

# Aid for Trade and Climate Change Financing: Exploring Complementarities

Gloria Carrión, ICTSD  
COP15, Copenhagen  
11 December, 2009

Created with

 **nitro**<sup>PDF</sup> professional

download the free trial online at [nitropdf.com/professional](http://nitropdf.com/professional)

## Financing: An Urgent Matter

- *Mitigation:* WB estimates US\$ 140-175 billion annually over the next 20 years. Finance analysts stress that an extra US\$ 563 billion beyond current investment levels will be needed.
- *Adaptation:* Estimates range between US\$ 9-86 billion per year.
- However, a large funding gap persists.
- Under the LDC Fund 80 projects have been accepted amounting to US\$ **101.3 million**.
- Fund's endowment is US\$ **179.9 million**, leaving little for future projects.

## Financing: An Urgent Matter

- NAPAs submitted by African LDCs amount to US\$ 586 million.
- Current ODA flows need to be better monitored. Only 24% of bilateral ODA is mitigation relevant (OECD 2009).
- Export credit agencies play a major role in carbon-intensive sectors' investment.
- 54% of FDI flows to developing countries is geared towards not-mitigation relevant activities.
- Other limitations: GEF co-funding requirement, LDCs little bargaining power, WB conditionality.



## Aid for Trade and EIF

- AfT aims at fostering the supply-side of developing countries to better link to the world economy.
- Enhanced Integrated Framework helps LDCs mainstream trade in national development plans and complements the implementation of AfT.
- Both trade-related assistance and climate change financing address common objectives. If used in a complementary and reinforcing manner, they could foster the economic resilience that LDCs, SVEs, and SIDS need to adapt and mitigate climate change while linking to the world economy on better terms.

## Aid for Trade and Climate Change Financing

- Africa received 42% of total AfT in 2007.
- By February 2009, 46 countries were at different stages of the IF process. Out of these 35 were SSA countries of which 29 had validated their diagnostic studies and action matrices.
- Climate change adaptation objectives could be addressed through three key AfT categories: 1) Trade policy and regulations 2) Economic infrastructure 3) Building productive capacity.
- Three likely sectors: agriculture, fisheries, industry.



AFT category	AFT sub-category	Climate change related project
Trade Policy and Regulation and Trade-related Adjustment	Trade Policy/ Multilateral trade negotiations	<ul style="list-style-type: none"> <li>• Market access for new products</li> </ul>
Economic infrastructure	Transport and Storage	<ul style="list-style-type: none"> <li>• Investments in dams, hydraulics, modern water distribution systems</li> <li>• Rehabilitation of weather-battered infrastructure</li> <li>• Protection of coastal zones from sea-level rise</li> </ul>
	Energy supply and generation	<ul style="list-style-type: none"> <li>• Energy-related projects (hydropower, renewable energies)</li> </ul>
Building productive capacity	Agriculture	<ul style="list-style-type: none"> <li>• Soil rehabilitation, land terracing, fertilization</li> <li>• Diversifying into climate change-resistant crops</li> <li>• Changes in crop mix, changes in mix of livestock breed and fish species</li> </ul>
	Industry	<ul style="list-style-type: none"> <li>• Diversifying away from sectors vulnerable to climate change (agriculture)</li> </ul>

Source: Ancharaz and Sultan, Forthcoming 2010, ICTSD Study, Competitiveness Development Program.

## Key Recommendations

- ***Maximizing Synergy:*** Strengthening links between adaptation projects and AfT (e.g. economic infrastructure and/or building productive capacity). Identifying trade implications of NAPA projects.
- ***Inadequacy of funding:*** LDC Fund is not sufficient. Uncertainty over AfT commitments. Imperative to generate additional, coherent, transparent, and predictable funding.
- ***Financing requirements:*** Co-financing is a major obstacle for already highly-indebted countries, as well as WB's conditionalities. These should be reviewed.



## Key Recommendations

- ***Governance:*** AfT and CC complementarities could be achieved if donors factored from outset the mutually reinforcing nature of AfT projects and CC adaptation measures. Additionally, AfT multilaterally-agreed governance structure could facilitate implementation and discourage bilateral donors from imposing 'prototyped' projects.
- ***Learning from experiences:*** Climate change projects are more fully owned by LDCs than AfT ones. However, the latter are more rooted in Dvt and poverty eradication. AfT implementation should improve and the Dvt dimensions of CC projects stressed. Trade could be a vehicle