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**GREEN PAPER**

**EU development policy in support of inclusive growth and sustainable development**

**Increasing the impact of EU development policy**

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## 1. INTRODUCTION

In 2000, developed and developing countries adopted the Millennium Development Goals (MDGs); 8 main goals and underlying targets to reduce poverty by 2015. As recently acknowledged by world leaders at the High-Level Plenary Meeting of the General Assembly in New York on 20-22 September 2010, although progress is mixed in terms of both MDGs and countries, much has been achieved and millions of people have pulled themselves out of poverty.

However, while in the past decade economic growth has been robust in many parts of the world, a great deal remains to be done and many developing countries risk lagging behind in recovering from the negative impacts of the global economic and financial crisis. Around 1.5 billion people still live in extreme poverty (half of them in Sub-Saharan Africa) and one sixth of the world's population is undernourished. In many of the least developed countries resilience in the face of the current economic crisis has been fragile, with GDP in these countries generally reducing in 2009. There has been very little progress in the MDGs on reducing maternal and child mortality, and quality of education and prospects for access to sanitation are concerns. Furthermore progress has varied greatly between regions and in some cases the benefits of growth have not been felt by the wider population even in countries where economic growth is robust.

As for the European Union (EU) and its Member States, over the last ten years, and in particular since the adoption of the European Consensus on Development<sup>1</sup> in 2005, it has doubled the amount of official development assistance (ODA) it provides, improved its performance in terms of aid delivery, and Member States have rallied around shared policy approaches. Aid effectiveness<sup>2</sup> has improved, partnerships and cooperation agreements as well as financial instruments have been modernised, and mechanisms have been put in place to improve policy coherence for development (PCD)<sup>3</sup>. Recognising that its partner countries bear primary responsibility for defining their own development strategies while emphasising the key role of good governance, the EU has increasingly moved from a donor-beneficiary type of relationship to a partnership<sup>4</sup>, involving contractual approaches, based on policy dialogue and linking results to specific cooperation programmes or instruments.

In 2010, the EU adopted an ambitious position in support of the MDGs, including the reaffirmation of the collective target of devoting 0.7% of its GNI to ODA by 2015. It remains the world's leading donor. It has made a real difference on the ground to millions of people around the world. Whilst recognising that further efforts are needed, the EU is proud of these achievements; for the Union development assistance remains a matter of solidarity, of commitment and of mutual interest. Indeed, the Lisbon Treaty has placed development policy at the heart of the EU's objectives, Article 208 specifying that "Union development cooperation policy shall have as its primary objective the reduction, and, in the long term, the

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<sup>1</sup> [http://ec.europa.eu/development/icenter/repository/european\\_consensus\\_2005\\_en.pdf](http://ec.europa.eu/development/icenter/repository/european_consensus_2005_en.pdf)

<sup>2</sup> [http://ec.europa.eu/development/how/aid\\_effectiveness\\_en.cfm](http://ec.europa.eu/development/how/aid_effectiveness_en.cfm)

<sup>3</sup> [http://ec.europa.eu/development/policies/policy\\_coherence\\_en.cfm](http://ec.europa.eu/development/policies/policy_coherence_en.cfm)

<sup>4</sup> In recent years, the EU has established various partnership agreements that govern its relations with developing and emerging countries such as the Africa-EU Strategic Partnership, the revised Cotonou Agreement with ACP States, EU strategic partnerships with emerging and transition economies or the Central Asia Strategy.

eradication of poverty. The Union shall take account of the objectives of development cooperation in the policies that it implements which are likely to affect developing countries".

Development assistance will continue to require long-term financial commitment. It is therefore particularly important to demonstrate its relevance to EU citizens, and this for a number of reasons, notably to address poverty reduction and other global challenges. Climate change is closely interlinked with development as it further enhances the need for development assistance and requires increased focus on other major questions such as energy access and security, water scarcity and food security. Development assistance needs to address bad or weak governance which provides fertile ground for terrorism, piracy, trafficking and criminality; to better manage migration flows by facilitating legal migration in line with labour markets needs, fighting illegal migration and making migration work for development; to promote economic growth in developing countries and accompany their integration into the world economy. In this framework, development education and awareness raising are of strategic importance in view of gaining the support of European citizens for development cooperation.

The review of progress on the MDGs therefore makes it clear that the world needs to do more in support of countries' efforts towards the MDGs, not just in terms of ODA levels, but at least as importantly, in terms of how aid is granted and used. In particular, aid alone will never succeed in pulling millions of people out of poverty. Beyond safeguarding and improving essential services, development assistance can only be effective by addressing the underlying causes of insufficient progress towards the MDGs. Aid is not a panacea and is one of several financial flows towards developing countries. It must tackle the roots of poverty rather than its symptoms, and primarily be a catalyst of developing countries' capacity to generate inclusive growth, which allows people to contribute and benefit from economic growth, and to mobilise their economic, natural and human resources in support of poverty reduction strategies. It is thus increasingly obvious that MDGs will not be achieved without more and more inclusive growth. A 1% increase in developing countries' gross national income can be far more effective than an increase in aid to these countries. It can significantly improve countries' capacity to achieve poverty reduction and have a multiplier effect through employment creation and social protection.

The achievement of the MDGs by 2015 must therefore remain Europe's first and overriding priority, and the European Consensus on Development provides the fundamental principles for moving forward<sup>5</sup>. Combating global poverty is one of Europe's core values, goals and interests. And there is clear evidence that pursuing this objective at EU level can offer high added value, notably by ensuring a global and coherent reach and presence across the world, creating scale and political weight of action, as well as division of labour leading to aid efficiency gains both in the EU and in partner countries.

