

Unclassified

COM/DCD/TAD(2010)5



Organisation de Coopération et de Développement Économiques
Organisation for Economic Co-operation and Development

11-May-2010

English - Or. English

DEVELOPMENT CO-OPERATION DIRECTORATE
TRADE AND AGRICULTURE DIRECTORATE

COM/DCD/TAD(2010)5
Unclassified

AID FOR TRADE AND THE GREEN GROWTH AGENDA

7 June 2010, OECD Conference Centre, Paris

This paper is submitted for COMMENT to the joint meeting of the DAC and Working Party of the Trade Committee for COMMENTS under item 5 of the agenda [COM/DCD/TAD/A(2010)4/PROV]

This paper discusses the role aid for trade can play in assisting partner countries to build their trade capacities and economic resilience in environmentally sustainable ways. It gives details of donor activities in three essential areas of aid for trade that are most relevant for green growth; energy, agriculture and forestry.

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JT03283447

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EXECUTIVE SUMMARY

This paper provides more details on ongoing OECD efforts in developing a 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. Furthermore, climate change and policies taken to mitigate it will shift patterns of comparative advantage and impact the production and trade strategies of partner countries.

It discusses the role aid for trade can play in assisting partner countries to build their trade capacities and economic resilience in environmentally sustainable ways. It gives details of donor activities in three essential areas of aid for trade that are most relevant for green growth; energy, agriculture and forestry.

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. The final completed paper on this issue will be presented at the DAC/WPTC on Aid for Trade in the autumn meeting. It will take account of the ongoing discussions on the Development Dimension of the Green Growth Strategy and provide more in depth analysis at the project level, with examples of current donor work and recommendations on how aid for trade can contribute to green growth.

AID FOR TRADE AND THE GREEN GROWTH AGENDA

1. Introduction

1. The OECD's primary role in aid for trade is to improve its effectiveness. During the Second Global review of aid for trade Secretary-General Gurría 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.*"¹

2. 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 sustainability, biodiversity loss, food security 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. This is why the OECD has launched work on a Green Growth Strategy (GGS). In June 2009 a Ministerial Declaration on Green Growth was signed by all 34 OECD countries. Ministers tasked the OECD with developing a Green Growth Strategy bringing together economic, environmental, technological, financial and development aspects into a comprehensive framework.

3. The United Nations Environment Programme (UNEP) defines greening the economy as a 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 fewer natural resources, creating less waste and reducing social disparities.² The World Bank suggests that developing countries can shift to lower-carbon growth paths while promoting development and reducing poverty. This, however, depends on the availability of financial and technical assistance from high-income countries.³

4. The active participation of developing countries in Global Green Growth is required but this can occur only if green growth delivers economic growth and development benefits to partner countries in a rapid and sustainable manner. Trade is an important aspect of the development dimension of the GGS (See Box 1) and essential in accelerating diffusion of Green Growth. Protectionism and green protectionism must be avoided as they would inhibit the key role that trade can play in transmitting new knowledge, technology and behaviour.

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/>

³ World Development Report 2010: Development and Climate Change which attempts to answer the following questions: What does climate change mean for development? What does development mean for climate change? What does all this mean for policy? www.worldbank.org/wdr2010

5. Aid for trade is about helping partner countries benefit from trade and as such could play a key role in green growth. Aid for trade is a broad and somewhat nebulous concept.⁴ Trade needs by their nature inevitably overlap with many different needs *e.g.* transport infrastructure can affect trade, but so does agriculture, or even health. 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.

6. In that context, it is useful to discuss 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, while taking advantage of the opportunities of climate change mitigation. This note is intended to launch such a discussion on where the green growth and the aid-for-trade agendas overlap and ways in which aid for trade can help partner countries achieve development and environmental objectives. The note outlines the issues to stimulate discussion rather than providing a comprehensive treatment of the topic.

7. The remainder of this note is structured as follows. 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 addressing some of the trade-offs and promoting win-win situations presented by climate change. In fact, some donors are already well advanced in designing projects that attempt to balance economic development with sustainability and environmental improvement. Section 4 suggests some next steps.

