Greening Aid for Trade: Pathways for a just transition to sustainable trade

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Key Messages

Aid for Trade (A4T) should be viewed as a key part of the policy toolkit for trade and trade policies that advance sustainable development and respond to urgent environmental crises.

Greening A4T requires a nuanced approach that pursues simultaneous action through six complementary pathways underpinned by the sustainable development priorities of developing countries and LDCs.

The Eighth Global Review of Aid for Trade in July 2022 is an opportunity to consider how best to incorporate environmental considerations into an A4T agenda that supports a just transition to sustainable trade, guided by developing countries’ sustainable development objectives.

Key to success will be an investment in national processes in both developed and developing countries for integrated decision making and stakeholder consultation on the role of trade and trade policies in sustainable development—and the environment-related A4T priorities that flow from these.

Introduction

Addressing the urgent planetary crises of biodiversity loss, climate change, and pollution will require strong and durable efforts to harness trade and trade policy for sustainable development across its social, environmental, and economic dimensions. As governments, businesses, and citizens endeavour to promote the massive economic transformations needed to achieve a greener global economy and the United Nations Sustainable Development Goals

¹ This policy brief is adapted from a longer research paper authored by Carolyn Deere Birkbeck (forthcoming). Carolyn is Director of the Forum on Trade, Environment & the SDGs (TESS).
Greening Aid for Trade (A4T) is an important component of the financing and international cooperation required (United Nations, 2022).

This policy brief explores how A4T can be better harnessed to mobilize and channel the resources developing countries need to tackle challenges and seize opportunities at the intersection of trade, environment, and sustainable development. In 2019, A4T accounted for 23% of total official development assistance, and disbursements amounted to USD 46.6 billion (Organisation for Economic Co-operation and Development [OECD], 2021).

The starting point of this brief is that A4T is a key part of the policy toolkit needed for trade and trade policies to advance sustainable development and address international environmental priorities. Just as the pursuit of environmentally sustainable trade needs to be grounded in the wider economic and social dimensions of sustainable development, efforts to green A4T must recognize sustainable development as an overarching priority.

A4T also has a critical role to play as part of a comprehensive approach to a just transition to a green, inclusive, and resilient global economy. Such an approach must ensure that developing and least developed countries (LDCs) are in the driver’s seat—leading in the prioritization and coordination of A4T, including with regard to environmental sustainability objectives.

**Perceptions and Perspectives on Greening A4T**

**Recent Developments Relevant to Discussions on Greening A4T**

Calls for greater focus on environmental sustainability in the A4T agenda are gaining traction but are not new (United Nations Environment Programme [UNEP], 2020). Numerous proposals and reflections on ways forward are on the table.

At the World Trade Organization (WTO), the need for environment-related trade capacity building for developing countries has regularly arisen in discussions in the Committee on Trade and Development, the Committee on Trade and Environment, and the Committee on Technical Barriers to Trade, among others.

At the WTO’s 12th Ministerial Conference (MC12) in June 2022, WTO members highlighted the importance of providing relevant support to developing country members, especially LDCs, to achieve sustainable development, including through technological innovations (WTO, 2022a). At MC12, a new Fisheries Funding Mechanism was also created to support the implementation of the new fisheries subsidies agreement (WTO, 2022b).

Meanwhile, the importance of enhanced A4T to address the interface of trade, environment, and sustainable development has been affirmed in WTO ministerial statements on trade and environmental sustainability and on plastic pollution and environmentally sustainable plastics trade (WTO, 2021a, 2021b).

Beyond the multilateral trade arena, numerous bilateral trade agreements between developed and developing countries include environment or sustainable development provisions in which developed country governments commit to providing assistance and cooperation in a range of
areas. In addition, a number of multilateral environmental agreements include commitments to provide technical assistance and capacity building for the implementation of trade measures. More broadly, the UN SDGs include a commitment by governments to increase A4T support for developing countries, particularly LDCs (SDG 8).

In 2021, G20 trade ministers also affirmed the importance of “providing appropriate support to developing and LDCs in order to help their national transition towards resource-efficient, sustainable, climate- and environment-friendly development, enhance their resilience, and better enable them to seize sustainable trade opportunities through Aid for Trade” (G20, 2021).

A4T is provided by individual governments or through multilateral agencies but is guided by overarching multi-year work programs defined through the WTO Committee on Trade and Development and monitored through regular global reviews (Bellmann et al., 2021). The OECD and the WTO Secretariat work together to track A4T flows and lead work on the global reviews.

