PERSPECTIVE

GLOBAL AND REGIONAL ORDER

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Why the WTO and UNFCCC should work together more closely in the area of financing

By Leslie Sajous
March 2023

Aid for Trade finances projects involving the environment and combating climate change, but it has no formal framework or requirements that apply to this.

The procedures and requirements in order to apply for and receive funding under climate finance and Aid for Trade should be simple and user-friendly. Moreover, these processes should be streamlined as much as possible, e.g. by adopting some form of »single window« operations.

Much more needs to be done to improve both the quantity and quality of climate finance. Developing countries and LDCs continue to face many challenges in this regard, some of which are highlighted in this paper.

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Perspective Series: »Climate and Trade Communities: Joining Hands to attain a Prosperous and Sustainable Future« | N°2

Trade and climate change communities – including policy-makers, negotiators and other stakeholders – need to close ranks to achieve global prosperity for all in a sustainable future. This will only be possible through more intensive exchange and better communication between the two communities. To facilitate and promote this, FES Geneva and CUTS International Geneva are putting out three perspectives on issues involving both the multilateral trading system and the international climate regime, while traversing the spotlight to subject areas which are being addressed within the framework of both the United Nations Framework Convention on Climate Change (UNFCCC) and the World Trade Organization (WTO). This will nurture an understanding for these issues in a larger framework on the part of the trade and climate change communities.

Perspective N°2 in the series aims to provide and compare main elements of both Aid for Trade (AfT) under the WTO and climate finance under the UNFCCC with a view to identifying possible commonalities and differences. Financing capacity-building support for developing and least-developed countries is part of both the multilateral trading system and the international climate regime. However, the WTO and UNFCCC seem to be approaching this from silos. By breaking out of these silos, this important issue can be dealt with more comprehensively and effectively.

Developing countries face the challenge of »double exposure« to economic and environmental risks. This underscores the importance of assisting them in a coherent manner, by making available the funding needed to tackle these two types of challenges. Ideally, AfT and climate funding should be made available to developing countries while keeping in mind the interlinkages between trade and climate issues on the ground.

This paper explores steps that could be taken to promote more convergence between the two fora.

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INTRODUCTION

Aid for Trade (AfT) is a mechanism to support developing countries in building their capacity and infrastructure to benefit from trade liberalisation. Climate finance aims to transfer funds from parties with more financial resources to those that are less well-endowed and more vulnerable in order to build their capacity to mitigate it and cope with its consequences. The common principle here is to provide necessary and relevant support to developing and Least Developed Countries (LDCs) to better equip them and make them better capable of joining and benefiting from trade opportunities on the one hand, and to be better able to mitigate and adapt to climate change on the other.

Developing countries face the challenge of »double exposure« to economic and environmental risks. This demonstrates the importance of assisting them in a coherent way through necessary funding to tackle these two types of challenges. Ideally, AfT and climate finance should be provided to developing countries while keeping in mind the inter-linkages between trade and climate issues on the ground. AfT could integrate climate and environmental concerns more holistically, while climate finance could be provided while avoiding any limitations on trade for developing countries as well as any confusion with other types of development finance (i.e. double-counting). This is essential to promote a »green« post-COVID recovery and effectively support sustainable development in line with countries' commitments under the Paris Agreement and the Sustainable Development Goals (SDGs).

This paper seeks to shed light on past and current actions taken by both climate and trade communities on the issues of climate finance and AfT, respectively. Key principles and elements of best practices are highlighted in it for both fora. This is then followed by some suggestions on how the WTO and UNFCCC could move towards better convergence in both fora in order to leverage both types of development finance for trade and environmental sustainability. This will have to be done while avoiding the creation of new constraints for developing countries, and providing suitable assistance to them.

A ZOOM-IN ON CLIMATE FINANCE AT THE UNFCCC

According to the UNFCCC, climate finance involves »local, national or transnational financing – drawn from public, private and alternative sources of financing – that seeks to support mitigation and adaptation actions that will address climate change«.[1] The global climate finance architecture is complex and constantly in a state of evolution. Funds flow through multilateral channels – both within and outside the UNFCCC Financial Mechanism – as well as through bilateral and regional initiatives and channels. A growing number of recipient countries are also setting up national climate change funds that receive funding from multiple contributor countries in an effort to coordinate and align contributor interests with national priorities.[2]

The rationale behind providing climate finance rests on the principle of »common but differentiated responsibility and respective capabilities« (CBDR) set out in the Convention, where developed countries are required to support developing country members in the implementation of the objectives set out in the UNFCCC.