2. The Demand for Greener Aid for Trade

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.⁵ Aid for trade could play a role in making this possible. 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.

9. In particular, climate change will affect the trading environment and productive capacity, especially for developing countries. Jones and Olken (2010) examine historical data relating national weather variation to export performance.⁶ 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 suggests that trade is also an indirect channel through which climate change may affect the world economy.

⁴ The Task Force on AfT outlined 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 See Stiglitz - Sen Commission on the Measurement of Economic Progress and Social Progress <http://www.stiglitz-sen-fitoussi.fr/en/index.htm>

⁶ 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.

Box 1. OECD Green Growth Strategy and Development

Green growth is relevant for both, developed and developing countries. Common challenges include the need to improve energy efficiency and to shift towards low-carbon development pathways. G20 economies will have a particular important role to play in this regard. At the same time, 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 OECD Development Assistance Committee (DAC) through its Network on Environment and Development (ENVIRONET) 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. The Network on Poverty Reduction (POVNET) will also work on Pro-poor Green Growth.

1. Encouraging sound natural resources management and governance

As compared with OECD countries, many developing countries are heavily dependent on natural resources. Forests, fisheries, lands and wildlife are critical for the livelihoods of the poor. Therefore, natural resource degradation is a threat to both environmental sustainability and poverty reduction. Sound governance is critical to ensure sustainable and equitable management of natural resources. In many countries perverse incentives encourage rapid depletion of the resources base. Institutional and regulatory reforms are therefore often needed to address such perverse incentives. These include securing property or use rights and strengthening the institutions that govern the resources. Furthermore, in order to take full advantage of their natural resources, many countries need to move up the value chain, diversify their economies and take full advantage of the opportunities provided by international trade. This requires investment in infrastructure such as transport and energy and processing facilities. For example fisher folks with access to landing and refrigeration facilities as well as efficient transport networks can obtain much higher prices for their catch.

2. Shaping climate resilient growth

It is well understood that climate change poses a serious risk to lives and livelihoods, particularly for the world's most vulnerable people and countries. According to the most recent UN estimates, the livelihoods of one-third of the world's population could be affected by water scarcity by 2025 and by the end of the century; half the world's population could face severe food shortages due to rising temperatures. The impacts of climate change may reverse progress towards achieving the Millennium Development Goals. In this sense adapting to climate change is critical prerequisite for pro-poor green growth. Climate change adaptation needs vary widely across countries. Therefore, climate change adaptation responses should be country-driven, led by national and local governments, as well as private businesses and civil society actors including at the community level. Recognising climate risk in development planning at all levels allows to minimise the risk of "maladaptation", which increases climate vulnerability.

3. Promoting low-carbon growth

Although today most developing countries contribute only minor shares to global green house gas (GHG) emissions, they will increase their emissions if they follow conventional economic growth patterns. Moreover, deforestation and forest degradation are in many developing countries already a major source of GHG emissions. Less developed countries, therefore, can play an important in mitigating climate change. Fortunately there are many opportunities for development – climate change mitigation co-benefits. In particular, a shift away from traditional, highly polluting, energy sources (e.g. direct burning of biomass) towards modern energy sources provides a host of benefits ranging from enhanced health and safety to improved gender equality. Similarly, combating deforestation, if done right, can generate new income opportunities for forest dwelling communities.

4. Promoting Pro-poor Green Growth

POVNET will shortly initiate work in the area of Green Growth. Their focus will be on economic growth and poverty reduction, but with a perspective on greening that growth in ways that effectively promote sustainable long-term poverty reduction.

10. 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. 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. Consequently planned irrigation projects now also need to double-up as micro energy generation projects: villages that need water also need electricity.⁷

11. Furthermore, the need for energy networks was clearly expressed in many responses to the Aid for Trade partner-country questionnaire and at the 2009 Global Review of Aid for Trade. Some partner countries even went as far as identifying the need for renewable energy and innovative off grid energy solutions as aid for trade priorities. 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.

12. However, 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). 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 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).

13. 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 coordination between institutions and programmes could reduce potential conflicts between competing demands and agendas (ODI, 2010).