For the period 2020–2022, governments adopted an A4T work program with the theme “Empowering Connected, Sustainable Trade.” Results from the latest monitoring and evaluation exercise will be presented at the Eighth Global Review of Aid for Trade on July 27–29, 2022. The review will give governments and stakeholders a timely opportunity to assess how their A4T objectives can be updated to incorporate a stronger focus on environmental and sustainable development priorities informed by the SDGs and guided by developing country needs. Environment-related activities could be undertaken and strengthened in ways that support wider sustainable development goals in each of the key A4T categories through which trade-related official development assistance commitments are generally tracked and monitored: technical assistance for trade policy and regulations, trade-related infrastructure, building productive capacity, trade-related adjustment, and other trade-related needs.

Developing Country Perspectives on Greening A4T Discussions

To advance dialogue on a green A4T agenda that serves sustainable development, it will be vital to listen and respond to developing countries’ priorities and take into account wider national goals such as economic diversification, resilience, employment creation, and poverty reduction.

With developed countries devoting vast resources to transforming their economies and building competitiveness for a greener, low-carbon global economy, A4T is an important channel for much-needed support to developing countries in this area. At the same time, A4T is just one piece of a wider enabling and supportive policy environment needed to facilitate the shift toward greener, more inclusive economies that support sustainable development.

A key challenge for cooperation on environment and trade is to ensure a just transition and that responsibilities for greening the global economy are fairly applied within and between countries. In this spirit, developing countries call for integrating considerations of fairness and responsibility into green trade discussions—a framing that is also relevant to the A4T discussion.
An array of multilateral environmental agreements and international declarations firmly establish that the economic burden of the global response to environmental challenges should not fall on the world’s poorest and most vulnerable economies. They also establish the responsibility of developed countries to provide financial resources, capacity building, and technical assistance to bolster capacities in developing countries.

Yet, while this commitment—and in some instances, legal obligation—is included in a range of environmental treaties and trade agreements, there are well-recognized shortfalls in the scale of assistance provided and the ease with which developing countries can access it.

Stressing the financial and technical costs of a transition to a green economy, developing countries, also emphasize the relevance of the principle of common but differentiated responsibilities embedded in international environmental law. On the trade policy front, developing countries underline that the push to green the global economy should not result in unfair discrimination and unnecessary trade barriers, nor should it deepen the technology gap between developed and developing countries. They also emphasize the need for developed countries to both take action to green their own trade policies, including by eliminating trade-distorting practices that undermine sustainable development, and support opportunities for developing countries to participate fairly in environmentally sustainable supply chains (WTO, 2021c).

The historical responsibility of developed countries for environmental degradation along with the growing environmental footprint of developed country consumption in developing countries further reinforces arguments for enhanced environmental financing, fair trade policies, A4T, and debt relief to enable developing countries to address environmental challenges and pursue sustainable trade.

At the same time, as pressures on the environment escalate, a rising number of developing countries, concerned about their vulnerability to environmental crises and the knock-on effects on their economies and trade, are calling for trade-related assistance. Not only do climate change, biodiversity loss, resource depletion, land degradation, and pollution each have economic implications in developing countries, but they also impact their trade and progress on the SDGs.

Most developing countries fully appreciate the economic case for environmental action. They recognize the economic risks of inaction and that environmental sustainability can support resilience, long-term profitability, and access to competitive, high-return export markets. They also recognize that in many key global markets and supply chains, stronger environmental requirements are here to stay and that access to finance—from insurance to foreign direct investment—is also increasingly being tied to environmental performance. In this context, a forward-looking A4T agenda is one that sees developing countries as allies in the quest for trade that is environmentally sustainable and fair, and that fosters the partnerships vital to delivering on global public goods, from food security to public health to climate security.
Poor Governance of the Environmental Dimensions of A4T

At present, the A4T initiative does not have an overall framework or policy on mainstreaming environmental goals (UNEP, 2020, p. 2). While donors may use environmental policies, criteria, or impact assessments to guide their support or lending, these are at the discretion of the individual donors involved. Further, the environmental policies of different governments and international organizations vary widely with respect to their development assistance.

While a number of A4T projects relate explicitly to environmental goals, it is difficult to get an accurate picture of the share of A4T that is related to the environment. An overarching challenge, as alluded to above, is that not all A4T projects and activities are reported to the OECD for inclusion in its database. In addition, donor approaches to describing and categorizing the purpose and scope of their activities vary widely; this can lead to over-or under-reporting of the degree to which projects have an environmental purpose.

