Complementarities and linkages between Aid for Trade and Climate Change financing mechanisms

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Outline

• Background
• Mapping Trade and Climate Change Financing Mechanisms
• Lessons Learned
• Strategy for making Trade and Climate Change Financing Mechanisms complementary and mutually reinforcing in meeting common objectives
Background

- Key expected impacts of CC in Africa
  - Water stress will increase in northern and southern Africa and decrease in eastern and western Africa by 2055.
  - Yields from rain-fed agriculture will decline by up to 50 percent.
  - By 2080, arid and semi-arid lands in Africa will expand by 5-8 percent.
- Main CC challenges facing African LDCs and SVES
  - Impact on volume and value of agricultural and fishery exports
  - Extreme weather events may lower production, disrupt ports and transport routes, and damage infrastructure critical to trade
  - Projected sea-level rise could increase flooding, and damage coastal infrastructure and distribution facilities
  - Water stress can affect agricultural production and labor productivity
Aid for Trade

- Six broad categories:
  - Trade Policy and Regulations
  - Trade development
  - Trade-related infrastructure
  - Building productive capacity
  - Trade-related adjustment
  - Other trade-related needs

- OECD embraces 3 broad categories, namely:
  - Trade policy and regulations and Trade-related adjustment
  - Economic infrastructure
  - Building productive capacity (including Trade dev.)
• Africa received US$ 9.5 B in 2007, that is, an increase in global share from 30% to 38% relative to the baseline period (2002-2005)
• A disproportionately bigger share of additional AFT in 2007 went to SSA
• However, in per capita terms, AFT flows have remained very small.
  • In 2007, Ethiopia, the biggest recipient of AFT in Africa and the 5th largest globally, received only US$ 1.17 of aid per capita
  • The island states of CV, Mayotte, Comoros and STP have received significantly bigger AFT per capita
• In terms of sector distribution, economic infrastructure receives the main chunk of AFT flows (around 60% in 2007)
• Africa (along with the Americas) was the first region to receive AFT for trade-related adjustment in 2007.
Climate Change Funding Mechanisms

Multilateral Funds

- Govt. of Japan (US$ 10 B)
- Govt. of UK (US$ 1.2 B)
- EC (US$ 300 M)
- Govt. of Germany (US$ 170 M)
- Govt. of Australia (US$ 180 M)

Global Environment Facility

WB Climate Investment

- Strategic Climate Fund (US$ 1.7 B)
- Clean Technology Fund (US$ 4.7 B)

- LDC Fund (US$ 179.9 M)
- Special Climate Change Fund (US$ 122.5 M)
- Kyoto Adaptation Fund (?)
- Strategic Priority on Adaptation (US$ 50 M)

Bilateral Funds

- MDG Achievement Fund (US$ 90 M)
- UN-REDD (US$ 35 M)
Mapping Trade and Climate Change Financing Mechanisms

- Trade-related assistance and climate change financing may be addressing a common set of objectives.
- Therefore, greater synergy could be achieved if AFT and climate change adaptation funds could be used in a coherent, complementary and mutually reinforcing manner.
- The first step in building this complementarity is to map adaptation needs to relevant AFT categories.
- This mapping is not evident at first sight…and can be problematic too.
OECD/WTO uses an official checklist of categories under which AFT are typically allocated.

AFT reported under three main categories:
- Trade Policy and regulations and Trade-related Adjustment
- Economic infrastructure
- Trade-related adjustment

But no official list of climate change adaptation exists, which hampers AFT projects from being effectively mapped to climate change projects.
A priori, it appears that the AFT sub-categories presented below are closest in substance to adaptation projects:

<table>
<thead>
<tr>
<th>Economic infrastructure</th>
<th>Transport and storage</th>
<th>Energy supply and generation</th>
<th>Agriculture</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Road transport</td>
<td>• Power generation/renewable resources</td>
<td>• Potentially all sub-categories</td>
<td>• Most sub-categories</td>
</tr>
<tr>
<td></td>
<td>• Rail transport</td>
<td>• Hydro-electric power plants</td>
<td></td>
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<tr>
<td></td>
<td>• Water transport</td>
<td></td>
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<tr>
<td></td>
<td>• Storage</td>
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</tbody>
</table>

- Industry
  - Most sub-categories
Agriculture – a key sector in which African LDCs have an active interest

Within agriculture, climate change adaptation measures have included: change in crop mix; crop relocation; change in mix of livestock and fish species/breed; management of crops and fisheries; irrigation; management of land and natural areas

Climate change-proofing agriculture may require diversification within agriculture into climate change-resistant crops and away from agriculture into light manufacturing

Need for trade policy assistance in identifying potential new export markets and AFT for building productive capacity in agriculture
Water stress: Addressing this problem calls for investments in dams, efficient distribution systems, and effective management of water resources

Energy-related projects (hydropower and other renewable energies)

Adaptation projects related to coastal zones and marine eco-systems

Economic infrastructure
<table>
<thead>
<tr>
<th>AFT category</th>
<th>AFT sub-category</th>
<th>Climate change related project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Policy and Regulation and Trade-related Adjustment</td>
<td>Trade Policy/ Multilateral trade negotiations</td>
<td>• Market access for new products</td>
</tr>
<tr>
<td>Economic infrastructure</td>
<td>Transport and Storage</td>
<td>• Investments in dams, hydraulics, modern water distribution systems</td>
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<td></td>
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<td>• Rehabilitation of weather-battered infrastructure</td>
</tr>
<tr>
<td></td>
<td>Energy supply and generation</td>
<td>• Protection of coastal zones from sea-level rise</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Energy-related projects (hydropower, renewable energies)</td>
</tr>
<tr>
<td>AFT category</td>
<td>AFT sub-category</td>
<td>Climate change-related project</td>
</tr>
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<tr>
<td>Building productive capacity</td>
<td>Agriculture</td>
<td>• Soil rehabilitation, land terracing, fertilization</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Diversifying into climate change-resistant crops</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Changes in crop mix, changes in mix of livestock breed and fish species</td>
</tr>
<tr>
<td>Industry</td>
<td></td>
<td>• Diversifying away from sectors vulnerable to climate change (i.e., agriculture)</td>
</tr>
</tbody>
</table>
Lessons learned for Africa