14. 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.

15. The African Development Bank (AfDB) Group is undertaking a study to produce an “Africa Green Growth Strategy”. It will present the draft Strategy at regional stakeholders’ workshops in August and September 2010. Next a pilot action plan will be established. This will include about five strategic pilot projects that focus on technology transfer of renewable energies as well as the need to ensure an appropriate political, institutional and regulatory framework that will support the sustainability of the green economy measures.

⁷ Source: <http://www.odi.org.uk/events/report.asp?id=432&title=can-developing-country-needs-energy-be-met-without-causing-climate-change>

16. As Collier et al (2008) note green growth struggles with similar challenges to aid for trade; for example, how to engage the private sector and how to address regional challenges in a coordinated manner. They suggest that adaptation to climate change in Africa is primarily a private-sector response involving relocation of people, changes in the sectoral structure of production, and changes in crop patterns (Collier, Conway and Venebles, 2008). They also suggest that adaption in Africa will be impeded by Africa's fragmentation into a large number of countries, by poor business environments and poor regional integration. Aid for trade aims to improve the business environment and make economies more resilient and responsive to future needs.

3. Opportunities and Challenges

17. 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 aid for trade also provides support for building productive capacity, export diversification, trade-related infrastructure like transport and energy infrastructure. Aid for trade encompasses 37% of sector allocable ODA⁸ and is well placed to help developing countries build capacities that in turn can contribute to a healthier environment.

18. As noted in Section 2, 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. According to Nick Stern, costs for low-carbon abatement opportunities requiring additional financing should be concentrated in three main sectors: energy, agriculture and forestry. The sections below outline potential opportunities⁹ while also pointing to donor projects which promote green growth.

Economic Infrastructure

19. Many developing countries have economic infrastructure deficits (i.e. transport, communications and energy). This constrains their adaptive capacity. Transport is an important and increasing source of emissions in the developing world. 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. A climate lens should be applied to make infrastructure resilient to anticipated climate change-related impacts" (OECD, 2009:180)¹⁰ Many donors such as the EU and Germany already internalise environmental implications and conduct environmental impact assessment and climate proofing. This section looks at specific issues for green growth in the energy sector.

⁸ Total new concessional commitments which qualify as aid for trade reached more than USD 41.6 billion in 2008. On top of that, non-concessional lending from multilateral and regional organisations has added a further USD 25 billion in trade-related financing. Thus, in 2008 more than USD 66 billion was committed to tackle supply-side constraints in developing countries.

⁹ There maybe ways developing countries can take advantage of the opportunities presented by global climate change mitigation efforts that are not considered in this paper such as preserving natural habitats, environments and creating carbon sinks, eco-tourism etc.

¹⁰ For more on adaptation to Climate change, see OECD (2009) Integrating Climate Change Adaptation into Development Co-operation: Policy Guidance.

Energy

20. Energy is one of the main constraints that prevent poorer regions from developing 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 and poor infrastructure. 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 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 donor involvement in renewable energy technologies typically results in a “win : win” situation for developing countries: reducing costs and reducing emissions.

21. Africa needs energy to boost its own regional economies, including the electrification of the continent’s poor rural areas. In areas that have access to the grid, addressing shortages is important. Shortages and unreliable electricity supply is a major source of physical investment loss. Indeed, some forms of investment cannot be considered as electronic components can burn out because of variations in power. This has for example inhibited the expansion of the textiles industry in Madagascar. Stable energy supply would boost agricultural productivity, and have positive impacts on health/sanitation, education, etc. Although there are some efforts to promote renewable energy and low carbon technologies in developing countries the amount of investment required is high and it is likely that many low-income countries can ill afford the opportunity costs involved.¹¹