Given the current challenges, this Green Paper seeks to launch a debate on how the EU can best support developing countries' efforts to speed up progress towards the MDGs, and how it can strive to leverage new opportunities to reduce poverty. It sets questions around four main objectives to be pursued collaboratively by the EU and its Member States:

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<sup>5</sup> Notably comprehensive approaches to poverty reduction, ownership and alignment on partner countries, coordination and policy coherence.

- **how to ensure high EU impact development policy**, so that every euro spent provides the best value added and value for money, the best leverage and the best legacy of opportunities for generations to come,
- **how to facilitate more, and more inclusive, growth in developing countries**, as a means of reducing poverty and providing a chance for all to have a decent living and a perspective for their future.
- **how to promote sustainable development as a driver for progress, and**
- **how to achieve durable results in the area of agriculture and food security.**

This Green Paper will be published on the Commission's website (<http://ec.europa.eu/yourvoice/>). The consultation will run from 15 November to 17 January 2011 and is open to any interested stakeholder. Individuals, organisations and countries are invited to send their contributions, in the form of answers to the questions presented in the document and/or as general comments on the issues raised. In particular, contributions would be greatly valued from the EU's partners in developing countries.

Contributions received will be published, possibly in a summarised form, unless the author objects to publication of their personal data on the grounds that such publication would harm his/her legitimate interests. In this case, the contribution may be published in anonymous form. Otherwise, the contribution will not be published nor, in principle, will its content be taken into account. Furthermore, since the launch in June 2008 of the Register for Interest Representatives (lobbyists) as part of the European Transparency Initiative, organisations are invited to use this Register to provide the European Commission and the public at large with information about their objectives, funding and structures. It is Commission policy that submissions from organisations will be considered as individual contributions unless the organisations have registered

Contributions should be sent to [DEV-GREENPAPER-EUDEVPOL@ec.europa.eu](mailto:DEV-GREENPAPER-EUDEVPOL@ec.europa.eu). Enquiries about this consultation can be made to the same mailbox, or to the European Commission, DG Development, Unit A/1, Office SC-15 03/70, 1049 Brussels, Belgium.

The result of this consultation will inform the Commission's proposals related to modernising European development policy to be made in the second half of 2011 as well as other policy initiatives in related fields.

## **2. HIGH IMPACT DEVELOPMENT POLICY**

The impact of cooperation is influenced by a whole range of factors that shape the broader framework of EU development policy, including the global economic context, partner countries' own policies, the coherence of donors' policies (on trade, agriculture, migration, humanitarian policies, climate mitigation, etc.), and the policy dialogue that precedes aid programming decisions. In certain countries, the external dimension of EU policies has a greater impact on development than aid.

That said, the financing needs to meet the MDGs go far beyond public funds available today, be it at national level in developing countries or at international level through development cooperation and the emerging South-South cooperation. Moreover, in the current economic and financial context, the need for fiscal consolidation will exert increasing pressure on donors' aid budgets. Innovative solutions must seriously be considered. They include options considered in the framework of the debate on innovative sources of financing<sup>6</sup> "with significant revenue generation potential"<sup>7</sup> as well as efforts to improve the impact of existing ODA flows.

It is clear that European aid must bring strong value added and real value for money, and must focus on areas where a clear added value can be shown. Put simply it means that, in all relevant forms and all sectors, the EU has to demonstrate that its aid programmes will provide the greatest long term impact and will be used as a key instrument to focus on achieving the MDGs and beyond. This starts primarily by targeting four fundamental and underlying requirements: human development and security as preconditions for any country's development, growth and social inclusiveness for any long lasting engagement. These are all necessary and complementary conditions on which we need to work consistently.

### **2.1. Putting “High Impact” cooperation into practice**

It is important that the objectives outlined above are reflected in all stages of the programming and expenditure cycle, thus investing in projects where one Euro spent, be it from development aid, climate finance, or other aid budgets, can result in leverage and growth in the partner country. The EU and its Member States might consider a certain number of conditions to be met for programmes/projects/support, in terms of:

(i) Added Value,

(ii) Prerequisite of EU co-ordination prior to approval of grants/programming for example through the existence of a European Country Strategy document,

(iii) Demonstration that the programmes/grants/budget support proposed will produce leverage on reforms and sound policies on one hand, and on other sources of funding (including by involving the private sector or mobilising domestic fiscal resources), on the other.

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<sup>6</sup> COM(2010) 549, and COM(2010) 700.

<sup>7</sup> Council Conclusions on the Millennium Development Goals for the United Nations High-Level Plenary meeting in New York and beyond – Supporting the achievement of the Millennium Development Goals by 2015, 11080/10, 14 June 2010

In addition, the monitoring and evaluation of and communication on achievements of aid are of increasing importance against the background of ongoing fiscal consolidation as aid budgets may come under increasing pressure. Increasing the accountability and visibility of the EU's contribution also shows its partners that it has delivered on its international commitments. We therefore need to be able to convincingly demonstrate the achievements of EU development cooperation. This will require increased efforts to strengthen monitoring and evaluation systems as well as reporting requirements in both the EU and its partner countries.

1. *How could the EU and its Member States develop a set of Guidance Instructions on programming and expenditure requiring a certain number of conditions to be met (added value, coordination, impact) for all programmes/projects/support?*
2. *What are current good practises at EU and Member State level on which to build?*
3. *How could the diversity of aid flows (from public and private sources, from various policies' external action budgets) be adequately combined, tracked and reported on for maximum impact, accountability and visibility?*

## **2.2. Growth for human development**

Without a food-secure, educated and healthy population, a country can never grow and pull itself out of poverty. Economic growth has to be socially inclusive if it is to deliver sustained development benefits, requiring coherence and balance across policies. Reduction of inequalities through income generation, including productive and decent employment, gender equality, social protection, as well as universal access to quality education and training, a responsive higher education system which can supply the human resources required, as well as health care services are of key importance to reduce poverty, achieve the MDGs and contribute to social cohesion, human rights and peace.