• Any attempt to making trade-related funds and climate change financing mechanisms complementary must be motivated by lessons learned from Africa
• Lessons relate to project design and project implementation/monitoring
Project design

1. Focus

- AFT projects are development-focused, being an outgrowth of DTIS, action matrices and PRSPs.
- CC adaptation projects, on the other hand, do not generally emphasize their implications for economic development.
- To achieve some degree of synergy between AFT and CC-related financing mechanisms, it is important that both be aligned on the objectives of economic development and poverty reduction.
2. Sectoral emphasis

- The bulk of AFT resources have flowed into financing economic infrastructure and building productive capacity.

- These AFT categories come closest to matching the CC adaptation projects, esp. in the agriculture, livestock and fisheries sector.

- Hence, trade and CC financing mechanisms can complement each other so that adaptation projects that have trade impacts can be funded by AFT.
3. Ownership

- Most LDCs lack the capacity to take a leadership role in project development, leaving donors to “impose” prototype AFT projects on them.

- CC adaptation projects are identified through a NAPA, which reflects a country’s short-term priorities and are developed in consultation with key stakeholders. Hence, greater ownership.
Project implementation

1. Coordination

- LDC governments lack the capacity to make AFT work due to manpower constraints and poor coordination among implementing agencies.

- Tanzania case study highlights the success of a decentralized approach to implementation.
2. Fund disbursement

- Implementation of both funds has been marred by delays and irregularity in the disbursement of funds.

- There is need to create a dedicated fund (such as the NSC Tripartite Fund) to speed up the process of receiving and disbursing funds.
3. ‘Additionality’ of resources

- Whether additional resources will be available beyond existing pledges to replenish both AFT and CC funds is a major question.
- AFT commitments have constantly increased since 2005. In 2007, new commitments amounted to $25.4 billion – a 21% increase over 2002-2005.
- There is compelling evidence that this increase represents *additional* resources.
- However, it is uncertain whether AFT funding will continue to flow in at a reasonable pace beyond 2010.
Uncertainty too about CC funds.

- Current resources insufficient; uncertainty about EU pledge in December 2009 to provide an additional $10.6 billion over 2010-12.
- Of the $179.9 M available under the LDC fund, $101.3 M have already been absorbed by 80 approved projects.
- Fixed LDCF endowment pales in comparison to the cost of implementing NAPA projects by African LDCs ($586 M).

Two options:

- Co-financing, but LDCs are unlikely to find partners to co-finance, and borrowing from the WB’s SCF will only increase indebtedness.
- AFT funds (which are more substantial) can supplement climate change funds in areas of common interest, notably in economic infrastructure and in building productive capacity.
Strategy to make trade and CC financing mechanisms complementary

1. **Maximizing synergy**
   - Adaptation projects identified in the NAPAs have clear links to economic infrastructure and/or building productive capacity in the AFT initiative. These links should be built upon to develop and maximize synergies between AFT and climate change projects.
   - This can be done by specifying the trade impacts of NAPA projects, which can then be used in seeking out AFT funding for adaptation projects.
2. Inadequacy and co-financing requirements in adaptation funds as scope for further AFT

- Moral responsibility calls for greater resources to be put at the disposal of vulnerable countries to combat the damaging effects of CC.
- Yet, the future of LDC Fund is uncertain.
- While AFT commitments have increased, there is no guarantee that the AFT initiative will survive into the long run.
- LDCs and SVEs should make an urgent call for greater resources to be provided for CC adaptation.
- They should demand greater coordination in AFT and CC financing so as to ensure predictability, constancy and additionality in resource flows.
3. Governance structure

- At the operational level, there is need for a country to submit its NAPA and PRSP at the same time and to the same funding agency as complementary documents.
- This is both technically cumbersome and impracticable because AFT lacks a formal governance structure like GEF.
- Adaptation projects are generally financed by global funds but AFT projects are financed bilaterally by donors.
- Hence, a call for greater complementarity between AFT and CC funds is a call for the institutionalization of the AFT initiative through a centralized facility.
4. Learning from experiences

- Both AFT and CC-related funds share some similarities that need to be further exploited.

- CC funds are better coordinated and more-fully owned but they lack a focus on development. The opposite is true of AFT. The two funding mechanisms can therefore learn from each other’s experiences.

- Integrating the broad objectives and modes of operation of the 2 funds will be a first, and significant, step towards making the funds complementary and mutually-reinforcing in achieving supply-side and adaptation objectives.
Summary and Conclusion

- AFT projects and CC adaptation projects may have similar and mutually reinforcing impacts.
- This is most likely in Africa, whose economy rests on agriculture – a sector that is most vulnerable to CC.
- Coping with the deleterious effects of climate change in the agricultural sector calls for investments in infrastructure and in building productive capacity.
- These are precisely the mandate of the AFT initiative.
- Hence, there are inherent complementarities between AFT and adaptation projects.
- These complementarities can be enhanced if AFT resources – which are more substantial than CC funds – can be utilized to finance CC projects that have trade impacts.
- This can be done by building on the similarities in the modes of operation of the two funds and by mutually sharing best-practice lessons.
Thank you for your kind attention!

Merci pour votre aimable attention!