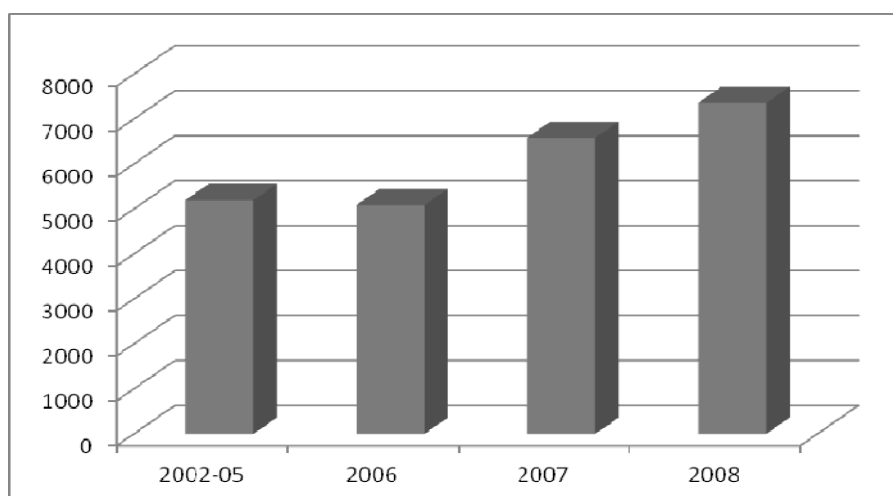
22. However it is also widely agreed that there is huge potential for renewable energy in some developing countries. There may also be an important role for bio-fuels where it does not compete with food production, *e.g.* Brazil has in partnership with the UK, transferred its bio-ethanol technology to Mozambique. Such technologies can help developing countries reduce their oil imports.¹² 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.

23. Priorities for green growth in energy include, i.) deploying on-grid renewable technologies using climate change related funding to cover incremental costs, ii.) develop off-grid renewable power and cooking/ heating technologies with co-benefits for development and iii.) support 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.

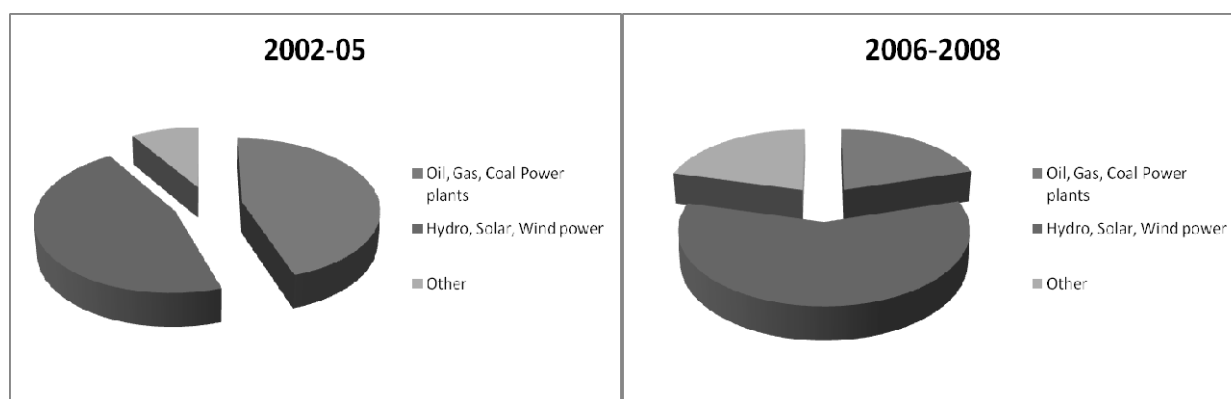
24. Aid for trade to the energy sector has been rising, highlighting the increased priority of energy in achieving a number of development objectives including the expansion of trade (figure 1). In 2008, energy represented 20% of total aid for trade flows. The figures below show the distribution of those flows.

¹¹ <http://www.odi.org.uk/events/report.asp?id=432&title=can-developing-country-needs-energy-be-met-without-causing-climate-change>

¹² <http://www.odi.org.uk/events/report.asp?id=432&title=can-developing-country-needs-energy-be-met-without-causing-climate-change>

Figure 1: Aid for Trade to the Energy Sector (USD m, 2008 Constant)

Source: OECD Creditor Reporting System (CRS)

Figure 2: Distribution of ODA to Energy projects (%) average 2002 - 2005 compared to 2006 -2008

Source: OECD CRS

25. 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. 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). A look at figure 2 shows a decline in ODA supporting oil, gas and coal. This change of prioritising different sources of energy was highlighted in the recent discussions between South Africa and the World Bank about a USD 3.7bn 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”.¹³ 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. This case highlights the difficulties of balancing economic necessity with adverse environmental consequences and that low carbon and environmentally-friendly energy approaches are not automatically win-win solutions.