Since 1998, the OECD’s Development Assistance Committee (DAC), which brings together most but not all of the world’s major aid donors, has monitored aid targeting the objectives of the Rio Conventions on climate change and biodiversity through its Creditor Reporting System (CRS) using the “Rio markers.” This means that every aid activity reported in the CRS can be screened to determine whether or not it targets the Rio Conventions as a “principal objective or a significant objective” (OECD, 2021a). However, the Rio markers do not provide an accurate picture of the value of environment-related A4T (Cattaneo, 2021; International Institute for Sustainable Development, 2021). This is partly due to the different interpretations of donors as to what counts as environment-related A4T. While some figures cite environment-related A4T as reaching anywhere from 25% to 40% of A4T, a closer look at the actual projects and activities tagged as being relevant to the Rio Conventions reveals that many, in fact, have very limited environmental purposes or components. Indeed, a preliminary review by OECD staff estimates that fewer than 2% of the A4T projects have a clear environmental purpose (Cattaneo, 2021). This important discrepancy underlines the need for a clearer methodology and definition of environment-related A4T and improved reporting in order to have an accurate picture of the state of play.

At the OECD’s DAC, governments have adopted a number of guidelines for development assistance that are relevant to A4T. Much of the existing guidance is, however, over a decade old and warrants updating, especially to better integrate environmental considerations. In 2021, the OECD DAC took a concrete step forward with the launch of a Declaration on a New Approach to Align Development Co-Operation With the Goals of the Paris Agreement on Climate Change (OECD, 2021b). As A4T is part of the wider landscape of development cooperation, both this declaration and the action plan for its implementation will be directly relevant to the efforts of developing countries, donor countries, implementing agencies, and stakeholders to green A4T, especially with regard to climate-trade intersections.
Pathways for Greening A4T

Environment-Related A4T Priorities

The range of priorities that developing countries have identified for environment-related A4T includes support for scaling up environmentally sustainable exports and participation in green supply chains; a just transition to sustainability; and climate readiness, adaptation, and resilience. Drawing from views expressed by governments, international organizations, civil society groups, the private sector, and the research community, the following is a summary of some of the specific priorities that have emerged (Keane et al., 2021; Monkelbaan et al., 2021).

CROSS-CUTTING PRIORITIES

- Integrate environmental considerations into A4T projects and, conversely, integrate trade considerations into environmental projects supported through overseas development assistance and climate finance.
- Support the competitiveness of developing countries and LDCs in environmentally sustainable production and trade.
- Identify and promote opportunities for developing country exports of environmental goods and services as part of export diversification strategies.
- Enhance access to international markets for environmentally sustainable exports from developing countries.
- Support enhanced participation in—and returns from engagement in—environmentally sustainable supply chains.
- Support developing country producers to adapt to changing environmental and climatic conditions and regulatory frameworks.

THEMATIC PRIORITIES

- Integrate trade-related considerations into climate change mitigation and adaptation strategies.
- Facilitate affordable access to technologies and finance needed to leapfrog dirty industries and strengthen participation in supply chains for low-carbon goods.
- Invest in sustainable, climate-resilient trade-related infrastructure (IISD, 2020).
- Harness trade and trade policies to support the transition toward more circular economies that serve national sustainable development priorities.
- Support trade-related efforts to tackle plastic pollution, foster safe circularity in the plastics sector, and promote trade in non-plastic substitutes and environmentally sound waste management goods and services.
- Support sustainability in agricultural trade as well as the conservation and sustainable use of biodiversity.
• Boost the environmental sustainability of developing countries’ participation in value chains for natural resources.
• Support efforts to seize trade-related opportunities and address trade-related challenges linked to the blue economy.

POLICY AND INSTITUTIONAL PRIORITIES
• Support developing country engagement in the development and implementation of sustainability standards.
• Integrate environmental sustainability goals and considerations into national trade policies and strategies to advance sustainable development.
• Strengthen institutional linkages between trade, environment, and sustainable development policy-making at the national level.
• Enhance technical capacity on environmental issues that arise in trade negotiations.
• Support the implementation of environment-related provisions in trade agreements and trade-related provisions in multilateral environmental agreements.
• Build the capacities of developing country customs authorities to monitor environmentally sensitive trade flows and to implement environment-related trade measures to restrict environmentally harmful imports at the border.
• Support developing countries to access complementary sources of support for sustainable trade, including through climate finance, trade finance and private sector investment.