These must and will remain priorities of the EU and Member States' development efforts in the countries most in need.

Building on its deep experience of support for human and social development and looking beyond the traditional areas of activity, the EU is now in a position to review how to better integrate a focus on skills, innovation, creativity and entrepreneurship, in a comprehensive approach to social policies, and how to support active labour market policies, the decent work agenda, and the development of effective national social protection systems.

4. *How can the EU and its Member States best ensure that aid on education and healthcare becomes more focused, and increases further its impact, effectiveness in terms of human development and growth?*
5. *How should the EU support skills development in partner countries in line with the features and needs of local labour markets, including in the informal sector? How could the EU's global approach to migration contribute in this regard?*

## **2.3. Promoting Governance**

Experience has shown that without good governance the effect of aid programmes will have a limited effect and ensuring high impact cooperation will always be extremely difficult. Democratic governance, the respect for human rights, the fight against corruption, the rule of law and institution and state building are integral parts of the EU's cooperation strategies.

Effective governance requires sound financial management of funds and effective prevention, control, and sanction/reparation mechanisms to fight corruption and fraud. The promotion of transparency, accountability and participation in decision-making also play a key role, notably through the role of Parliament, an independent judiciary system and audit institutions. Focus must also be put on enhancing the regulatory capacity of governments with a view to creating a business-friendly environment which would make the best use of domestic resources and attract domestic and foreign investment, combined with mechanisms to ensure that the benefits of growth reach all parts of society. In this regard, the EU's experience on transition can be valued. Civil society organisations are also vital partners. In its political dialogue with national authorities, the EU promotes minimum standards of an enabling environment for civil society organisations and encourages a genuine dialogue between State and Non-State Actors.

Dialogue between partners and a focus on providing incentives for result-oriented reforms are the main principles of the current EU approach. This is done by integrating indicators of progress both in the periodic reviews of aid allocations and in specific programmes or budget support. The EU has already moved towards contractual and demand-based aid programming, for example in the form of the Governance Initiative<sup>8</sup> with the African, Caribbean and Pacific (ACP) States, the MDG Contract<sup>9</sup> and governance clauses in EU partnership agreements with the ACPs countries and countries in Asia, Latin America and the European Neighbourhood. The regional dimension of promoting governance is important to secure better acceptance and legitimacy of reforms.

However, a continued focus on using aid as a catalyst for improvements in governance as an integral part of development partnerships has to remain a priority of the EU's development policy, and in some partner countries much remains to be achieved. This gives rise to a number of questions on how best to make a further step forwards in using aid to promote governance. For example, while *ex ante* multiannual country allocations bring some predictability to developing countries' financing, consideration may be given to moving towards new approaches offering incentives for reforms and for mobilising internal resources.

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| 6. | <i>How can the EU adapt its approach, instruments and indicators in support of governance reforms in developing countries/regions?</i>                      |
| 7. | <i>How and to what extent should the EU integrate more incentives for reform into its aid allocation process, for both country and thematic programmes?</i> |
| 8. | <i>How should the EU promote sound frameworks to assess and monitor development results achieved by recipient countries?</i>                                |

#### **2.4. Security and fragility**

Without peace and security, the rule of law, adequate and predictable legislation or sound public finances, aid will never succeed in giving people a long term future. This is enshrined in both the European Security Strategy and the European Consensus on Development. Moreover, a close link between the EU's development policy and the EU's wider external action is vital to ensure that aid is effective, based on a well coordinated and cost-effective

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<sup>8</sup> See notably the Commission staff working paper on "Supporting democratic governance through the governance initiative: A review and the way forward" - SEC(2009) 58, 19.11.2009.

<sup>9</sup> [http://ec.europa.eu/development/how/aid/mdg-contract\\_en.cfm](http://ec.europa.eu/development/how/aid/mdg-contract_en.cfm)



approach at EU and Member State level. This is especially true in fragile states, post-conflict situations, and countries where a combination of factors provide fertile ground for the emergence of, or support to, social violence and violent extremism.

The post-Lisbon Treaty institutional arrangements in the EU provide an opportunity for a more comprehensive and better coordinated European approach to address the root causes of conflicts and support partner countries' efforts to build peaceful, democratic, legitimate and inclusive states.

In particular, the EU, by making use of the new European External Action Service (EEAS), in collaboration with the relevant Commission services, might wish to establish consistent and comprehensive political strategies linking early warning and preventive diplomacy to short-term, crisis response measures (humanitarian, diplomatic, civilian and military crisis management) and to longer term instruments and policies (on development cooperation, trade, environment and adaptation to climate change to reduce vulnerability to natural disasters, migration, etc.). These could also integrate a proper development component to address governance, state building and other development-related reforms required to sustain peace and stability and foster human rights.

In this context, coherence and proper articulation with humanitarian-related activities is fundamental towards the reduction of vulnerability of crises-prone countries, the strengthening of their resilience and the effective transition from emergency response to recovery.

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| 9.  | <i>How should the EU tackle the nexus between security and development, especially in fragile and conflict-prone countries, and put greater emphasis on democratic governance, human rights, the rule of law, justice and reform of the security sector, when programming development interventions?</i> |
| 10. | <i>How could the EU better coordinate with development actions when programming security interventions?</i>  |
| 11. | <i>How can the EU best address the challenge of linking relief, rehabilitation and development in transition and recovery situations?</i>  |

## **2.5. Making coordination of aid a reality**

Effective coordination of aid programmes is a legal obligation for the Union and its Member States. Article 210 of the Lisbon Treaty provides "In order to promote the complementarity and efficiency of their action, the Union and the Member States shall coordinate their policies on development cooperation and shall consult each other on their aid programmes including in international organisations and during international conferences." The importance of aid coordination with other donors has been enshrined in the European Consensus on Development, the Code of Conduct<sup>10</sup> and the Operational Framework<sup>11</sup> based on the international aid effectiveness agenda (Paris Declaration and Accra Agenda for Action)<sup>12</sup>.