¹³

<http://www.guardian.co.uk/business/2010/apr/09/world-bank-criticised-over-power-station>

26. For solar power, Japan provided USD 90m in ODA Loans for Egypt in 2008. The project aims to produce electricity, by the construction of 150MW integrated solar combined cycle power plant which is 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 wind energy, Spain provided almost USD 300m to Tunisia for wind energy parks in Metline and Kechabta in the region of Bizerte. Donors are also identifying points of interest and funding technical training.

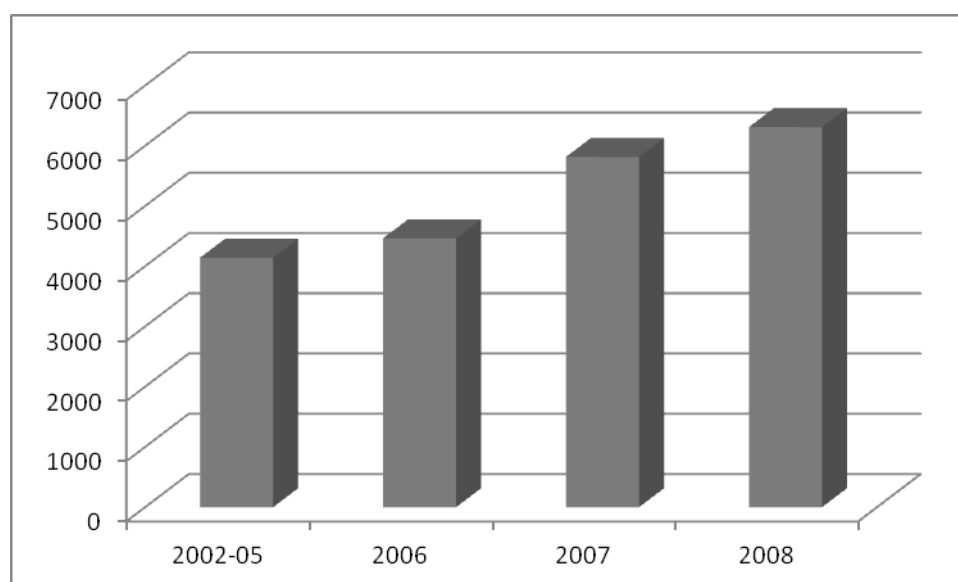
Building Productive Capacity

Agriculture

27. Aid to agriculture has increased in recent years and as donors respond to food crisis and food security, it is likely to increase further (Figure 3). 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.

28. For instance, the US organised workshops in 2008 supporting rural production of sustainable coffee and bananas. The World Bank provided loans of USD 30m 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.

Figure 3: Aid to Agriculture 2002-08 (USD m, 2008 Constant)



Source: OECD CRS

29. 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 affect 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 (Brenton, Edward-Jones and Jensen, 2009).

30. Questions have been raised about carbon labels and whether their objective is to raise environmental consciousness, or to inhibit international trade and further the interests of the countries imposing the labels (Nartova, 2009). In fact low-income countries may offer important opportunities for carbon emission reductions because of their favourable climatic conditions and use of low energy-intensive production techniques. For instance, Kenya is a more carbon-efficient location for cut flowers than the Netherlands, even if the emissions associated with airfreight are included (See Table 1). Emissions are shown as Global Warming Potential (GWP) expressed in kg of CO₂ equivalents.