Pathways Forward for Greening A4T

Looking ahead, greening A4T calls for a nuanced approach combining action through six complementary pathways that are aligned with developing countries’ sustainable development priorities.

A first pathway is to mainstream environmental goals in A4T planning and projects in order to ensure that activities address and mitigate environmental risks and adaptation challenges while taking advantage of green trade opportunities. This approach is especially relevant for infrastructure projects that have significant climate, nature, or pollution implications as well as for projects in sectors with high environmental footprints, such as agriculture, natural resources, and tourism (WTO, 2019).

A second pathway is to secure new and additional resources for environment-related A4T activities rather than substitute existing support. Importantly, valuable and diverse A4T initiatives, pilot projects, and partnerships relevant to sustainable trade already exist, hosted by a range of international and stakeholder organizations. However, many of these remain underfunded and are sometimes unknown by potential recipients and donors (Deere Birkbeck, 2021). Scaling up resources for existing initiatives is an important way forward, along with awareness-raising and information-sharing about successes and lessons learned from existing approaches and projects.
A third pathway is to foster greater coherence between A4T and wider global policy agendas focused on fostering a green global economy, green COVID-19 recovery, the implementation of international environmental commitments, and the achievement of the United Nations SDGs. In developing and developed countries alike, the task of promoting the environmental sustainability of trade is intrinsically linked to the wider challenges of sustainable development and green economic transformation and transition. Progress will require greater integration and institutional cooperation between the many disconnected sources of assistance and finance intended to support environmental and sustainable development outcomes in developing countries, including official development assistance, environmental and climate financing, trade finance, blended finance (green bonds), debt relief, private sector investment, and A4T (Keane et al. 2021).

A fourth pathway is to ensure that A4T monitoring systems accurately capture and report information about the environmental purpose and impacts of A4T projects, and that this information is used to build an understanding of the linkages between environmental, climate, sustainable development, and trade goals, as well as ways in which A4T can be harnessed to increase synergies.

A fifth pathway is to integrate trade considerations into existing climate and environment funding initiatives and wider development assistance, especially for tradeable sectors where environmental concerns and opportunities are high (e.g., ranging from the blue economy and tourism to agriculture and natural resources).

Finally, greening A4T discussions should explore options for strengthening South–South cooperation on sustainable trade, including by learning from developing countries’ experiences and existing practices that support environmental sustainability in trade. Notably, South–South cooperation flows linked to trade are growing—and had already reached USD 9 billion in 2017 (OECD & WTO, 2019).

As emphasized across this brief, boosting A4T contributions to sustainability goals will also require complementary efforts to ensure that trade rules and policies reflect and address developing countries’ priorities and constraints. The shift to a green and inclusive global economy will require an enabling international policy framework that supports developing countries to be partners in and benefit from environmentally sustainable trade. This means avoiding the creation of unnecessary green trade barriers and reducing the environmental technology gap between developed and developing countries. It will also require rules and regulatory frameworks to ensure that businesses in developing countries can affordably access and adopt green technologies, goods, and services and secure market access for their green and sustainably produced exports.

Critically, harnessing A4T for a just transition to green trade that serves sustainable development will require putting developing countries in the lead—listening and responding to their priorities in the area of sustainable trade. This will require action at the national and international levels.

At the national level, ensuring that A4T is aligned with nationally defined sustainable development and sustainable trade priorities will require national-level leadership and coordination by developing countries of donors and donor projects. The formulation
of trade and sustainable development strategies would enable developing countries to develop the country-led frameworks and priorities needed to drive, coordinate, and ensure the effectiveness of A4T. In both developed and developing countries, investment in processes for integrated decision making across the range of relevant ministries and stakeholder consultations on the role of trade and trade policies on the economic, social, and environmental dimensions of sustainable development will be essential (Hoekman & Rojas-Romagosa, 2022). Here, governments can build on and better coordinate existing work on an array of existing national strategies, policies, and toolboxes designed to address the intersections of green economy, green industrial policy, climate, circular economy, and trade goals. On the donor side, governments could also add a review of their A4T commitments and disbursements for sustainability goals to their reporting in the WTO Trade Policy Review process.

