms of emissions also need to be considered. The World Bank through its Clean Investment Funds is already working to provide public transport systems in developing countries which have less impact on emissions.  

14. Many developing countries have economic infrastructure deficits (transport, communications and energy). This constrains their adaptive capacity. A climate lens should be applied to make infrastructure resilient to anticipated climate change-related impacts” (OECD, 2009:180)  

15. Collier et al (2008) suggest that adaptation to climate change in Africa is primarily a private-sector response and should involve relocation of people, changes in the sectoral structure of production, and changes in crop patterns. They also suggest that adaption in Africa will be impeded by Africa’s fragmentation into small countries, and by poor business environments. Aid for trade aims to improve the business environment and make economies more resilient and responsive to future needs.  

16. 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 their production processes to future conditions. However, in the short-term there will be a more direct impact on trade from climate change mitigation policies. Policies oriented to low-carbon growth will have an impact on trade patterns, especially for products where transport costs are a large share of their value e.g. horticulture products exported from Eastern Africa to Europe or from Colombia to the United States. These products are highly dependent on air transport, meaning that low-carbon growth initiatives, such as carbon emission labelling, could shift production towards countries closer to large markets. 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.  

17. 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  


World Bank has many relevant activities through the Climate Investment Fund and the Clean Technology Fund (CTF), where energy and trade-related activities in developing countries intersect with approaches to combat climate change/environmental degradation. The Funds were established in 2008 and already have established a broad set of projects. More on these specific programmes detailed below can be found here.

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


Cirera (2009) “Changing the Aid for Trade Debate towards Content” IDS In Focus Policy Briefing
2009). There are also other ways developing countries can take advantage of the opportunities presented by global climate change mitigation efforts such as preserving natural habitats, environments and creating carbon sinks, eco-tourism etc.\textsuperscript{16}

18. Environment and health standards are becoming more important for producers in developing countries to penetrate international markets. Aid for trade through the Standards and Trade Development Facility (STDF)\textsuperscript{17} assists partner countries to put in place the structures and know-how they need to meet minimum environmental and health standards.

19. 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 essential. Aid financing (coupled with private sector initiatives) can act as a catalytic flow, coupled with technology transfer\textsuperscript{18} to help safeguard the role of trade as a tool for sustainable development.

20. There are lots of projects and activities happening right now and there has been a dramatic increase in substantive research on climate change and development\textsuperscript{19} and climate change and trade\textsuperscript{20}. It would be useful to synthesis this growing body of work and give the aid-for-trade community a sense of what is happening and how it intersects with work on aid for trade.

5. Next Steps

21. There is a risk that expectations for green growth may be too high; greener technology and energy 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. Climate change will have considerable consequences for the global trading environment and the prospects of developing countries. Aid for trade may be one channel to start a discussion on green growth in developing countries as they seek to build capacities and infrastructure for sustainable growth.

22. The aim of this work is to start a discussion on these issues among the aid-for-trade community. This discussion can link into OECD work on a Green Growth Strategy and help outline where trade-offs and opportunities exist for developing countries (which are an essential part of a strategy aimed at reducing carbon emissions), and how development cooperation in general and aid for trade in particular can assist in

\textsuperscript{16} http://news.bbc.co.uk/2/hi/science/nature/8139351.stm

\textsuperscript{17} See STDF background note on Climate Change, SPS issues and development http://www.standardsfacility.org/files/ClimateChange/STDF_Coord_292_BackgroundNote_Jun09.pdf

\textsuperscript{18} The trade-related aspects of intellectual property rights (TRIPS) Agreement include a number of provisions on technology transfer. For example, it requires developed countries’ governments to provide incentives for their companies to transfer technology to least-developed countries (Article 66.2).

\textsuperscript{19} See for example the UN’s “World Economic and Social Survey 2009: Promoting Development, Saving the Planet” http://www.un.org/esa/policy/wess/wess2009files/wess09/wess2009.pdf “The active participation of developing countries is now required and such participation can occur only if it allows economic growth and development to proceed in a rapid and sustainable manner.”

\textsuperscript{20} UNEP and WTO (2009) Trade and Climate Change http://www.unep.ch/eth/pdf/UNEP%20WTO%20launch%20event%2026%20June%202009/Trade & Climate_Publication_2289_09_E%20Final.pdf
this transition. There may also be some opportunities to link Green Growth and aid for trade in current work of the Network of Environment and Development Co-operation (ENVIRONET).21

23. We propose the presentation of a note to the second quarter 2010 meeting of the DAC- TC/WP. The aim of this paper is to discuss ways of raising the profile of green growth in partner-country strategies and donor programming of aid for trade. Furthermore, it is proposed that further work on this topic will be conducted in the context of 2011 – 2012 joint DAC – TC/WP programme of work and budget on aid for trade, output area number two, connecting aid for trade to the broader development agenda.

21 For more on ENVIRONET at OECD please see: http://www.oecd.org/department/0,3355,en_2649_34421_1_1_1_1_1,00.html