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<sup>10</sup> Council Conclusions on "EU Code of Conduct on Complementarity and Division of Labour in Development Policy", doc 9090/07, 15.5.2007.

<sup>11</sup> The EU Code of Conduct on Division of Labour and Complementarity and the Operational Framework on Aid Effectiveness.

<sup>12</sup> <http://www.oecd.org/dataoecd/58/16/41202012.pdf>

However, until now, truly effective aid coordination at the programming stage has remained an exception rather than a rule.

Coordination has to become much more systematic and effective, as recognised by the Council<sup>13</sup>, which has invited the Commission to "*present a proposal to the Council by 2011 for progressive synchronisation of EU and national programming cycles at partner country level and based on partner countries' development strategies and taking into account their programming cycles*". The Commission intends to put forward such a mechanism in 2011.

12. *What are the most appropriate manner and structures, legal and practical, to make aid effectiveness and European Country Strategy documents a reality? How can practical effect be best given to the Lisbon Treaty and the Council conclusion of 14 June in that regard?*

## 2.6. Policy Coherence for Development

Policy Coherence for Development is a legal requirement under the Lisbon Treaty<sup>14</sup>. Policies in areas such as trade, fisheries, agriculture, migration or climate and energy, just to name a few, can have a huge impact on the poorest countries' capacity to reduce poverty and grow.

In the "Twelve-point EU action plan in support of the Millennium Development Goals" published by the Commission on 21 April 2010<sup>15</sup>, the Commission underlined that "The EU also supports MDGs by making other policies beyond aid more supportive of development objectives. Over the last five years, the EU has put in place *ex ante* and *ex post* mechanisms to this end, including impact assessments which look into the external impact of policy proposals. The PCD Work Programme sets concrete targets and indicators of progress to implement the EU commitments on PCD across a whole range of policies impacting the following five global challenges: trade and finance, climate change, food security, migration, and security. It is being used as a tool to guide EU decision-making, in particular involving the Commission, the Council and the Parliament, on the broad range of decisions that affect developing countries beyond development assistance.

To make further progress, one approach may be to use the PCD Work Programme more proactively and at an earlier stage in the preparation of new initiatives. Further work and consultation is thus needed on how to turn this commitment into a concrete programme of action. In particular, a key remaining challenge is to further develop current approaches to assess the concrete impact of EU policies on development objectives.

13. *What practical and policy related measures could be taken in the EU to improve Policy Coherence for Development? How could progress and impact be best assessed?*

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<sup>13</sup> Council Conclusions on the MDGs, 14 June 2010.

<sup>14</sup> Article 208 of the Treaty on the Functioning of the EU: "(...) The Union shall take account of the objectives of development cooperation in the policies that it implements which are likely to affect developing countries".

<sup>15</sup> [http://ec.europa.eu/development/icenter/repository/COMM\\_COM\\_2010\\_0159\\_MDG\\_EN.PDF](http://ec.europa.eu/development/icenter/repository/COMM_COM_2010_0159_MDG_EN.PDF)

## **2.7. Improving the impact of Budget Support**

Budget support is a way of implementing development aid which consists in giving financial aid to the treasuries of the recipient countries. Over the last years, budget support (general or sectoral) has become important at EU level to support sound economic and public finance policies as well as the reform agendas of partner countries. The Commission is committed to ensuring that budget support is used selectively and with the maximum possible effectiveness, efficiency and impact.

Given the importance of ensuring a comprehensive review on the use of this important instrument, a Green Paper on "The Future of EU Budget Support to third countries"<sup>16</sup> has been adopted by the Commission on 19 October 2010. It aims at a widespread public consultation, gathering views and evidence from relevant stakeholders on how lessons learned can result in improved use of budget support at both Community and Member State level in the future.

## **3. DEVELOPMENT POLICY AS A CATALYST FOR INCLUSIVE AND SUSTAINABLE GROWTH**

The underlying objective of aid is to act as a catalyst, to support partner countries growth and in particular to help create an environment that is friendly to sustainable and inclusive growth, enabling these countries to pull themselves out of poverty. Economic growth, providing that it is socially inclusive, produces a much greater effect in terms of poverty reduction than incremental increases in ODA.

Many factors influence a growth friendly environment, including political and macroeconomic stability, good governance, security, respect of human rights, a conducive regulatory and policy business environment able to generate productive and decent employment, a well educated, healthy and creative population, the sustainable use of scarce natural resources, economic infrastructure, implementation of core labour standards, and effective and beneficial participation in international trade.

The EU is already working in all those areas in its existing partnerships with developing countries. A reflection is however needed on how to further improve its impact on growth, not as an end in itself, but as a means for poverty eradication.

Obviously, the capacity of developing countries to pursue good governance and growth enhancing policies differ widely. Growth oriented cooperation will be more appropriate for countries which are embarking on policies on growth enabling factors and which provide for socially inclusive growth, while more traditional development instruments need to be continued for countries most in need or those in a conflict cycle or in a fragile situation. Differentiation between countries and regions may thus lead to develop new approaches for better cooperating with countries willing to engage in new forms of partnerships, while continuing to support state building, good governance and poverty focused strategies where needed. It follows that a country specific policy mix, which recognises its particular challenges, is important, while working in partnership and respecting ownership, focusing on results and ensuring mutual accountability.

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<sup>16</sup> COM(2010) 586  
<http://ec.europa.eu/development/how/consultation/index.cfm?action=viewcons&id=5221>

Furthermore, EU action must be better coordinated and concentrate on areas where it can add true value. The Lisbon Treaty and the new institutional setting for the EU's common foreign and security policy, as well as new competences related to areas of interest for development<sup>17</sup>, provide opportunities for a sharpened strategic development policy in the wider framework of more effective external action.