At the 15th Conference of Parties (COP15) of the UNFCCC held in Copenhagen in 2009, developed countries agreed that at least 100 billion dollars a year – from both public and private sources – would be given to developing nations from 2020 onwards. Yet despite this pledge, the 100 billion dollars goal has never been reached. An Organisation for Economic Co-operation and Development (OECD) report released in September 2021 admitted that »[c]limate finance provided and mobilised by developed countries for developing countries totalled 79.6 billion dollars in 2019, up 2 per cent from 78.3 billion dollars in 2018.«[3] The Paris Agreement reaffirms the obligations of developed countries, while for the first time also encouraging voluntary contributions by other Parties.[4] In Paris, members called for a concrete roadmap to achieve the goal, and agreed that prior to 2025 the Conference of the Parties (COP), which serves as the meeting format for the Parties to the Paris Agreement (CMA), is to set a new collectively quantified goal from a floor of 100 billion dollars per year.

To facilitate the provision of climate finance, the Convention established a financial mechanism to provide financial resources to developing country parties. In Article 11, the Convention stipulates that the operation of the Financial Mechanism is entrusted to one or more existing international entities. Accordingly, the operation of the Financial Mechanism is partly entrusted to the Global Environment Facility (GEF). At COP17, the parties decided to designate the Green Climate Fund (GCF) as another operating entity of the Financial Mechanism of the Convention. The Financial Mechanism is accountable to the COP, which decides on its climate-change policies, programme priorities and eligibility criteria for funding.

In addition to providing guidance to the GEF, Parties have established other special funds, such as the Special Climate Change Fund (SCCF), the Least Developed Countries Fund

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1 UNFCCC. 2021. Introduction to Climate Finance. https://unfccc.int/topics/introduction-to-climate-finance#:~:text=What%20is%20climate%20finance%3F,that%20will%20address%20climate%20change (accessed on 20 February 2023).

2 Climate Funds Update. Global Climate Finance Architecture. https://climatefundsupdate.org/about-climate-finance/global-climate-finance-architecture/ (accessed on 20 February 2023).

3 UNFCCC. 2021. The Climate Finance Question. .https://unfccc.int/blog/the-climate-finance-question (accessed on 20 February 2023).

4 Ibid.

(LDCF), and the Adaptation Fund (AF).[5] Box 1 provides brief information regarding these. Below is a brief description of the different funds mentioned:

Box 1
Main Funds Established to Provide Climate Finance

- The Green Climate Fund: Set up by the UNFCCC in 2010, it is the world's largest fund devoted to helping developing countries reduce their GHG emissions and adapt to the impact of climate change, paying particular attention to the needs of the most vulnerable countries. The GCF plays an essential role in compliance with the Paris Agreement, channelling climate finance to developing countries.
- The Special Climate Change Fund: Administered by the Global Environment Facility (GEF), it offers four different finance services: adaptation to climate change; technology transfer; energy, transport, industry, agriculture, forestry and waste management; and economic diversification for countries dependent on fossil fuels.
- The Least Developed Countries Fund: Also administered by the Global Environment Facility (GEF), its purpose is to support the almost 50 countries classified as least developed by the United Nations to tackle their high vulnerability to climate change and implement their national adaptation plans.
- The Adaptation Fund: It was established in 2001 to finance concrete adaptation projects and programmes in developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change. The Adaptation Fund is financed with a share of proceeds from the Clean Development Mechanism (CDM) project activities and other sources of funding.

At the Paris Climate Change Conference in 2015, the parties agreed that the operating entities of the financial mechanism – GCF and GEF – as well as the SCCF and the LDCF are to serve to promote implementation of the Paris Agreement. Regarding the Adaptation Fund focusing on the Paris Agreement, negotiations are under way in the Ad hoc Working Group on the Paris Agreement (APA). The second commitment period of the Kyoto Protocol came to an end on 31 December 2020, leaving the fate of the CDM uncertain.[6] Alarmingly, at COP27 in 2022, many developing and least-developed countries lamented how most developed countries have failed to fulfil their financial commitments regarding the Adaptation Fund that were pledged by that date.

It is also worth noting that at COP16 in 2010 the parties decided to establish the Standing Committee on Finance (SCF) to assist the COP in exercising its functions in relation to the financial mechanism of the Convention. At present, the SCF has four specific functions: (i) assisting the COP in improving coherence and coordination in the delivery of climate change financing; (ii) assisting the COP in rationalisation of the financial mechanism of the UNFCCC; (iii) supporting the COP in the mobilisation of financial resources for climate financing; and (iv) supporting the COP in the measurement, reporting and verification of support provided to developing country parties. Furthermore, the SCF is intended to improve linkages and to promote coordination with climate financing-related actors and initiatives both within and outside of the Convention.

THE LOSS AND DAMAGE FUND

Most importantly, parties at COP27 took the historical decision of also establishing a Loss and Damage Fund to help developing countries cope with the adverse effects of climate change. The problem remains in deciding exactly which countries are going to pay for the Fund and which countries are going to benefit from it. Discussions about operationalisation of the Fund have been reserved for COP28, where a transitional committee is to forward recommendations.

