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POLICY DEPARTMENT

INCREASING THE IMPACT OF EU DEVELOPMENT POLICY

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EUROPEAN PARLIAMENT

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DIRECTORATE B

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BRIEFING PAPER

INCREASING THE IMPACT OF EU DEVELOPMENT POLICY

Abstract

This present study is a contribution to the recently launched consultation process on the Green Paper "EU Development Policy in Support of Inclusive Growth and Sustainable Development - Increasing the Impact of EU Development Policy". It provides evidence-based answers to selected questions raised in the Green Paper. In this brief, the authors focus on the topics related to “inclusive growth and sustainable development”, analyzing, in a more general manner, the aspects that relate with development policy impact:

- Industrial investment projects in developing countries
- Protection of social and economic rights, and better corporate accountability
- Establishing an economic environment to promote business, particularly SMEs
- Financial support and low cost finance and financial guarantees
- Innovation and technology transfer in developing countries
- Climate change, biodiversity and development

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AUTHOR(S):

Dr. MORAZAN, Pedro, Institut SÜDWIND, Germany
GERSTETTER, Christiane, ECOLOGIC INSTITUTE, Germany

ADMINISTRATOR RESPONSIBLE:

Anna CAPRILE
Directorate-General for External Policies of the Union
Policy Department
WIB 06 M 075
rue Wiertz 60
B-1047 Brussels

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HIGH IMPACT DEVELOPMENT POLICY

The Green Paper is a valuable contribution to the new vision of the strategies for development based on the cooperation between donors and partner countries. The document sets at the centre of its analysis article 208 of the Lisbon Treaty which states that "Union development cooperation policy shall have as its primary objective the reduction, and, in the long term, the eradication of poverty." It is around this objective that the Green Paper tries to combine the strategy for "inclusive growth and sustainable development" with other strategies, especially those related to trade, in order to achieve coherence with other Union policies. The Green Paper centres its strategy on four main objectives that should regulate the collaboration of the EU and its member states:

1. **how to ensure high EU impact development policy**
2. **how to facilitate more, and more inclusive, growth in developing countries**
3. **how to promote sustainable development as a driver for progress, and**
4. **how to achieve durable results in the area of agriculture and food security.**

These four objectives highlight the relevance of cooperation for development in the context of the current challenges of the international community: climate change, the international financial crisis and food security. Although the Green Paper mentions the current challenges, it doesn't always offer clear strategies on how to deal with them. Although it sets forth the Union's strategies, it doesn't explain how to implement them at the level of the member countries. In this brief, the authors focus on the topics related to "inclusive growth and sustainable development", analyzing, in a more general manner, the aspects that relate with development policy impact.

1 HOW TO ENSURE HIGH EU IMPACT DEVELOPMENT POLICY?

In the logic of the results chain, the high impact of development policy is directly linked to the effectiveness of aid. There is no reference at this point to the Paris Declaration or the Accra Agenda for Action which are considered the guiding documents to improve effectiveness and the impact of international aid, specifically on the topic of harmonizing amongst donors in which the Declaration calls for "4. Eliminating duplication of efforts and rationalising donor activities to make them as cost-effective as possible. 5. Reforming and simplifying donor policies and procedures to encourage collaborative behaviour and progressive alignment with partner countries priorities, systems and procedures."

The EU already has the necessary instruments to achieve greater coordination between Member States. One of them is the "European Consensus on Development". The Country Strategy Papers (CSP) could include a stronger link to the "European Consensus on Development" obtaining better coordination amongst the instruments and in the division of labour, as long as it doesn't provoke an excessive cost of transaction or an erosion of the ownership by the partner country (Q1).