At the international level, the transition to environmentally sustainable trade will require political decisions to update A4T commitments, priorities, targets and monitoring, underpinned by processes that better engage developing country governments and stakeholders in the task defining priorities of mainstreaming sustainability in A4T. A further priority is to catalyze synergies between the disconnected patchwork of actors working to green the global economy, focusing on the trade and sustainable development dimensions of this challenge. Top of the agenda should be stronger collaboration among the leading international public and private sector actors involved in financing at the intersection of trade, environment, and sustainable development.

**Next Steps for a Just Transition to Sustainable Trade**

Harnessing A4T to support just transitions to sustainable trade will require action through a variety of international processes and organizations. Following are steps that could be pursued in the short term, with a focus on the WTO and OECD.

The Eighth Global Review of Aid for Trade on July 27–29, 2022, provides a timely opportunity to review environment-related challenges and opportunities and to consider how best to incorporate environmental priorities into the A4T agenda in ways that serve the sustainable development objectives of developing countries.

Concretely, governments could pursue the development of a clear set of environmental goals, priorities, and targets for the A4T work program for 2022–2024, and support a just transition to sustainable trade. To support this work on an ongoing basis, they could agree to convene joint sessions of the Committee on Trade and Development and the Committee on Trade and Environment that focus on priorities at the intersection of A4T, environment, and sustainable development.

In addition, governments could call on the OECD and the WTO Secretariat, in coordination with A4T recipient countries, donors, and international organizations, to undertake the following actions:

- Conduct an environmental review of A4T to provide a clear assessment of the current state of play and priorities going forward. Drawing on consultations, this review could
analyze the environmental criteria used by A4T donors in their existing support; best practices in environmental risk and impact assessments; ways to improve monitoring of the environmental dimensions of A4T; strategies to promote greater synergies between A4T and other sustainable development and environmental financing initiatives; and mechanisms to improve the accessibility of information and facilitate knowledge exchange vital to enhanced cooperation in this area.

• Support country-led assessments of A4T needs, priorities, and roadmaps with respect to sustainable trade and environmental goals and the inclusion of this information in national trade policy reviews conducted at the WTO.

• Develop indicators for monitoring the environmental impacts of A4T at the project level and against key environmental goals, and develop strategies for addressing data constraints that may arise in developing countries in gathering relevant information.

• Develop best practices for designing and implementing A4T projects that support environmental sustainability objectives, including through (i) the development (in consultation with stakeholders) of updated OECD DAC guidelines on promoting and mainstreaming environmental sustainability in development assistance and (ii) the implementation of the new DAC guidelines on aligning development cooperation with Paris Agreement climate action goals.

• Explore ways to develop a more comprehensive overview of A4T by including information on A4T provided through South–South cooperation, such as through enhanced cooperation with the United Nations Office for South–South Cooperation or the United Nations Conference on Trade and Development.

Beyond the Global Review, governments can harness member-led initiatives at the WTO, such as the Trade and Environmental Sustainability Structured Discussions (TESSD) and Informal Dialogue on Plastics Pollution and Sustainable Plastics Trade (IDP), each of which highlight the importance of enhanced A4T for developing countries on issues related to environmental sustainability, to catalyze dialogue, share experiences and priorities, and bolster cooperation.

A final recommendation is for a high-level summit on Financing a Just Transition to Sustainable Trade in 2023. The summit would provide a much-needed opportunity to promote increased financing for the transition to sustainable trade and greater coordination among the array of actors engaged in development, trade, and environmental finance, including international organizations, governments, the private sector, and non-governmental stakeholders. Discussions would be grounded in the urgency of achieving shared global environmental goals and the SDGs, addressing the expressed priorities of developing countries and LDCs.

A more strategic approach to A4T and the bolstered partnerships needed to achieve a green and inclusive global economy are vital, given the enormous trade-related challenges facing developing countries, the huge gap between needs and available support for a just transition to sustainable trade, and the urgency and scale of intersecting environmental crises facing the international community. In 2022, WTO members have the opportunity to promote an A4T agenda that supports developing countries to build productive capacities to harness opportunities in green markets; achieve competitiveness in green supply chains; influence
and adapt to new environmental market requirements and regulations that impact trade; boost resilience, climate readiness, and adaptation in key export sectors and supply chains; build climate-smart, nature-positive, and resilient trade-related infrastructure; and boost access to additional sources of finance and investment. A just transition to sustainable trade, underpinned by strengthened A4T partnerships and developing country leadership on priorities, would yield benefits for all and for the planet.

References


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