The decision on the Fund aims at »identifying and expanding sources of funding,« suggesting that not only developed countries, but possibly highly polluting developing nations as well might be expected in the future to finance the Fund. This wording might also imply the inclusion of public sources, such as international financial institutions and private entities, including businesses, among the actors contributing to it. In the meantime, five European countries have already unilaterally committed to addressing Loss and Damage: Austria, Scotland, Belgium, Denmark and Germany. Scotland has announced it will contribute 5 million pounds, while Germany has committed to 170 million Euro, Austria to 50 and Belgium to 2.5 million Euro, respectively.

SOME CHALLENGES RELATING TO CLIMATE FINANCING FOR DEVELOPING COUNTRIES AND LDCS

There is much more that needs to be done to improve both the quantity and quality of climate financing to ensure that it serves its intended purpose. Developing countries and LDCs continue to face many challenges in this regard, some of which are highlighted below.

Lack of transparency of climate finance

The Paris Agreement marked a step forward in reporting and improving transparency of climate finance, which is essential to ensuring appropriate climate financing for developing countries. Members continue to report every two years on the funds they have provided and mobilised, but have also started reporting on public funding they intend to provide in coming years. The Agreement also encourages developing

5 CUTS. 2016. Climate Finance – Where are the UNFCC parties at and where they should aim to go to better support LDCs & developing countries? https://www.cuts-geneva.org/pdf/BP-EACCCF-3.pdf (accessed on 20 February 2023).

6 Climate Focus. What is the future of the CDM? https://www.climate-focus.com/publications/what-future-cdm-questions-and-answers (accessed on 20 February 2023).

countries to report on financing received as well as their needs. This can help improve tracking of funding commitments.[7] However, this requires a tremendous utilisation of resources for countries to be able to monitor the funds efficiently. Developing and least developed countries often do not have the financial, human and technical capacities to do this; hence they should receive appropriate support in this endeavour.

Transparency also remains a challenge when it comes to how emission reductions are actually calculated. »In many funds the accounting of emissions reductions achieved is lacking, both in terms of providing results measurement, but also in transparent disclosure of how those results were achieved and aggregated,«[8] according to Liane Schalatek, Co-Founder of Climate Funds Update. Often information provided is based on calculations made prior to the implementation of projects, which might never be achieved; moreover, for different projects different methodologies are often used to estimate emissions.[9]

Limited quantity & quality of funding towards the »100 billion« goal

It is well known that the 100 billion dollars target set at Copenhagen in 2009 has not yet been reached. The issue is not just the quantity of funding, however, but also the quality. There is a feeling among many observers that OECD-DAC reporting is afflicted by over-counting; when donors overcount the climate change value of a development project, climate change is just one aspect of a broader program of what is termed »climate finance« (especially related to adaptation). An increasing share of climate finance is also provided in the form of loans. These include loans for adaptation and for Small Island Developing States (SIDS) and Least Developed Countries (LDCs), and include non-concessional loans (according to the OECD this was 30 billion dollars in 2019, accounting for a growing share of climate finance, and doubling the amount provided in 2015).[10]

However, to support the transition to net zero and climate-resilient economies, obtaining both public and private finance flowing is crucial, especially to emerging markets and developing economies. Under the UK's COP26 & G7 Presidencies, a move towards this goal can be discerned. G7 countries have committed new financial resources towards the 100 billion dollars mark as climate financing goal, including more funding for adaptation.[11] This is the case with regard to the European Commission, which announced a new pledge of 100 million Euro in financing for the Adaptation Fund on the sidelines of the last COP.[12] Last September, US President Joe Biden also asked Congress to double the current US pledge of 11 billion dollars a year in climate financing by 2024.[13]

Over-reliance on private-sector financing & the imbalanced climate financing allocation

Another challenge warranting mention is the tendency to rely on private-sector commitments that has been quite noticeable over the last years. Private companies and organisations are playing an ever more prominent role in UNFCCC negotiations, especially since Paris in 2015. A shift of financing from traditional to the green economy/development is critical, and private sector players may have an impact on developing countries in terms of how and to what extent they are able to attract/access climate financing. In fact, the financing of climate adaptation projects is less »commercially attractive« than climate mitigation ones. There has been an inherent funding bias (more than 80 per cent) in favour of climate change mitigation activities. According to a recent paper in the journal *Sustainability,* this heavy bias in favour of mitigation and to the detriment of adaptation can largely be attributed to two factors[14]:

- Results from mitigation investment are perceptible in the short run, e.g. returns on investments in energy efficiency or in renewable energy can be perceived through the financial cost savings, as well as from the estimable break-even periods. The same is not true for adaptation projects. For instance, returns on investment in cyclone-resistant structures might not be perceptible if cyclones do not occur.
- Adaptation projects find less traction amongst funding agencies because of the »public goods« nature of such projects. Large parts of the public-sector climate finance for climate-change mitigation leverages private-sector finance, and the private sector does not consider financing »public goods« as viable investment.