To improve the impact of development policy, taking into account **the best practices of the Member States** (Q2), the Commission could incorporate the ranking allocated by the Commitment to Development Index (CDI) developed by the Center for Global Development (http://www.cgdev.org/section/initiatives/_active/cdi/), which points out that Member States Sweden, Denmark and the Netherlands, in that order, have the best practices. This index has the advantage of combining quantitative with qualitative aspects of cooperation. The relationship between trade and aid is an example of how negative effects can occur if coherence is not taken in consideration. "In general, because EU nations share common trade and agricultural policies, they score essentially the same on trade. Japan's rice tariffs have shrunk in recent years relative to the rising world price of rice, but are still high at 540 percent (equivalent to a 540 percent sales or value-added tax on imports). Tied for last are Norway and Switzerland —both for high tariffs on meat, dairy products, sugar, and wheat from poor countries." (Center for Global Development)

The peer review of the DAC/OECD offers a best practice (Q2) that could be implemented by the European Union to improve the follow-up of the harmonizing agenda of the Member States. "Such harmonised efforts include the Multilateral Organisations' Performance Assessment Network (MOPAN), and the work of the DAC's Evaluation Network. The EU can benefit from DAC's advancement of "an approach to joint assessments of the development effectiveness of multilaterals, by combining elements of MOPAN assessments with reviews of the organisation's own evaluations of their development results." Their guidelines could be aligned with the Paris Declaration on harmonizing and be converted to indicators for joint evaluation processes developed by DAC or the EU itself (Q1).

The Green Paper also brings to the forefront one of the most noted deficiencies of coordination which has to do with establishing a greater linkage to article 210 of the Lisbon Treaty (Q-12). The Lisbon Treaty orders the installation of an executive organism which, with the help of the European External Action Service (EEAS), has as its mission a more effective European participation in the international arena. However, the administrative relations between the Development Cooperation and Humanitarian Assistance and the EEAS are not discussed in the document that limits itself to confirming that Policy Coherence for Development is a requirement of the Lisbon Treaty. But, in order to enumerate all the practical measures and necessary policies to improve coherence, first an internal evaluation that highlights the weaknesses in that relationship since the implementation of the treaty would be needed. This evaluation should take into account that the Lisbon Treaty identifies development as an independent and distinct policy area covering all developing countries and that Development Cooperation will not be subordinated to any other external relation policy, but is part of the first pillar and, therefore, falls within the competence of the European Community and the European Parliament's (EP) scrutinizing powers. Above all, **it would be important to verify up to what point it is true that development policy is not subordinated to the commercial policies of the EEAS. Based on the experiences of low income countries, the Commission/DEVCO could present concrete proposals to ensure Policy Coherence on Development (PCD).**

Another very important aspect is the coordination and division of labour between the Commission and Member States. The tension between bilateralism and multilateralism is a reality that the Commission must learn to deal with. This is about introducing the necessary rules to implement the Code of Conduct Division of Labour, ensuring the optimum mix between national and community interests, which, as a matter of fact, must be assumed as part of the interests of the Member States. It is well and true that tight coordination and harmonizing has to be improved, but this improvement should not come at the expense of the partner countries (ownership). There are aspects of cooperation that can be best managed in the context of multilateral cooperation, such as the support of projects and programs for road infrastructure, renewable energy, etc., as well as regional integration. The added value of the Union vis-a-vis the individual Member State in these and other aspects must be part of a previously discussed and agreed strategy in which the Union must assume a coordinating role.

2 INCLUSIVE AND SUSTAINABLE GROWTH

In chapter 3, the Green Paper centres its attention on the determining factors of inclusive growth (IG) and summarizes them into: **productive and sustainable investments, access to credit, legal and regulatory framework, and decent work and social protection** (EU, 2010). There are at least two aspects that, although mentioned, are not afforded their proper due.

– The external shocks that affect growth in numerous countries, especially in Sub-Saharan Africa
– In those conditions where poverty persists, the relationship between growth and inequality.

The absence of an analysis of these two aspects makes the document seem more as a strategy for growth with a neoclassic vision, in which capital and technical progress are the sole factors of growth, and less like what it should be: a strategy for development policy. The message in the Green Paper could be misunderstood as follows: "more growth, less poverty." It seems so because the Green Paper does not offer a methodological reference to its definition of IG. Thus, the EU, upon renouncing the concept of "pro poor growth" offered by OECD, meets with the same difficulties that the Asian Development Bank faces when it comes to operationalizing the concept of "Inclusive Growth" and is left without the MDG indicators needed to monitor its projects and programs (see Klasen, 2010). The discussion surrounding the best definition for IG (see Annex) is certainly not over, but here is an outline worked out by the World Bank that could help find a clearer vision for the EU's Green Paper:

WHAT IS INCLUSIVE GROWTH (IG)?