In seeking to promote development policy as a catalyst for inclusive growth the following issues are particularly relevant.

### 3.1. Partnerships for inclusive growth

A predictable, transparent, rule-based and non-discriminatory business environment, combined with support to investment in the productive sector and the existence of market opportunities, are all needed in order to attract and retain domestic and foreign investments. The question therefore arises whether the EU should consider new **Joint Strategies for Inclusive Growth** in partnership with the individual or regional groupings of developing countries, also involving private-sector stakeholders — businesses, foundations, academia and civil society organisations (CSOs) at large, etc. — all committed to the goal of making measurable progress on issues where they can act together. These Joint Strategies can be developed within existing formal partnership arrangements between EU and groups of developing countries, or indeed with individual countries.

Non-state actors are a force for and a component of development with their multiple roles of advocacy agents, service providers and donors or lenders in their own right, thereby bringing insight and added value. A regular dialogue with them needs to be sustained, such as the one launched by the Commission<sup>18</sup> aiming at reaching consensus on the challenges ahead and the areas most in need of change.

Such joint strategies can be based on a number of different priorities, with both the EU and partner countries agreeing clear respective responsibilities and deliverables such as:

- Promoting and supporting productive and sustainable investments, both foreign and domestic, in the poorest developing countries, in particular those which do not benefit from increased trade and do not currently attract large investment flows. Possibilities include leveraging aid to support ancillary infrastructure investment to accompany private investment (e.g. to get products to market), and supporting projects that pose a level of risk making it difficult to attract private financing, where appropriate, in the form of risk sharing finance. Such investment should aim less at supporting the development of existing industrial activities, notably extractive industries, but rather focusing on activities with higher value added, notably post-extractive industries. It should also aim to benefit the widest possible range of citizens in the country concerned.
- Access to capital and affordable credit, particularly for Small and Medium Enterprises (SME) and micro-enterprises, is of key importance to support the growth of local agriculture, industry and services, fostering leverage between aid and financial instruments. In situations where access to domestic finance is difficult or not available, the

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<sup>17</sup> such as investment, migration.

<sup>18</sup> The *Structured Dialogue on the involvement of civil society and local authorities in development* was launched in March 2010 and will end in May 2011, [https://webgate.ec.europa.eu/fpfis/mwikis/aidco/index.php/Structured\\_dialogue](https://webgate.ec.europa.eu/fpfis/mwikis/aidco/index.php/Structured_dialogue)

EU could further support a gradual evolution of the domestic banking system and local capital markets allowing domestic or foreign investors to enter into operations with a clear impact on development, which they would otherwise not engage in because of the risks involved. This might, for example, be achieved via an integrated EU fund or mechanism, operated jointly by the EU institutions and European development banks and financial institutions that would offer subsidised loans, technical and financial support where necessary and risk sharing, in a closely coordinated manner, to promote private investments in developing countries.

- Legal and regulatory framework. The ease and cost in establishing a new company, particularly an SME, or running an established one, plays a very important role. This concerns not only initial registration formalities, but for example subsequent tax compliance, the fight against corruption and capital flight outside the country and permit issues. EU assistance, both financial and technical, can support reforms in this area, based on commitments and determination to introduce improvements by partner countries. This also includes investment protection, transparent and open business registration and closure procedures, and affordable and trustworthy contract enforcement modalities. Because of growing pressures of global demand, the governance of rights related to the exploitation, management or alienation of natural resources, including land, water, raw materials or fisheries is gaining importance. However, progress on such issues depends greatly on the determination of partner countries.
- Innovation: Scientific and technological cooperation and capacity-building, as well as investment in knowledge, innovation and new technologies can play a key role in fast-tracking inclusive growth and lifting people out poverty. One of the greatest challenges for developing countries is to identify and exploit the areas where they have a comparative advantage, in order notably to be able to compete with larger emerging countries. Thus, country-specific measures to encourage technology development and transfer that can be translated into viable businesses are of paramount importance to multiply the number of investment opportunities. The potential growth impact of cultural and creative industries on the local economy of many developing countries should also be given special attention. Protection and enforcement of intellectual property rights in line with international obligations and taking into account development levels and needs can play an important role to support innovation. Information and Communication Technologies (ICT) can have a huge and rapid transformational power in all socio-economic domains and are remarkably cost effective regarding the provision of services in areas such as healthcare, education, energy and environment management, transport systems, government administration or trade and financial services<sup>19</sup>.
- Decent work and social protection: Higher inequality sharply reduces the pace of poverty reduction and has considerable adverse effects on economic growth. By reducing inequality and supporting the most disadvantaged people, social protection promotes human capital investments, enhances productivity, improves socio-political stability, and contributes to the creation of sound institutions. An integrated employment and inclusive growth agenda focussing on skills, productivity and a regulatory business-friendly environment is necessary. In EU cooperation with Latin American countries for instance,

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<sup>19</sup> Thanks to significant technological advancements and market developments, there are more than 3 billion mobile phones in use in developing countries today and ten times more Internet users than in 2000.

social cohesion is a central objective and is considered a key ingredient for inclusive growth.

In all those fields, the respect for human rights and social and environmental sustainability standards must be ensured by reference to the UN Global Compact and OECD guidelines, either by means of sectoral arrangements or regulations, such as under the Forest Law Enforcement, Governance and Trade<sup>20</sup> Agreements, Fisheries Partnership Agreements, Extractive Industries Transparency Initiative<sup>21</sup>, or the Kimberley process<sup>22</sup>, or in the form of Corporate Social Responsibility<sup>23</sup> and accountability. These initiatives should complement, not substitute the efforts undertaken to enhance the business environment at country level and help to fill regulatory and enforcement gaps.