This is illustrated by the 2020 climate finance figures. While 1.6 billion dollars of private financing was spent on mitigation projects, only 586 million dollars was earmarked for adaptation projects (although 894 million dollars was expended on projects that focused on both mitigation and adaptation).[15] This showcases that public financing institutions such as the GCF should not be forgotten due to their pool of experience

7 CUTS. 2016. Climate Finance – Where are the UNFCC parties at and where they should aim to go to better support LDCs & developing countries? https://www.cuts-geneva.org/pdf/BP-EACCCF-3.pdf (accessed on 20 February 2023).

8 UNFCCC. The Climate Finance Question. URL: https://unfccc.int/blog/the-climate-finance-question (accessed on 20 February 2023).

9 Ibid.

10 Ibid.

11 British High Commission Islamabad. 2021. COP 26 ends with global agreement to speed up action on climate change. https://www.gov.uk/government/news/cop-26-ends-with-global-agreement-to-speed-up-action-on-climate-change (accessed on 20 February 2023).

12 European Commission. EU at COP26: Commission pledges 100 million Euro to the Adaptation Fund. https://ec.europa.eu/commission/presscorner/detail/en/IP_21_5886 (accessed on 20 February 2023).

13 UNFCCC. The Climate Finance Question. https://unfccc.int/blog/the-climate-finance-question (accessed on 20 February 2023).

14 ORF. 2021. The enduring challenges in mobilising green finance. https://www.orfonline.org/expert-speak/the-enduring-challenges-in-mobilising-green-finance/ (accessed on 20 February 2023).

15 UNFCCC. The Climate Finance Question. https://unfccc.int/blog/the-climate-finance-question (accessed on 20 February 2023).

and toolsets. They can pay for goods and services that private actors cannot or will not pay for, and which can help investors manage risks.[16] For instance, COP27 pointed out the need to invest from 4 to 6 trillion dollars in renewable energy per year up until 2030.

A ZOOM-IN ON AID FOR TRADE AT THE WTO

At its 6th Ministerial Conference held in Hong Kong, China in 2005, the WTO launched AfT with the goal of supporting developing countries in building their capacity and infrastructure for trade.[17] The WTO does not fund AfT directly, but recognises its role as an international trade institution helping to create a »more coordinated international policy«[18] that would facilitate better use of AfT.

AfT is a broad concept and not easily defined. It furnishes support for four types of activities:

- Technical assistance for trade policy and regulations (helping countries participate in negotiations, develop trade policies and strategies, and implement these policies (including WTO agreements) and strategies);
- Trade-related infrastructure (building roads, ports, and energy and telecommunication networks);
- Building productive capacity and supply-side capacity, including trade development (assisting countries in efforts to diversify their exports) and improved supply chains; and
- Trade-related adjustment (supporting developing countries and LDCs with regard to the costs associated with trade liberalisation and loss of fiscal revenue).[19]

FINANCIAL AND THEMATIC SCOPE OF AID FOR TRADE

AfT constitutes roughly a third of all Official Development Assistance (ODA), and more than 400 billion dollars 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 per cent of the total going to LDCs.[20] Transport and storage, mainly road transport, energy generation and supply, agriculture as well as banking and financial services account for about 75 per cent of AfT's total disbursements.[21] Far less funding has been allocated to trade policy and regulation and easing trade adjustment costs.[22]

Most AfT funds are disbursed bilaterally by donors, with only about one-third of AfT funds being delivered through multilateral institutions including multilateral and regional finance and development organisations, such as the World Bank and regional development banks.[23]The WTO participates in the disbursement of a very small share of AfT through the Doha Development Agenda (DDA) Global Trust Fund, the Enhanced Integrated Framework (EIF), Joint Integrated Technical Assistance Programme (JITAP), the Standards and Trade Development Facility (STDF) and the International Trade Centre (ITC). It cannot deliver development assistance itself, as it is not a development agency, even though it plays an important catalytic role.[24]

In recent years, the amount of loans that have been offered has increased, while the amounts of grants have decreased; in 2019, the share of loans exceeded that of grants, at 59 per cent and 41 per cent, respectively.[25] Projects are funded directly in beneficiary countries by bilateral and multilateral donors. South-South partners are also playing an increasingly important role in financing. The WTO Secretariat and the Organisation for Economic Co-operation and Development (OECD) work together to monitor AfT flows and conduct periodic global reviews. Within the WTO, the topic of AfT lies in the domain of responsibility of the WTO Trade and Development Committee (CTD).[26]

GREENING AID FOR TRADE: STATUS AND IMPLEMENTATION CHALLENGES

The AfT finances projects linked to the environment and combating climate change, but it has no formal framework or requirements for doing so. On 26 October 2021, at the Global Leaders for Climate Action event hosted by the International Chamber of Commerce UK, a former WTO Deputy Director-General, Angela Ellard, underscored that »one quarter of our AfT disbursements – 65 billion dollars – was allocated to projects with a climate objective. And 40 per cent of that sum went to renewable power generation,

16 CUTS. Climate Finance – Where are the UNFCC parties at and where they should aim to go to better support LDCs & developing countries? 2016. https://www.cuts-geneva.org/pdf/BP-EACCCF-3.pdf (accessed on 20 February 2023).

