

Issue Brief - April 2020

Aid for Trade: A vehicle to green trade and build climate resilience

Key Messages

- Aid for Trade (Aft) is a mechanism to support developing countries build the capacity and infrastructure needed to benefit from trade opening. It accounts for roughly 30% of Overseas Development Assistance (ODA).
- Developing countries face the challenge of “double exposure” to economic and environmental risks, such as commodity price volatility, climate change and desertification. This demonstrates the importance of integrative policy-making for development, as enshrined in the Sustainable Development Goals (SDGs).
- While some AfT programs contain explicit environmental objectives, a coherent framework to mainstream environment into all AfT projects and programs is required to enhance resilience and better enable countries to seize sustainable trade opportunities.
- This is essential to promote a ‘green’ post-COVID recovery and effectively support sustainable development, in line with countries’ commitments under the SDGs.
- UNEP is working with its partners, including the WTO, to advance the discussion on mainstreaming environment in AfT and accelerate action on making trade work better for people and the planet.

Introduction

The 2030 Sustainable Development Agenda highlights trade as an essential means of implementing the SDGs. In addition to accelerating green growth, trade can help countries to build resilience. Many developing countries face the challenge of “double exposure” to both economic shocks and environmental challenges, such as climate change.

The COVID-19 crisis has caused economic shockwaves around the globe highlighting the interconnectedness of countries through global value chains and the importance of a resilient

trading system. Indeed, a well-functioning, open trading system is vital for ensuring continued access to indispensable goods and services, including food and medical supplies. Appropriate trade policies and regulations can help accelerate the post-crisis recovery by, for example, lowering the cost of trade and expediting the movement of goods across borders. By putting sustainability front and centre in trade and investment decision making, countries can ‘build back better’, stimulating economic recovery while accelerating the green transition.

As AfT is linked to a broad set of sustainability objectives including poverty reduction, green growth and gender equality, potential exists for it to be harnessed as a means to help countries build climate resilience and promote export diversification into green sectors in support of the SDGs and their post-COVID recovery efforts. While some AfT projects and programs already contain explicit environmental objectives, a coherent framework to mainstream environmental considerations into all AfT projects and programs is required to ensure the initiative supports countries' sustainable development objectives.

What is Aid for Trade?

The Global AfT Initiative was launched at the Hong Kong WTO Ministerial Conference in 2005. Its purpose is to help developing countries, and LDCs in particular, to build the trade capacity and infrastructure they need to benefit from trade opening.

AfT covers four components:

- Trade policy and regulation:** Building capacity to formulate trade policy, participate in negotiations and implement agreements.
- Economic infrastructure:** Investing in the infrastructure – roads, ports, telecommunications, energy networks – needed to link products to global markets.

3. **Productive capacity building:** Strengthening economic sectors – from improved testing laboratories to better supply chains – to increase competitiveness in export markets.

4. **Adjustment assistance:** Helping with any transition costs from liberalization – preference erosion, loss of fiscal revenue, or declining terms of trade.

Figure 2: Aid for Trade Disbursements 2006-2017

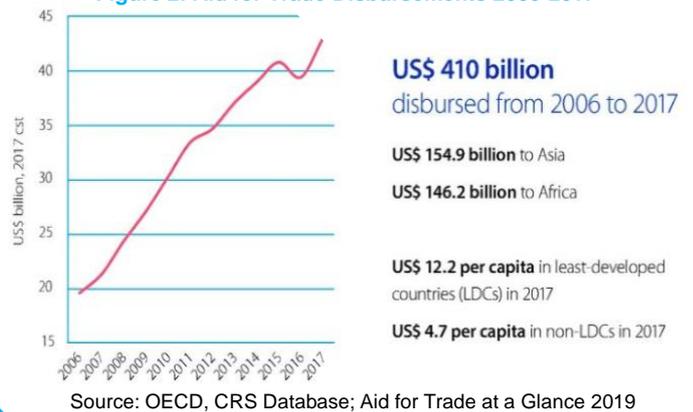


Figure 1: Aid for Trade Projects 2006-2017

A total of **178,141** Aid for Trade projects have been funded since 2006.
The median project size is **US\$ 98,400**.
The average project size is **US\$ 2.25 million**.



Source: OECD, CRS Database; Aid for Trade at a Glance 2019

AfT constitutes roughly a third of all ODA and more than USD 400 billion of AfT funding has been disbursed since the initiative was launched. Some 146 developing countries have received AfT, mainly in Asia and Africa, with 31% of the total going to LDCs. More than three quarters of total disbursements have gone to four sectors: transport and storage, energy generation and supply, agriculture, and banking and financial services. Far less has been allocated to trade policy and regulation and easing trade adjustment costs.

How does AfT function?

AfT is disbursed bilaterally by donors or through multilateral and regional finance/development organisations. Roughly one-third of AfT funds are delivered through multilateral institutions. The top ten largest AfT donors¹ (by volume) collectively account for 82% of total disbursements since 2006.

¹ Japan, the EU, the World Bank, the United States, Germany, France, the United Kingdom, the African Development Bank, the Asian Development Bank and the Netherlands.

The WTO participates in the disbursement of a very small share of AfT through the DDA Global Trust Fund, the Enhanced Integrated Framework, Joint Integrated Technical Assistance Programme, the Standards and Trade Development Facility, and the International Trade Centre. It cannot deliver development assistance itself as it is not a development agency.