IG focuses on economic growth which is a necessary and crucial condition for **poverty reduction**.

IG adopts a **long term perspective** and is concerned with sustained growth.

(a) For growth to be sustained in the long run, it should **be broad-based across sectors**. Issues of structural transformation for economic diversification therefore take a front stage. Some countries may be an exception and continue to specialize as they develop due to their specific conditions (e.g. small states).

(b) It should also be inclusive of the large part of the country's **labour force**, where inclusiveness refers to equality of opportunity in terms of access to markets, resources and unbiased regulatory environment for businesses and individuals.

IG focuses on both the **pace and pattern** of growth. How growth is generated is critical for accelerating poverty reduction, and any IG strategies must be tailored to country-specific circumstances.

IG focuses on **productive employment rather than income redistribution**. Hence the focus is not only on employment growth but also on productivity growth.

IG has not only the firm, but also **the individual** as the subject of analysis.

IG is in line with the **absolute definition of pro-poor growth**, not the relative one.

IG is **not** defined in terms of **specific targets** such as employment generation or income distribution. These are potential outcomes, not specific goals.

IG is typically fuelled by **market-driven sources** of growth with the government playing a facilitating role.

Source: Ianchovichina, E. Lundstrom, S. (2009): What is Inclusive Growth?

It is well known that the poverty elasticity of growth varies from one country to the next and between regions, which is the reason why there are cases such as Peru, with high rates of growth but small rates of poverty reduction, and in most cases growth in inequality. In the case of Africa, the OECD reached the following conclusion: "The relationship between economic growth and poverty is, however, complex and controversial. While economic growth appears to be a precondition for poverty reduction, it is by no means sufficient. For governments to be able effectively to undertake pro-poor strategies, the quality of growth matters as much as its intensity" (OECD, 2010).

From the point of view of cooperation, the question isn't so much "How to promote more growth", but instead: "How to develop the capacities of the poor so that they can not only benefit from growth, but more importantly become a driving force of growth." Thus we ask, what can be the focus of the analysis of growth from the perspective of cooperation policy? In our opinion, the focus should be oriented to the MDG and with that to poverty reduction, which, as a matter of fact and considering the timeframe for the MDG, is the Development Policy for the next five years.

Statistics show that most of the poor live in rural areas and that improving infrastructure allows them better access to the market and to the social security network. Growth is necessary but not sufficient to overcome these difficulties. The long debate between growth, poverty and inequality led to the introduction of the concept of "pro poor growth" as a cornerstone of development policy in international cooperation (World Bank, OECD). In the sense that this concept sets poverty and its eradication at the centre of its analysis, "pro poor growth" is clearer and more straightforward than the concept of "inclusive growth" used by the European Union for its own strategies to overcome the crisis.

To conclude, given the fact that the definition of IG is still work in process in the international debate, it is recommended to link the concept of IG more closely to the multidimensional concept of poverty of the OECD. In its Guidelines on Poverty, DAC offers a definition of poverty that has been the basis of the philosophy of international cooperation for the last 20 years: "**Poverty is multidimensional**." Poverty denotes people's exclusion from socially adequate living standards and it encompasses a range of deprivations. The dimensions of poverty cover distinct aspects of human capabilities: economic (income, livelihoods, decent work), human (health, education), political (empowerment, rights, voice), socio-cultural (status, dignity) and protective (insecurity, risk, vulnerability). Mainstreaming gender is essential for reducing poverty in all its dimensions. And sustaining the natural resource base is essential for poverty reduction to endure" (OECD, 2001).

In the following we will respond briefly to some of the questions posed by the Commission in the document.

2.1 Question 14: Industrial investment projects in developing countries

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?