14. *How and to what extent should EU aid support industrial investment projects in developing countries and how can the correct balance be made between developing extractive/energy interests and promoting post extractive and industrial sectors?*
15. *How can the EU ensure that support to economic development guarantees fair social inclusion of the benefits and provide better protection of social and economic rights, including implementation of core labour standards, and better corporate accountability?*
16. *Which measures should be taken – and how should they be best differentiated – to assist developing countries' efforts in establishing an economic environment that is apt to promote business, particularly SMEs?*
17. *Which measures or structures might be developed with partner countries, and European and international financial institutions to provide financial support and where necessary low cost finance and financial guarantees to support such growth?*
18. *Which instruments could the EU use to promote creativity, innovation and technology transfer and ensure their viable applications in developing countries?*

### **3.2. Fostering regional integration; continuing to ensure trade for development**

#### ***Fostering regional integration***

The success of the European Union in producing a peaceful and prosperous society and extending the geographic scope of the Union has been in progressively integrating its markets, legally, economically, financially, politically and fiscally. Its focus on infrastructure, in terms of transport, telecoms and energy has enabled trade to develop and growth to flourish. It has found that the key to growth and development starts with an integrated, vibrant, regional market.

In the developing world, including in Africa, South-East and East Asia, and Latin America, a similar process is emerging, but at a much earlier stage of development. The overwhelming majority of African trade is with non-African countries and there exists fragmentation and

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<sup>20</sup> <http://ec.europa.eu/environment/forests/flegt.htm>

<sup>21</sup> <http://eiti.org/>

<sup>22</sup> <http://www.kimberleyprocess.com/>

<sup>23</sup> [http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/index_en.htm)

overlaps of regional groupings, and insufficient infrastructure connexions between the members of regional groupings.

However, in recent years progress towards effective regional integration has accelerated in many regions. Such progress has focused primarily on economic issues (as the EU focused on economic integration in its early years). However, also in the political arena, the African Union for instance has recently been making important steps, regarding peace and security architecture and regional mediation.

19. *How can the EU's experience better inform regions seeking to strengthen their integration?*

### ***Continuing to ensure trade for development***

To fully release their economic potential, experience shows that developing countries need to implement a mix and sequencing of domestic reform and international policy measures adapted to their own needs. Development usually involves the gradual liberalisation of trade in goods and services in a favourable business environment so as to facilitate integration into the world economy and regional integration.

The EU has one of the most open markets in the world for developing countries. Together with its Member States, it is a major provider of Aid for Trade, reaching an all-time high of €10.4 billion in 2008, an increase of €3.4 billion (48%) since 2007. Over the years, the EU has deployed trade instruments to support both social and economic well-being in developing countries.

The key objectives for the near future are to keep ensuring consistency between the EU's trade policy and the objectives of development cooperation, to conclude comprehensive development-friendly cooperation and trade agreements with a variety of developing countries, to continue strengthening Aid for Trade efforts and impacts on the ground and to explore the synergies between national and regional strategies for trade.

20. *What can be done to ensure more consistency between the EU's trade and development policies?*

21. *How to improve the aid for trade provisions in order to make maximum use of its leveraging potential for expanding sustainable economic activities in the developing countries, leading to further growth?*

## **4. SUSTAINABLE DEVELOPMENT, A NEW DRIVER**

The developing world is expected to be one of the main drivers of global growth in the next decades; both in economic and population terms. Ensuring accelerated and widespread growth presents huge challenges in terms of environmental sustainability and climate change adaptation and mitigation measures, but it is clear that the need to address climate change can not be a reason to limit efforts to lift the world's poorest citizens out of poverty.

### **4.1. Climate change, biodiversity and development**

Climate change is one of the greatest challenges of this century affecting the developing world and poses the greatest risks to the progress towards achieving the MDGs. To lift people

out of poverty will require ensuring that more people have access to energy; this will lead to a huge increase in energy consumption with an associated impact on Greenhouse Gas emissions and the global environment. Therefore, sustainable development needs to be at the core of both our development and climate change policy to ensure that action to combat Climate Change benefits, rather than increases the risk to, the growth potential of the world's poorest citizens.

Development based on the sustainable economy could provide the developing world with many opportunities for growth. The most effective way to achieve this is to mainstream climate change in development. A strategic approach which “climate proofs” development - combining mitigation, adaptation and disaster risk reduction and prevention activities, is crucial, and initiatives mixing low carbon development with strategic resilient planning will provide multiple benefits in developing countries<sup>24</sup>.

Sustainable development requires strategies addressing economic, social and environmental issues. From the environmental point of view, sustainability needs to address both use and management of natural resources, in particular land, water, forests and biodiversity. Integrating adaptation priorities and moving towards low-carbon development will be vital in ensuring the sustainability of development.

Developing countries' economies depend significantly on the exploitation of natural resources, such as agriculture and raw materials. At the same time there is increasing recognition that ecosystems, such as forests and wetlands, have an important role to play as economically productive assets that generate flows of beneficial goods and services. As a result it is crucial to understand how dependant businesses may be on biodiversity and ecosystem services and to consider the full impact the loss of biodiversity may have on the potential to develop new products, new jobs and new technologies. The Economics of Ecosystems and Biodiversity (TEEB) study raised awareness of this challenge by putting an economic value on a broad range of services provided by nature which before had no price under conventional economic models.

Managing natural ecosystems as carbon sinks and resources for adaptation is increasingly recognized as a necessary, efficient and relatively cost-effective climate solution. Various land use management strategies are needed to reduce the emission of GHGs from land use change, and to sustain ecosystem services that are vital in adapting to climate change. Protected areas, in particular, play a very important role in developing national measures for climate change mitigation and adaptation, and therefore increasing the protection granted to such areas as well as the overall coverage and management of such sites is crucial.