Table 1: Carbon labelling for cut flowers produced in Kenya and the Netherlands

Supply chain section	Kenya	Netherlands
Production	300	36,900
Packaging	110	160
Transport to airport	18	0
Transport to distribution centre	5600	0
Transport to distribution centre from airport	5.9	50
Total	6,034	37,110

Source: Keane et al; (2010:3)

31. 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). Countries such as Malawi may need to adapt to a 20% reduction in agricultural export earnings as agricultural output falls as a result of climate change (Keane et al., 2009). 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.¹⁴

Forestry

32. 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 UN Framework Convention on Climate Change (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

¹⁴ Cirera (2009) "Changing the Aid for Trade Debate towards Content" IDS In Focus Policy Briefing

logging. But halting deforestation will require major development support, including for agricultural productivity and governance (Stern, 2009).

33. 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 2m 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 initiated. Finland also provides USD 12m 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.

34. Many donors also contribute to the World Bank Forest Carbon Partnership Facility. 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 10m for the Facility 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 program 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.

Other Important Trade Aspects of Green Growth

35. 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.

36. Climate change threatens to shift world patterns of comparative advantage in the production of many crops and livestock products. 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)¹⁵ 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. Countries have to adapt to climate change by shifting towards more sustainable agriculture practices. This may include, *inter alia*, minimum/no-till systems, crop-livestock integration (agro-silvi-pastoral systems), using resistant breeds, changing crop varieties in cropping patterns, inter-cropping/relay cropping, mixed tree/grass/crop systems, rotations, use of crop residues, and adopting new technologies for management of crops under stressful conditions (STDF, 2009:7).

37. 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

¹⁵ See STDF background note on Climate Change, SPS issues and development http://www.standardsfacility.org/files/ClimateChange/STDF_Coord_292_BackgroundNote_Jun09.pdf

communities is also essential. Aid financing (coupled with private sector initiatives) can act as a catalytic flow, coupled with technology transfer, to help safeguard the role of trade as a tool for sustainable development. The limited evidence, however, suggests that so far little is happening (figure 5 and 6 show the almost nonexistent transfers to Africa and LDCs for wind power and solar photovoltaics). Although the Clean Development Mechanism framework was designed to create technology transfer, only a limited number of projects do involve such transfers. 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). Expediting patent applications for greener technologies would also help facilitate trade and technology transfer.