It is impossible to give a standard answer to this question because the investment projects depend on the initial conditions, the legal framework, the impact on poverty, etc. As numerous studies and evaluations have shown, that foreign investment for instance in extractive industries does not bring automatic benefits to the partner country. For example, in Africa a study came to the conclusion that "… African governments have failed to collect the additional rents generated by mining companies before and during the price boom because (i) they have given tax subsidies to the industry and (ii) mining companies have been pushing for tax breaks in secret mining contracts, amounting to an aggressive tax avoidance strategy" (Open Society Institute of Southern Africa et alia, 2009). That is why it is not uncommon to find a high preponderance of income poverty indicators in mineral-endowed African countries and communities in mining areas.

FDI inflows to Africa

Leading up to the financial crisis FDI inflows to Africa had been rising strongly since 2002, reaching USD 88 billion over 2008, a 27 % increase on 2007 and their highest historical level. Behind the rise in FDI up to 2008 lay the surge prices for raw materials, particularly oil, which triggered a boom in commodity-related investment. However, the global crisis led to a considerable slowdown in the second half of 2008, which continued and accelerated through 2009. The crisis lowered demand for Africa's commodities, which has reduced capital investment in those sectors and countries where most foreign investment has historically been concentrated. Preliminary estimates for 2009 indicate a sharp fall in FDI to Africa of 36% (echoing an overall fall in FDI to developing economies by 34% over the same period) (Figure 2.1). As FDI is a major source of investment in Africa, such a precipitous drop affected Africa's overall investment levels much more than other developing regions. (OECD, 2010a)

However, the key to the answer is in the Green Paper itself when it states that the investment "must also try to benefit the maximum number of citizens in the partner country." True to this logic and in order to choose the best options, it should be necessary to make an ex – ante analysis of the impact on poverty that the project will have. The need to invest in extractive industries is, in many cases, a priority of the donor country's enterprises who want access to the natural resources of the recipient country, which is why the European Union must make a balance of the investments' cost of opportunity in poverty reduction that the development cooperation will promote. The fundamental question here is: Is it about promoting the interests of trade policies or is it about aiding sustainable development or IG in partner countries?

With the help of an ex – ante Poverty and Social Impact Analysis (PSIA) approach, it is possible to determine the type of investments needed to have a greater impact on poverty. The ex – ante analysis also includes the actors, transmission channels and dimensions of the poverty that can be mitigated with the investment projects. In the extreme case where an option in the extractive industries is chosen, not only must the OECD Guidelines be followed, but also the principles and criteria of the Extractive Industrial Transparency Initiative (EITI). Only under these conditions can investments be termed adequate and coherent with development policy.

2.2 Question 15: Protection of social and economic rights, and better corporate accountability

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?

This question is crucial to the promotion of IG because it makes reference to several dimensions of poverty: the human capabilities dimension, the economic dimension and the social protection dimension (OECD, 2001). "By strengthening the employability of poor women and men, and enabling them to seek and obtain better and more remunerative work, social protection promotes their participation in the labour force. Thus, Social protection builds self-reliance, not dependency" (OECD, 2008). These aspects are also part of the European Consensus on Development (EU, 2006) pertaining to social cohesion and employment (art. 97 – 99) and in the concept of "inclusive growth" that the Commission uses in the Green Paper. Due to the impact of the world economic and financial crisis on low-income countries, the need to build and/or re-enforce social protection systems has mobilized a lot of political attention recently at country and international levels. The following aspects related to social protection and employment need special attention:

- **The relationship between investment and the generation of decent work**
- **The strengthening and expansion of social security systems**
- **The growing informality of labour**
- **The existence of legal norms and work codes in the partner countries**
- **Mechanisms that sanction multinational businesses that don't follow the standards.**

Normal operating procedures in the EU's development policy have shown that these can contribute positively to the implementation of labour standards in the partner countries (EU, 2010). For this, the Commission has the political legitimacy of the European Consensus on Development. According to the 2010 Development Report (EU, 2010) "the Commission supported health, education, employment, social protection and culture through a variety of instruments and channels, including budget support, with the aim of strengthening national systems and adapting aid to national policies." However, in the past, the EU has been criticized for taking a lax stand, especially with European businesses that have violated certain standards. Development policy could therefore contribute to the implementation of corporate social responsibility with these actions:

1. Supporting recipient governments in the creation of the needed legal framework to implement labour standards
2. Involving civil society organizations in the public – private dialogue process
3. Mobilizing resources for capacity building in implementing ILO's core labour standards[1]

ILO's agenda on decent work sets 4 dimensions (employment, social security, rights in the workplace and social dialogue) that could be the basis for the Commission's approach. According to the Europaid Report "to address these issues, the European Commission continued in 2009 to develop and strengthen cooperation with the International Labour Organisation (ILO). Under the program, four larger projects are jointly managed by the ILO and the Commission covering the thematic areas of trade and employment, statistical systems, social protection and employment policy in developing countries" (EU, 2010). Now is the time to intensify and expand the cooperation that was begun by the aforementioned instruments. It is important to support all existing initiatives to create more transparency (EITI, Kimberley Process).

The gender equality theme has a tighter relationship with the topics of labour standards and social protections systems. Here also, the Commission has developed instruments with much impact. The

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1 Core labour standards are a series of rules and principles regarding the minimum standards recognised by the international community for treating workers humanely. Although many kinds of labour standards exist, the ones referred to as the four core labour standards are those that the international community has agreed are applicable to all countries because they protect basic human rights. Enforcement of these standards benefits a country as a whole, not only its workers, because the core labour standards are central to the healthy functioning of market economies. They create a level playing field for both foreign and domestic investors thereby improving economic performance. As stated in the ILO Declaration on Fundamental Principles and Rights at Work (1998) the core labour standards aim to: (1) eliminate all forms of forced or compulsory labour; (2) effectively abolish child labour; (3) eliminate discrimination in respect of employment and occupation; and (4) ensure the freedom of association and the right to collective bargaining.

European Commission/UN Partnership on Gender Equality for Development, as well as the cooperation with UNIFEM, offers best practices that merit consolidation in the future.

2.3 Question 16: Establishing an economic environment to promote business, particularly SMEs

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?

As expressed in the introduction, in order to achieve IG, it is necessary for the poor to participate as promoters of growth and not just beneficiaries. That is why governments of developing countries have an enormous responsibility to ensure a favourable setting for the entrepreneurial initiatives of the poor. As the Green Paper points out: "EU assistance, both financial and technical, can support reforms in this area, based on commitments and determination to introduce improvements by partner countries." The promotion of micro, small and medium-sized enterprises (MSMEs) is a key approach towards accelerating pro poor growth that depends of the following factors (see OECD, 2007; ODI, 2008):

- **Favourable business environment for MSME by lowering risks and the costs of doing business**
- **Removing barriers to formalisation;**
- **Targeting services to poorer entrepreneurs, mostly composed of micro, MSMEs, informal firms and workers and smallholder farmers;**
- **Identifying and unlocking the potential for economic development in sectors and regions where the poor are concentrated;**
- **Enhancing women's market access, which considers access to labour, financial, goods and service markets from a gender perspective.**
- **Constructing inclusive public-private dialogue, which reviews these forms of structured interaction that can help reduce resistance to change and lead to institutional and policy reforms.**

The reduction of the regulatory loads is only the first step to allow the development of MSME. By themselves, they do not contribute to the growth of productivity in the MSMEs or ending the informal setting. They must be accompanied by policies that promote infrastructure and education (formal and professional) to improve the competitiveness of the MSMEs. This process requires the goodwill of the partner country because it implies an institutional transformation, on the one hand, and capacity building on the other, so that the poor have the ability to become the drivers of growth. In addition to the specific recommendations aimed at removing barriers and at supporting measures, a number of policy and best practice recommendations for EU development policy emerge:

- The development of toolkits that include the best interventions for formalization. Past experience shows that together with the reduction of barriers, toolkits that establish well defined formalization processes reduce corruption at the main interfaces between government and businesses in registration and licensing procedures.
- As part of the political dialogue, creating a conviction in local and national governments on the importance of the informal economy and the role of national and local governments in the formalization process: that the growth of the tax base is only justified if it is meant to benefit the MSMEs and that the temptation to extract excessive fiscal benefits will only dampen the MSME activities.