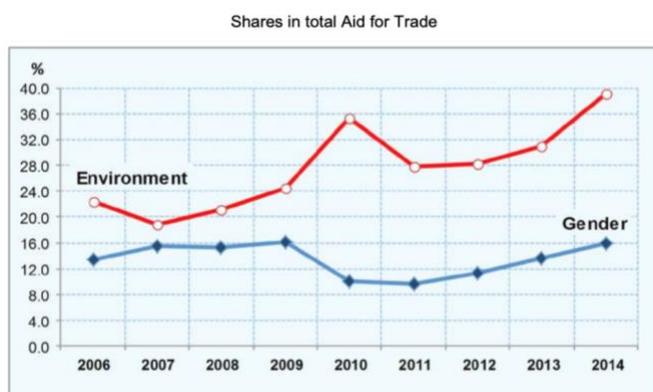
AfT is delivered as part of countries'/organizations' broader development programmes. A notable trend in the delivery of AfT is the growing importance of multilateral initiatives, multi-country programmes, and an increased focus on LDCs. The Enhanced Integrated Framework is the main mechanism through which LDCs access AfT.

As it is a cross-sectoral development co-operation programme, AfT involves complex stakeholder relationships between partner country governments, bilateral donors, multilateral and regional agencies, the private sector and other non-governmental organisations.

Can AfT help build climate resilience?

Many countries have indicated that AfT can bolster environmental outcomes and be a factor in improving a country's capacity to achieve the SDGs. The proportion of AfT investments with an explicit environmental objective averaged 20% in 2007 with this figuring increasing to almost 40% by 2014 (see Figure 3). These investments predominantly supported renewable energy projects, low-carbon transportation systems and sustainable agriculture.

Figure 3: Aid for Trade with an explicit Gender or Environment Objective



Source: OECD (2016), Aid for Trade and the Sustainable Development Agenda: Strengthening Synergies

AfT's contribution to climate resilience building and sustainable trade can be further strengthened through initiatives that, for example:

Trade policy and regulation

- Support for the development of trade policies and agreements that protect biodiversity and eco-systems that are important for tourism and other export sectors as well as for climate change adaptation.
- Build capacity to negotiate and implement trade agreements relating to the exchange of green goods, services, technologies required for climate adaptation, mitigation and disaster preparedness and response.
- Support the development and implementation of policies aimed at improving sustainability in global value chains as well as integration into these value chains.

Economic infrastructure

- Promote investment in renewable energy deployment and the adoption and promotion of cleaner and more efficient technologies in production processes.
- Support sustainable infrastructure development with comprehensive and integrated environmental protection and management components.

Productive capacity building:

- Build productive capacity in climate smart agriculture through improvements in technology and management practices, which can boost resilience in production and livelihood systems.
- Build capacity to take advantage of new 'green' market access opportunities through the adoption of sustainability standards and improvements to quality infrastructure.

Such initiatives would not only enable countries to more effectively adapt and build resilience to climate change but also foster a sustainable recovery and economic development through trade.

Moreover, by mainstreaming environmental considerations into all projects and programs, AfT can be better harnessed to help developing countries increase competitiveness and economic diversification, improve the environmental performance of key export sectors, reduce environment-related costs, support food and energy security, enable the building of climate-resilient infrastructure and ultimately improve livelihoods and long-term development.

Currently, significant funding gaps exist despite many developing countries' climate change needs being deemed 'urgent and immediate', especially in the area of adaptation. A complementary and reinforcing approach between AfT and the climate adaptation funds would likely bring additional benefit and greater effectiveness in tackling both climate change and trade-related issues in pursuit of the SDGs and a green post-COVID recovery.

UNEP's work in this area

UNEP's [Environment and Trade Hub](#) supports countries in using trade as a vehicle for achieving the SDGs by:

1. enhancing countries' capacities to build climate resilience and realise trade opportunities arising from the green economy transition;
2. assisting countries to strengthen the sustainability aspects of trade agreements;
3. supporting trade in environmentally sound technologies;
4. fostering public/private dialogues and partnerships to raise awareness and advance the global agenda on trade, resilience and the environment.

Through its work, the Environment and Trade Hub promotes mutually supportive trade and environment policies that better protect nature, build resilience and foster sustainable development. The Hub works closely with a network of partners and initiatives including the WTO, the [Green Growth Knowledge Platform](#) and the [Partnership for Action on Green Economy](#).

UNEP and WTO jointly initiated dialogues focused on exploring innovative ways to ensure

that trade and healthy environments reinforce each other and published a joint report entitled [Making trade work for the environment, prosperity and resilience](#). This report was launched by UNEP's ED and WTO's DG a joint [High Level Environment and Trade Day](#) at the WTO in late 2018.

At the WTO's Aid for Trade Global Review in 2019, UNEP and the EU hosted [an event](#) to discuss AfT as a vehicle for climate resilience. The event highlighted the immense challenge climate changes poses to developing countries and Small Island Developing States in particular, as well as the potential of AfT to help countries address these challenges and promote sustainable trade.

For more information, please see the related [webstory](#), [audio recording](#) and [video](#).

Next steps

To 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 stakeholders to discuss the potential challenges and opportunities associated with mainstreaming environment in AfT and build consensus.
- To jointly develop a methodology for systematically incorporating environment in AfT projects building such dialogues and existing work.
- Identifying champions, perhaps among the countries involved in the Friends for Advancing Sustainable Trade group, to lead on driving the initiative forward, building the evidence base, establishing a monitoring and evaluation system, as well as piloting different approaches.