Mainstreaming and integration of climate concerns into development policy will have financial aspects. At the Copenhagen Conference, the EU committed €7.2 billion of fast-start finance for mitigation and adaptation measures, including for disaster risk reduction and prevention activities in disaster-prone countries, for 2010-2012. Developed countries also committed to a goal of jointly mobilising US\$ 100 billion a year by 2020, from a variety of sources, including alternative sources, provided that developing countries put in place meaningful mitigation actions and are transparent about their greenhouse gas emissions. A balanced allocation between adaptation and mitigation funding should contribute to increase the resilience of developing economies to climate change and support the move towards low-

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<sup>24</sup> As outlined in the 2010 Africa Progress Report, it is imperative that "African countries.....climate-proof their development strategies".



carbon development<sup>25</sup>. Whereas adaptation will continue to be primarily financed from grants and aim in a first phase at helping developing countries develop National Action Plans for Adaptation, mitigation actions will also need to draw from concessional lending and private sector co-financing. Climate and development funding should thus also focus on strengthening, at all levels of society, the capacity to attract investments in low emission technologies and sustainable land use practices. At the October 2010 Nagoya Conference, all parties to the Convention on Biological Diversity agreed on the need to mobilise resources in support of biodiversity, in particular to assist developing countries in implementing the new 10 year strategic plan adopted on that occasion.

22. *Given the close interlinkage between climate change, biodiversity, and development, and given the new opportunities offered by climate finance and the markets, how can the mainstreaming of climate adaptation as well as disaster risk reduction into the EU's development policy be strengthened in order to ensure more climate resilient and sustainable economies, as well as forest and biodiversity protection?*

#### **4.2. Energy and development**

Out of the many challenges of sustainable development, access to sustainable energy for all citizens is a key issue. In fact, generalised access to energy constitutes a pre-requisite to meet most MDGs: access to reliable, stable priced energy, and in particular electricity, is a driver of poverty eradication; vital for health, education, agriculture and economic development. These are challenges which call for innovative solutions and there are many positive opportunities that can result from an objective of "climate-proofing" development and cooperation strategies and investing in sustainable development.

In Sub-Saharan Africa, for example, less than 30% of the citizens have access to grid-based electricity, and for those that have access, it is often an unreliable source of energy, with blackouts and interruptions occurring all too frequently and for prolonged periods. This position is shared by many other developing countries, and has huge consequences for social and economic development and notably on the possibility of achieving the MDGs.

Over the last decades, oil prices have varied enormously. This has had huge effects on fragile and developing economies, particularly those that are largely dependent on oil, and even more so where fuel driven generators play an important role due in part to the absence of reliable electricity supplies. Finally, due to the lack of reliable electricity supplies charcoal becomes the cooking fuel by default, resulting in widespread health problems and deforestation.

However, it is notable that many areas in the developing world represent ideal places to develop renewable energy, including hydro, wind, photovoltaic electricity and concentrated solar power notably due to the highly advantageous natural resources available (water, sunshine). Moreover, where energy infrastructure is not available and renewable solutions can be provided outside the grid, overall costs can be reduced. In many respects, by investing in local, competitive renewable energy in many parts of the developing world, it is possible to skip a generation in technology terms. Furthermore, introducing modern solutions for energy production and distribution would allow important gains in energy efficiency. Modern technology can achieve important reductions of greenhouse gas emissions and substantially

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<sup>25</sup> Current work on reducing emissions from forested areas ongoing in the UNFCCC is highly relevant particularly if combined with initiatives such as Forest, Law Enforcement, Governance and Trade (FLEGT) to improve forest governance in partner countries

improve local environmental conditions. On the latter, Europe can play a key role in providing know-how. Where infrastructure is present, upgrading existing facilities and interconnecting them may ensure a broader access to energy.

By combining highly leveraged EU development and the fast-start Copenhagen funds mentioned above to promote investments in renewable electricity in developing countries, huge leaps forward in providing sustainable energy to the world's poorest countries could be taken. The development of renewable energy in these countries, particularly LDCs, provides an additional, very important development advantage by reducing their dependency and vulnerability to highly volatile oil prices.

The EU is uniquely well-equipped to providing this assistance. It is the leading producer of renewable energy technologies. Europe has the greatest experience in the legal and administrative measures necessary to catalyse investment in renewable energy, also due to it being the only world's region with legally binding targets on all Member States. The EU has committed to source 20% of its energy needs from renewable sources by 2020.

Finally, investments in energy do not, *per se*, need significant grant related assistance. This is important; development funding alone will never be able to finance the hundreds of billions of Euros of investment necessary to provide every citizen with sustainable electricity. Indeed, in principle, such investments can be profitable. Leveraging the EU budget with funds from donors and financial institutions, including from the private sector, should therefore be easier to achieve in this sector than in others.

It thus needs to be considered whether the EU and developing countries and/or regional groupings should act together, in the context of existing partnerships, to put into place concrete **Joint Programmes to progressively provide sustainable energy to all citizens**.

Such programmes, involving highly leveraged EU development and climate change finance, EU and developing countries, the energy industry and EU financial institutions, could aim at identifying a timetable for joint actions, and include reforms in low income countries, both in terms of investment protection, taxation and regional power collaboration. They should build on existing actions in energy partnerships such as the EU-Africa Energy Partnership. Action in the renewable sector can be a significant part of the solution to the energy needs of the developing world, but will need to be seamlessly integrated in a wider energy policy, covering for example, energy efficiency, networks and infrastructure, and ensuring effective supplies and development of other, more "traditional" energy sources. The cooperation should be open to non-EU donors and international institutions, and could focus, *inter alia*, on the following:

- Financing. During the recent financial crisis it has been difficult for developers of renewable energy projects to secure commercial financing in the EU, where a stable and 'renewable friendly' administrative and legal framework exists. To secure financing for more risky projects in the developing world, where such administrative and legal conditions do not exist, is practically impossible.
- Stable regulatory and administrative conditions. Without stable and predictable conditions that enable and encourage investment by private companies, even with appropriate financial instruments in place, investment will not take place. This ranges from grid issues, tax, company law, to planning rules. It also requires legal provisions allowing open competition on electricity markets to supply customers. It also requires clear, fair and effective regulatory rules to ensure cost recovery and protect consumers.