- In order for the dialogue between the government and the informal businesses to be successful, it is necessary to build capacities, especially organizational capacities, by poor people. The creation of a constructive consensus for formalization between the two sides is of vital importance.

Working with local governments is vital for cooperation especially when it is geared to promote MSMEs in the regions with the highest poverty rates.

2.4 Question 17: Financial support and low cost finance and financial guarantees

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?

The financial sector can have a direct impact in the reduction of poverty in two ways:

- Offering preferential access to financial services to the poor
- Facilitating financial investments on basic services for the poor.

The problem in developing countries is that due to the absence of formal markets, poor individuals and businesses must look for other, less efficient ways to manage their risk. The Micro Finance Institutions (MFI) can fill a void that exists between the poor and the financial system. It is estimated that the proportion of people without a bank account reaches 90% in some African countries. MFIs can have a positive effect on poverty reduction but it also depends on the institutional and legal framework in which they operate and on the development of their own managerial capacities. The financial systems in poor countries suffer from important deficiencies that block them from having an impact on supporting the most vulnerable sectors.

Deficiencies in financial sectors in developing countries

Despite improvements in the last decade, the financial systems of developing countries still suffer from shortcomings and market inefficiencies that have an impact at various levels of the business environment. These flaws are linked to: i) problems caused by governments interfering in the allocation of resources through credit controls and regulated interest rates; ii) the lack of regulatory, accounting and operating procedures that comply with international standards, coupled with poor quality and opaque supervision and a lack of transparency; and iii) the almost systematic reliance on short-term foreign funding because local debt and equity markets are insufficiently developed (OECD, 2007).

The EU must coordinate amongst its Member States data collection of the financial institutions and their access to financial services for the poor. To avoid errors of the past, it is important to ensure through political dialogue that political authorities in the partner country support the development of an efficient and market-oriented financial sector. The IMF's cooperation, within the framework of the Financial Sector Assessment Program (FSAP), can render concrete benefits in these cases, both in helping to develop the underlying financial structures, as well as in helping to develop the professional capabilities of the supervisory authorities. The EU can promote capacity building in the intermediary operators that work in the low rate-of-return financial markets: Education, health, housing, small businesses, agriculture and refinancing.

2.5 Question 18: Innovation and technology transfer in developing countries

Which instruments could the EU use to promote creativity, innovation and technology transfer and ensure their viable applications in developing countries?

Promoting research, innovation and the transfer of technology to developing countries was pointed out as one of the twelve areas of political coherence by the Commission's Report, called "EU 2009 Report on Policy Coherence for Development".[2] Technology transfer is both: An important part of technical cooperation and an instrument of coherence between trade, investment and development policies. On innovation and technology transfer, Europe avails itself of great potentials from the historical experience of its Member States. That "accumulated capital" can be made available to aid developing countries as well as in EU's own self-interest. Through technology transfer, the synergies between development policies and other EU policies can become stronger, increasing the impact of development policy and creating aggregate value.

> "To enforce ILO's safe work regulations, technological equipment is needed to measure the risks to occupational hazards, such as, luminosity meters for ergonomic studies, gas meters for the construction and industrial sectors, and equipment to measure suspended particles in the textile, wood and flour industries, businesses that are very common in poor countries. One of the reasons for the unavailability of this equipment in developing countries is that there is little demand for it. The organizations dedicated to supervising conformity to ILO and international standards are small and have little funding, while operating industries are not motivated to use them or buy them locally. Another reason for the unavailability of this equipment is that the support needed to maintain it, such as repairs and calibration, is difficult to find. Metrological organizations for calibration, for instance, either don't exist or are too weak to cover these needs. Due to the scarcity and the lack of experience and knowledge, the technical personnel dedicated to regulate, supervise and make work safe is little inclined to insert technical measurements into their work methods."
>
> ***Jorge Gallardo Rius, Occupational Safety and Health Manager, Honduran Institute for Social Security (IHSS)***