17 QUNO. Working Paper No. 4 in Trade and Environmental Sustainability Series. https://quno.org/sites/default/files/resources/Greening%20Aid%20for%20Trade_paper_A4_29_11.pdf, p.3 (accessed on 20 February 2023).

18 WTO. Aid for Trade fact sheet. https://www.wto.org/english/tratop_e/devel_e/a4t_e/a4t_factsheet_e.htm (accessed on 20 February 2023).

19 OECD. Aid for Trade. https://www.oecd.org/aidfortrade/data/ (accessed on 20 February 2023).

20 UNEP. 2020. Aid for Trade: A vehicle to green trade and build climate. https://wedocs.unep.org/bitstream/handle/20.500.11822/32204/AfT.pdf?sequence=1&isAllowed=y, p.2 (accessed on 20 February 2023).

21 QUNO. Working Paper No. 4 in Trade and Environmental Sustainability Series. https://quno.org/sites/default/files/resources/Greening%20Aid%20for%20Trade_paper_A4_29_11.pdf, p.3 (accessed on 20 February 2023).

22 UNEP. 2020. Aid for Trade: A vehicle to green trade and build climate. https://wedocs.unep.org/bitstream/handle/20.500.11822/32204/AfT.pdf?sequence=1&isAllowed=y, p.2 (accessed on 20 February 2023).

23 Ibid.

24 Ibid, p.3.

25 ODI. 2021. Aligning climate finance and Aid for Trade. https://cdn.odi.org/media/documents/Aligning_climate_finance_and_Aid_for_Trade_X1bReFA.pdf, p.4(accessed on 20 February 2023).

26 QUNO. Working Paper No. 4 in Trade and Environmental Sustainability Series. https://quno.org/sites/default/files/resources/Greening%20Aid%20for%20Trade_paper_A4_29_11.pdf, p.3 (accessed on 20 February 2023).

Table 1
Partner and Donor Perspectives on Aid for Trade and the 2030 Agenda M&E Responses from Partner Countries

		M&E Responses from Partner Countries (88)		M&E Responses from Donors (36)	
	Which Sustainable Development Goal(s) can Aid for Trade can help to achieve?	Number of times identified	percentage share	Number of times identified	percentage share
1	No poverty	60	68%	31	89%
2	Zero hunger	50	57%	18	51%
3	Good health and well-being	38	43%	4	11%
4	Quality education	44	50%	7	20%
5	Gender equality	55	63%	29	83%
6	Clean water and sanitation	29	33%	5	14%
7	Affordable and clean energy	44	50%	14	40%
8	Decent work and economic growth	73	83%	31	89%
9	Industry, innovation and infrastructure	80	91%	30	86%
10	Reduce inequalities	53	60%	26	74%
11	Sustainable cities and communities	22	25%	7	20%
12	Responsible consumption and production	49	56%	16	46%
13	Climate action	27	31%	12	34%
14	Life below water	26	30%	7	20%
15	Life on land	22	25%	6	17%
16	Peace, justice and strong institutions	36	41%	6	17%
17	Partnership for the goals	43	49%	25	71%

Source: WTO, 2020.

distribution, and energy conservation, while more than a quarter went towards climate-friendly and climate-resilient infrastructure.«[27]

Beyond the results shown in table 1, the Monitoring & Evaluation (M&E) survey carried out prior to the AfT Global Review 2019 revealed that around 30 per cent of responding partner countries and donors believed that AfT can help achieve the SDG on Climate Action. On the occasion of the AfT Global Review meeting organised in Geneva in July 2019 on »Supporting Economic Diversification and Empowerment«, the programme included several sessions on Sustainable Development and the Green Economy. Some events showcased some initiatives funded through AfT, like Ethiopia's Climate Resilient Green Economy strategy[28] and the European Bank for Reconstruction and Development with its investments in environmentally-related development projects, located mostly in Eurasia.[29] Some other examples of AfT targeting environmental sustainability and climate adaptation/mitigation include »a project in Nigeria [installing] solar lamps, solar panels and [low-carbon emissions] cook stoves«, »environmentally friendly technologies being targeted for tariff reduction in the Environmental Goods Agreement«, and »several projects in Mali, Indonesia, Costa Rica and Vanuatu which have successfully married environmental and gender objectives in the production of shea butter, shrimp and tourism activity.«[30] The »Promoting Agriculture Climate Trade linkages in the East African Community« project (PACT EAC) carried out by CUTS International, Geneva and national partners from 2011 till 2019 can also be mentioned as a pertinent example of an initiative to link environmental and trade concerns at policy level in developing countries and LDCs.[31]

On the occasion of the AfT Stocktaking Event held in March 2021, some presentations were made in which linkages between AfT and the environment (including climate change) could be discerned, most especially in the context of the circular economy. Various presentations were made on the projects/programmes being supported: (i) »Circular Economy Zero Waste Cities in the People's Republic of China,«[32]; (ii) a MENA regional initiative fostering sustainability and circular economy[33]; (iii) a side event jointly organ-

27 WTO. 2021. »Trade plays an important role in climate change adaptation and mitigation« – DDG Ellard. https://www.wto.org/english/news_e/news21_e/ddgae_26oct21_e.htm (accessed on 20 February 2023).