- Technical knowledge, education and training. In many parts of the developing world, the technical training facilities are inadequate, or do not exist. Without a well-trained work force, from electrical engineers to craftsmen, renewable energy will never meet its potential. Job creation is a central benefit of any such development, but training and knowledge will require real efforts.
- Regional markets. In many cases the need to have the possibility to sell electricity across borders will be important, particularly for larger hydro projects. This will require clear regional agreements, and regulatory stability.

23. *How can the EU best act to support developing countries' efforts to secure sustainable energy for all their citizens? What role might, for example, an EU-Africa Joint Programme to progressively provide sustainable electricity to every citizen, combining development and climate change funding and leveraged loans from Development Financial Institutions?*

## 5. AGRICULTURE AND FOOD SECURITY

Food security remains a key challenge for rural and urban populations in many developing countries where 75% of the population still depends on agriculture. It is estimated that global agricultural production must increase by 70% in order to feed a global population that the United Nation expects to increase to 9 billion people by 2050. Hunger affects human development, social and political stability and any prospect of achieving the MDGs. Recent price developments on world food markets have highlighted the continued challenge, particularly for food-importing developing countries.

Development and food security go hand in hand; experience demonstrates that agricultural reform and the capacity to feed a country's population is a precondition to wider development and poverty reduction. Most of the poor and hungry in the world live in rural areas where agriculture forms the main economic activity. In these areas, small-scale farming is dominant.

In Africa, for example, small-scale farmers produce about 80% of the food consumed in the continent. But agriculture also holds great potential in stimulating widespread income growth: in developing countries; GDP growth generated by agriculture is up to four times more effective in reducing poverty than growth generated by other sectors<sup>26</sup>. Investment in food safety through the implementation of sanitary and phitosanitary standards further stimulates food security and human health. Biodiversity protection and related ecosystem services are also key to ensuring sustainable agriculture and contributing to nutritional adequacy. Agriculture has important linkages to other sectors and its growth generates multiplier effects throughout the economy. Moreover, well-managed agriculture is an important factor in mitigating environmental challenges such as deforestation, land degradation, water scarcity and climate change. Accelerated low carbon agricultural production will also enhance global price stability with the existence of varied and reliable production areas.

A concerted initiative from the EU to capitalize on investing in inclusive, intensified sustainable and ecologically efficient agriculture can therefore create a win-win situation:

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<sup>26</sup> <http://www.ifad.org/hfs/>

enhanced green growth with lower emissions, and increased social stability<sup>27</sup>. In order for this to be successful, production should be seen in a value chain context with adequate access to financing, processing and markets. In this regard, public-private partnerships could play an important role.

The aim of ensuring that EU cooperation is "High Impact" in nature is particularly pertinent to agriculture and food security. In particular, experience has demonstrated the need to address this challenge in a comprehensive way, looking at the whole value chain: research and extension to farmers training, access to land, appropriate fertilizers, irrigation methods, transport to markets, storage, finance, banking and insurance, and processing capacity. Research and innovation can play a key role in allowing a step change in enhancing food production if it is demand-driven, participatory and adapted to the needs and priorities of beneficiaries. The EU possesses wide expertise on sustainable agriculture in varying conditions, as well as extensive networks with developing countries.

The EU should therefore make agriculture and food security a test case of its capacity to deliver high impact cooperation and promote inclusive and green growth by concentrating its efforts on ensuring that where assistance is granted, it considers the whole production chain. This might be done by EU programmes focussing on the chain, or working better and more closely with partner countries and other donors to combine efforts. The cooperation, in partnership with non-EU donors and international institutions, could focus, *inter alia*, on demand-led research and innovation, governance of sectors and value chains, regional agricultural and food markets.

This comprehensive approach to agriculture and food security should also take into account the nutritional dimension. Recent scientific evidence shows that malnutrition hampers development efforts and undermines economic growth, with up to 3% of GDP loss. It is the leading cause in child deaths, and, for those who survive malnutrition, it can have irreversible effects on their mental and physical development. Addressing nutrition has a "multiplier effect" in achieving the MDGs.

Finally, both in the general fight against food insecurity and in its nutritional dimension, fishing products can also play an important role. Therefore, the EU and developing countries share an interest in promoting sustainable fishing, including efficient systems of monitoring, control and surveillance, and the sustainable development of aquaculture. The role of Fisheries partnership agreements and regional fisheries management organisations is essential in this respect.

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| 24. | <i>How can the EU's development policy best contribute to enhanced food security while safeguarding environmental qualities? Which policies and programmes are most conducive for smallholder and private sector investment in agriculture and fisheries?</i> |
| 25. | <i>Which strategic areas should the EU engage in, particularly with respect to Africa? How can the EU stimulate agro-ecological approaches in farming and sustainable intensification of agriculture, sustainable fishing and aquaculture?</i>                |

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<sup>27</sup> As outlined in the Communication on "An EU policy framework to assist developing countries in addressing food security challenges" - COM(2010) 127 - and related Council conclusions of 10.5.10, available at: [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/EN/foraff/114357.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/114357.pdf)

26. *How should the EU support the fight against malnutrition?*

## **6. CONCLUSION**

The Commission is committed to continuing the modernisation of EU development policy and spending programmes, providing better added value, value for money and effectiveness. In the follow-up to this Green Paper and on the basis of the responses received, the Commission will table a Communication on a Modernised EU Development Policy that will include, inter alia, the consideration whether it is opportune to review the European Consensus on Development.