However, there are huge differences in partner countries as their ability to absorb knowledge and technology. In some, especially the more dynamic economies, the role of the private sector and foreign investment can be vital and can be complemented with financial cooperation. In others, however, greater efforts are needed on the part of international cooperation and by the national government in order to improve innovation and the capacity to absorb technology transfers. There is some experience by the EU that should be evaluated in its rightful dimension. In those cases in which regional efforts make more sense, it is necessary to find ways to reduce transaction costs. We need to increase participation of researchers from developing countries taking into account that a major difficulty of involving developing countries in research cooperation is their limited research capacity and infrastructure.

Without the efficient investment of public resources into R&D activities, it is very difficult for the private sector to apply new know-how to improve their international competitiveness. Yet in developing nations, resources and infrastructure for R&D are scarce. In Europe, there are many research facilities and institutes that would have relatively smaller transaction costs and that could be involved in technology

2 http://ec.europa.eu/development/icenter/repository/SEC_PDF_2009_1137_F_ACTE_PCD_EN.pdf This report covers 12 policy areas which impact on development, namely trade, environment, climate change, security, agriculture, fisheries, social dimension of globalisation, employment and decent work, migration, research and innovation, information society, transport and energy.

transfer to private companies, especially to small and medium enterprises in developing countries. The process would require an analysis of global value chains with the objective of upgrading links in developing nations within the framework of regional integration strategies, such as in Central America or Western Africa. The key summit theme by the sixth European Union–Latin America and the Caribbean summit in May in Madrid has been innovation and technology for sustainable development and social inclusion. Financial and technical cooperation as well as public – private partnerships are adequate instruments to implement these strategies.

The Copenhagen Conference on Climate Change highlighted the importance of technology transfers from industrialized nations in order to reduce carbon emissions. How can market failure be overcome in order to foster innovations that contribute to the transition towards ecologically more sustainable development patterns? The EU should accelerate international transfer of clean technologies by increasing public funding for technical R&D and international cooperation. It has also been noted that different countries have different capacities.

Achieving open source solutions[3]:

- If research for "clean" technologies is financed jointly by industry and the public, patents may not be fully owned by the companies involved.
- Finances generated from emission trade and similar sources could be used for establishing a price fund. This fund could be largely used for finding specific solutions for problems that particularly affect developing countries.
- Developing open source models and patent pools for openly accessible innovative technologies should be supported by all EU governments.
- In addition, strategies have to be developed that would ensure that new technologies are put on the market without delay and adapted to the needs of developing nations.

To achieve the desired effect, action will be needed in most of these areas, as none of them can stand alone. Funding is an obvious factor as both development and production of technology have a price. It is therefore also important to consider the role of the corporations and firms which are supposed to facilitate the transfer. Their mode of cooperating with a local partner is linked to their Corporate Social Responsibility (CSR), and the long-term effect of the transfer of technology will therefore depend on the implementation of such policies.

3 SUSTAINABLE DEVELOPMENT, A NEW DRIVER

3.1 Question 22: Climate change, biodiversity and development

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?

The need to integrate adaptation into EU external policies in general, and development cooperation, has been recognized in the past few years and action has been taken. In 2003, the EC published a

3 Hütz-Adams 2008

Communication on **Climate Change in the Context of Development Cooperation**[4]. In response to this Communication, the Council adopted an **Action Plan on Climate Change and Development** in 2004, covering the years 2004-2008.[5] Support for adaptation in developing countries was one of the five strategic objectives of the Action Plan. However, a 2007 review of the Action Plan concluded that the integration of climate change systematically in development cooperation had not yet been adequately addressed by EU donors and enhanced efforts were necessary to make progress.[6]

In 2007, the Commission initiated the **Global Climate Change Alliance** (GCCA), involving the EU and those developing countries expected to be hit hardest by climate change.[7] Among its five priority areas are the development and implementation of National Adaptation Plans of Actions (NAPAs), reducing emissions from deforestation in developing countries, and the promotion of disaster risk reduction (DRR), by improving climate forecasting and information systems. A further priority is the integration of climate change into poverty reduction strategies and programmes.