28 WTO. 2019. Accelerating Green Growth as the Driver for Sustainable & Inclusive Economic Development. https://www.wto.org/english/tratop_e/devel_e/a4t_e/s1_pres_3_of_3_gggi_orestes_anastasia_2019_02_05_accelerating_green_growth.pdf (accessed on 20 February 2023).

29 WTO. 2019. Promoting green value chains: Supporting the Green Economy Transition and Trade in Environmental Goods. https://www.wto.org/english/tratop_e/devel_e/a4t_e/s2_pres_3_of_3_olivia_riera_ebrd.pdf (accessed on 20 February 2023).

30 WTO. 2019. Aid for Trade must adapt to evolving needs of least developed countries and the environment. https://www.wto.org/english/news_e/news19_e/gr19_05jul19_e.htm (accessed on 20 February 2023).

31 For details on the project and nits activities, cf. https://www.cuts-geneva.org/Project?id=2011-PACTEAC and https://www.cuts-geneva.org/Project?id=2015-PACTEAC2 (accessed on 20 February 2023).

32 WTO. 2021. Circularity and Sustainability in Operations and Policy: Circular Economy Zero Waste Cities in the People's Republic of China. https://www.wto.org/english/tratop_e/devel_e/a4t_e/rau_100621.pdf (accessed on 20 February 2023).

33 WTO. 2019. The Circular Economy and SDG 9: Inclusive and Sustainable Industrialization. https://www.wto.org/english/tratop_e/devel_e/a4t_e/van_rompaey_100621.pdf (accessed on 20 February 2023).

ised by Canada, the European Union and ITC on »A New Direction for Aid for Trade: Promoting an Inclusive and Green Pandemic Recovery«, in which it was discussed how to integrate green objectives in trade policy and in AfT to catalyse impact for job-creation and environmental outcomes;[34] as well as (iv) another event co-organised by Sweden, CUTS International Geneva, the Permanent Mission of Nepal in Geneva and Permanent Mission of Tanzania in Geneva on »Recovery through Open Trade: Towards Inclusive, Resilient and Sustainable Trade Policy Post Covid-19«.

2023: An auspicious year to make AfT »greener«?

In addition to the promising projects mentioned above, additional possible actions can be considered to further the integration of environmental and climate concerns in all four types of activities supported by AfT. The 2020–22 AfT Work Programme, adopted under the responsibility of the chair of the WTO Committee on Trade and Development (CTD), sought to add value through analysis as to how industrialisation and economic growth objectives interact with sustainability and responsible production, approaches which can be collectively termed »green growth«. As mentioned above, the 2019 Monitoring and Evaluation (M&E) exercise highlighted actions being taken by partner countries (including LDCs) in the area of green value chains, renewable energy and, more generally, green growth strategies. Environmental considerations were also cited as a driver of changes in AfT programming by donors.[35]

For the 2022 Global Review, the questionnaires sent to donors and partner countries specifically aimed to: »[s]hed light on the transition towards sustainable development, the trade dimension to that process, what role digital connectivity can play, and how AfT can support environmentally-sustainable (i.e. green) growth«.[36]

TOWARDS BETTER ALIGNMENT IN BOTH FORA: LEVERAGING CLIMATE FINANCE AND TRADE SUPPORT FOR SUSTAINABLE DEVELOPMENT

Both the international climate and trade architecture have mechanisms for capacity-building, including by disbursing concessional finance to lower-income countries. Climate finance is intended to support mitigation and adaptation actions. AfT is intended *inter alia* to build supply-side capacity and trade-related infrastructure.[37] To attain sustainable development and contribute to the achievement of SDGs by developing countries and LDCs, both mechanisms may work more coherently to support each other's efforts. Below are some examples of steps that could be taken to promote more convergence in both fora.

PROMOTING BETTER ALIGNMENT OF FUNDING PRINCIPLES & CRITERIA

At least in theory, climate finance aims to follow some well-thought-out and clear principles and criteria which, if fully applied, would ensure sustainable and coherent use of the funds, from mobilisation to evaluation.

There are similarities and linkages between climate finance and AfT principles and criteria: Transparency and accountability; subsidiarity and national/local ownership; additionality; appropriateness, etc. In fact, these mostly relate to application of the principles set out in the Paris Declaration on Aid Effectiveness,[38] which are relevant in both cases.