Figure 4: Transfer of Wind Power

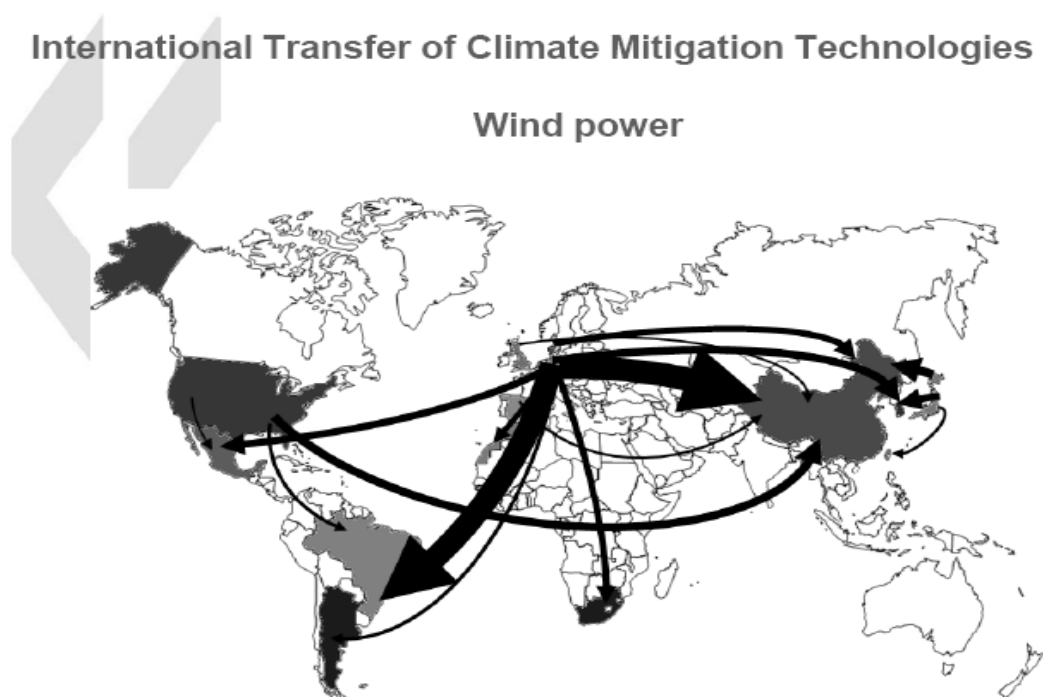
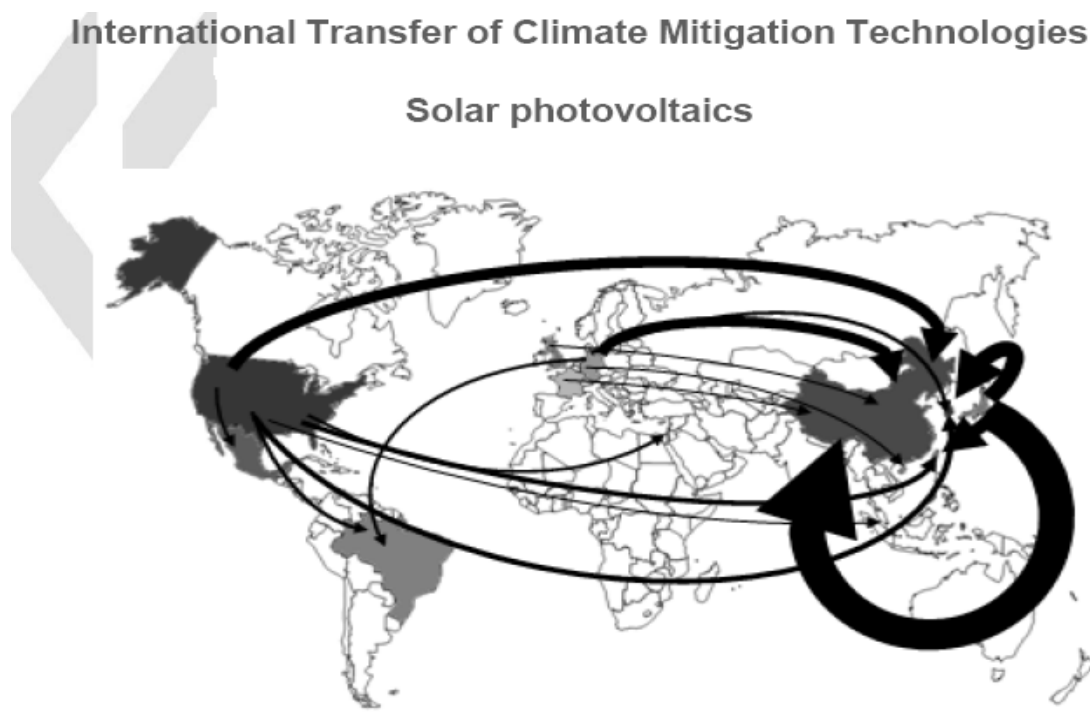


Figure 5: Transfer of Solar Photovoltaics



4. Next Steps

38. 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.

39. 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.

40. While the links between aid for trade and this broader environmental and growth agenda seem tenuous in places, this will likely change in the future. Our community cannot ignore this issue; increasingly we must consider how it will impact future progress. There will be tradeoffs and costs, but the costs of ignoring the issue will be higher and will bring into question the relevance of trade among the donor community.

41. 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. The final completed paper on this issue will be

presented at the DAC/WPTC on Aid for Trade in the autumn meeting. It will take account of the ongoing discussions on the Development Dimension of the Green Growth Strategy and provide more in depth analyses of the project level, with examples of current donor work and recommendations on how aid for trade can contribute to green growth.

42. 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.

43. We will work with POVNET to ensure the trade perspective is considered and potential trade-offs and challenges discussed in realistic ways. It will also be important to link Green Growth and aid for trade in current work of the Network of Environment and Development Co-operation (ENVIRONET).

5. Issues for Discussion

- Is aid-for-trade an appropriate vehicle for greening growth?
- Should Green Growth be an important issue for discussion as part of the aid-for-trade agenda?
- How might Green Growth affect donor actions on the ground? What are donors already doing to promote Green Growth?

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