In fact, these five broad principles adopted by the OECD, if applied to climate funding and AfT funding as suggested below, could ensure their proper and fair delivery as well as avoid any clashes or duplication in funding disbursement[39]:

- **Ownership:** Donors will respect the right – and responsibility – of the partner country to exercise effective leadership over its development policies and strategies, including trade & climate-policy framework, and coordinate actions.
- **Alignment:** Donors will align their trade & climate-related assistance with the development priorities and results-oriented strategies set out by the partner country. In delivering this assistance, donors will progressively depend on partner countries' own systems, providing capacity-building support to improve these systems, […]
- **Harmonisation:** Donors will implement good practice principles in development assistance delivery, including on topics related to trade and climate. They will streamline and harmonise their policies, procedures, and practices while intensifying delegated cooperation; […]
- **Managing for results:** Partner countries will embrace the principles of managing for results, […]. Donors will rely on and support partner countries' own priorities, objectives, and results, and work in coordination with other donors to strengthen partner countries' institutions, systems, and capabilities […].

34 ITC. 2021. Event: A New Direction for Aid for Trade: Promoting an Inclusive and Green Pandemic Recovery. https://intracen.org/news-and-events/news/event-a-new-direction-for-aid-for-trade-promoting-an-inclusive-and-green (accessed on 20 February 2023).

35 WTO. 2020. Aid-for-Trade Work Programme. https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/WT/COMTD/AFTW81R1.pdf&Open=True (accessed on 20 February 2023).

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37 ODI. 2021. Aligning climate finance and Aid for Trade. https://cdn.odi.org/media/documents/Aligning_climate_finance_and_Aid_for_Trade_X1bReFA.pdf (accessed on 20 February 2023).

38 OECD. Paris Declaration and Accra Agenda for Action. https://www.oecd.org/dac/effectiveness/parisdeclarationandaccraagendaforaction.htm (accessed on 20 February 2023).

39 OECD. Key elements of best practice in Aid for Trade. Key elements of best practice in Aid for Trade – OCDE (oecd.org) (accessed on 20 February 2023).

Table 2
Climate Finance Principles and Criteria

Delivery phase	Principle	Criteria
Fund mobilisation	Transparency and accountability	Financial contributions (i.e. composition, quality and sources) are disclosed publicly and in a timely manner
	The polluter pays	Financial contributions are relative to the quantity of historic and current emissions produced
	Respective capability	Financial contributions are correlated with (existing) national wealth and the right to (future) sustainable development and universally accepted minimum living standards for citizens
	Additionality	Funds provided are more than existing national ODA commitments and are not counted towards fulfilment of existing national ODA commitments
	Adequacy and precaution	The amount of funding is sufficient to deal with the task of maintaining global temperature rise well below 2°C and pursuing effort to limit temperature increase to 1.5°C
	Predictability	Funding is known and secure over a multi-year, medium-term funding cycle
Fund administration and governance	Transparency and accountability	Availability of publicly available comprehensive, accurate and timely information on a mechanism's funding structure, […]
	Equitable representation	Representation of a diverse group of stakeholders on the board of a fund or funding mechanism in addition to contributing and recipient countries […]
Fund disbursement and implementation	Transparency and accountability	Disclosure of funding decisions according to publicly disclosed funding criteria and guidelines and the disbursements made; duty to monitor and evaluate implementation of funding; […]
	Subsidiarity and national/local ownership	Funding decisions to be made at the lowest possible and appropriate political and institutional level; […] include sub-national and local levels
	Precaution and timeliness	Absence of scientific certainty or relevant data should not delay swift disbursement of funding when urgent action is required
	Appropriateness	The financing instruments used should not impose an additional burden or injustice on the recipient country
	Do no harm	Climate finance investment decisions should not imperil long-term sustainable development objectives of a country, […]
	Direct access and vulnerability focus	Financing, technology and capacity-building to be made available to the most vulnerable countries internationally and population groups within countries as directly as possible […]
	Gender equality	Funding decisions and disbursement take into account gender-differentiated capacities and needs […]

Source: Climate Funds Update, 2017. URL: https://climatefundsupdate.org/publications/the-principles-and-criteria-of-public-climate-finance

Table 3
An Illustrative Framework for Climate in AfT

Conventional AfT	Green AfT	Example of Synergetic AfT
Technical assistance for trade policy and regulations (helping countries participate in negotiations, develop trade policies and strategies, and implement those policies and strategies)	Technical assistance for environmental trade negotiations and development of improved environmental regulations	Technical assistance for improving coordination between trade (WTO) and environmental (UNCFFF) negotiators
Trade-related infrastructure (building roads, ports, and and energy and telecommunication networks)	Support for climate-resilient infrastructure, renewables and the transition from fossil fuels	Support for complementary and climate-resilient physical and digital infrastructure
Building productive capacity and supply-side capacity, including trade development (assisting countries to diversify their exports) and improved supply chains	Support for diversification into green products, services and supply chains	Support for regional and sub-regional supply chains for green goods and services
Trade-related adjustment (assisting developing countries and LDCs with the costs associated with trade liberalisation and loss of fiscal revenue).	Adjustment to green trade policies elsewhere, such as BCAs and enhanced due diligence in supply chains	Support to bear adjustment costs related to climate change in critical trade sectors
Other trade-related needs (if identified as trade-related development priorities in partner countries' national development strategies)	Support for green recovery objectives and NDCs	Support to align trade policy and performance with the achievement of SDGs related to both trade and climate change

Based on Table 6: Synergetic Approach to Greening AfT – Illustration by Monkelbaan, Keane and Kaukab in »Greening Aid for Trade.[41]

– **Mutual accountability:** Donors and partners are committed to enhancing mutual accountability and transparency in the use of development resources (including related to trade & climate). […] Donors will provide timely, transparent, and comprehensive information on aid flows.

A »GREENER« AfT TO BETTER COMPLEMENT CLIMATE FINANCE

While it was demonstrated earlier in this paper that some efforts have been made to green AfT, below are some examples of what the potential impact could be if AfT adopted a greener approach.

For developing countries and LDCs to specifically use AfT funding to also combat climate change, some actions will have to be taken at national policy level, linking climate and trade policy frameworks. For example having their EIF Diagnostic Trade Integration Studies (DTIS) or national trade policies aligned wherever appropriate to their Nationally Determined Contributions (NDCs) for climate change. Some NDCs already contain some trade-related measures, with issues relating to agriculture, forestry, land use, extractives, energy, transport, etc. LDCs are already developing updated NDCs and National Adaptation Plans as part of the Paris Agreement. Similarly, more and more DTIS recommendations have a direct link to climate change. Recent EIF DTISs since 2016 offer more environmental analysis, and it is hoped that this trend will continue to strengthen.[40]

POLICY RECOMMENDATIONS

To conclude, there are many opportunities in promoting convergence of climate finance and AfT towards sustainable development and achieving SDGs in the developing world. On the other hand, there are also substantial challenges and risks. Policymakers and negotiators in both fora, while promoting better alignment between both types of capacity-building support, must therefore take into account and address the following:

– **Focus on capacity-building and positive incentives:** It may be tempting to include »environmental conditionalities« within AfT. This may further add to the difficulties faced by developing countries and LDCs in accessing and utilising AfT funds. A much better approach would be to integrate climate aspects wherever appropriate in AfT projects (based on the examples of synergetic AfT in Table 3 above). Moreover, technical assistance should be provided to the relevant stakeholders in developing countries and LDCs to build their capacities to develop synergetic AfT projects.
– **Substantial increase in AfT and climate finance:** The needs of developing countries and LDCs relating to both trade and climate actions and capacity-building are quite substantial. These will not be met if existing resources under the auspices of either AfT or climate finance are merely shifted. While some savings may be realised by adopting synergetic approaches, much larger amounts will need to be committed to both AfT and climate finance to effectively address the challenges relating to trade-related capacity-building and climate mitigation and adaptation actions by developing countries and LDCs.
– **Recipient ownership:** The success of the initiative to better align AfT with climate finance will critically depend on ownership by the recipients. The main impetus for synergising AfT and climate financing should not come primarily from the stakeholders in developed countries, including development assistance agencies and civil society. Rather, there should be a significant and open engagement with relevant stakeholders from developing countries and LDCs to make them feel empowered while offering a mouthpiece for their views and suggestions on better ways to get traction going forward. This will create a sense of ownership among developing countries and LDCs, and the initiative will not be viewed as a top-down approach.
– **Simple and streamlined procedures and processes:** Processes to access and utilise available climate financing and to some extent the AfT are often cumbersome and complex. Developing countries and LDCs do not have the technical and human capacities to administrate these quickly. Hence, they often have to rely on the services of external experts/consultants to prepare their draft proposals while seeking climate finance and/or AfT. This can and must be changed. The procedures and requirements to apply for and access funding under climate financing and AfT should be simple and user-friendly. Moreover, these processes should be streamlined as much as possible, e.g. by adopting some form of »single window« operations.
– **Towards more institutional coherence between climate financing and AfT:** Finally, and in full awareness of the respective mandates of AfT and climate financing, it may well be worth considering some form of promoting institutional coherence between the two, e.g. by sharing information and lessons/success stories with each other. This could go a long way toward bringing the trade and development and climate and development communities closer together.

40 Trade 4 Dev News. 2021. How Aid for Trade can Complement Climate Finance. How Aid for Trade can Complement Climate Finance | Trade 4 Dev News (enhancedif.org) (accessed on 20 February 2023).

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CUTS International, Geneva, is a non-profit NGO that amplifies the pro-trade, pro-equity voices of the Global South in international trade and development debates in Geneva. We and our sister CUTS organisations in India, Kenya, Zambia, Vietnam, Ghana and Washington have been placing our footprints in the realm of economic governance across the developing world.

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