In 2009, Europe Aid published **Guidelines on the Integration of Environment and Climate Change in Development Cooperation**.[8] They are directed at EU staff and EU partners; they describe how climate change is to be integrated in development cooperation in strategic planning, in sectoral approaches, budget support and when planning projects. For example, the guidelines demand a "climate risk screening" as part of project planning, i.e. an assessment of the climate risks faced by the project that may affect its relevance, effectiveness, efficiency, and sustainability or developmental impact.

In 2009, the Commission also published a Communication on an **"EU Strategy for Supporting Disaster Risk Reduction in Developing Countries"**.[9] According to the Communication, EU DRR approaches are so far ad-hoc, uncoordinated and inadequate. As a remedy, the Commission proposes political dialogue on DRR, regional DRR plans and stronger integration of DRR in development cooperation strategies, such as country and regional strategy papers as well as poverty reduction strategy papers.

The need to integrate climate change into EU development cooperation has also been addressed in recent Council Conclusions.[10]

Beyond these efforts to improve the integration of climate change adaptation and DRR into development cooperation, a further impetus stems from the **multilateral climate negotiations**, and from the emerging global carbon markets.

The **Copenhagen Accord** foresees, recently endorsed through the COP-16 in Cancun, significant contributions from developed countries to developing countries, including for adaptation. There are two distinct processes to this end, **fast-start and long-term finance**. On fast-start finance, developed countries collectively committed to provide "new and additional resources, … approaching USD 30 billion for the period 2010–2012, with a balanced allocation between adaptation and mitigation; funding for adaptation will be prioritized for the most vulnerable developing countries."[11] The EU has

4 COM(2003) 85 final

5 Available at http://register.consilium.eu.int/pdf/en/04/st15/st15164.en04.pdf.

6 See presentation by Peter Brinn, Environment Helpdesk for EU development co-operation, online at http://www.ifad.org/climate/climtrain/workshops/1/ppt/ec.ppt. The review itself appear not to be public.

7 See Communication from the Commission to the Council and the European Parliament of 18 September 2007 – Building a global climate change alliance between the European Union and poor developing countries most vulnerable to climate change (COM(2007) 540 final)

8 Available at http://www.enpi-info.eu/mainmed.php?id=316&id_type=9

9 COM(2009) 84 final

10 Council Conclusions on Climate change and Development, Brussels, 17 November 2009

11 COP-16, Conclusions of the LCA track, ch. IV-A article 95, p. 14

pledged to contribute EUR 2.4 billion per year to this end in 2010-2012. On long-term finance, the Copenhagen Accord and the COP-16 Conclusions both contain the goal of developed countries to jointly mobilize USD 100 billion per year by 2020, including funding for adaptation measures. However, for the time, the details of this aspiration remain as uncertain as the likelihood that the goal can be achieved.

In terms of mobilizing financial resources for adaptation, COP-16 was the starting point for two other relevant developments, the **Cancun Adaptation Framework** and the **Green Climate Fund**. The adaptation framework includes, among other provisions, a request to developed countries to provide developing countries with "long-term, scaled-up, predictable, new and additional finance".[12] The Green Climate Fund was one of the more significant results of the Cancun negotiations. However, the negotiations have focused on the institutional set-up and control of the fund, and have not yet given much emphasis to its purview and function. Specifically, its role for adaptation finance remains to be defined: while the COP-16 conclusions stipulate that "a significant share of new multilateral funding for adaptation should flow through the Green Climate Fund",[13] it remains unclear how this relates to the Adaptation Fund, which was set up under the Kyoto Protocol to finance concrete adaptation projects and programmes in developing countries.

Regarding the role of **carbon markets**, there are some direct and indirect linkages to adaptation finance. The most immediate linkage is through the Adaptation Fund: its main source of funding is a 2% levy on all projects of the Clean Development Mechanism (CDM). Other than that, there is currently no direct link between carbon markets and adaptation measures.

However, some links are conceivable. **Forestry projects** can already be carried out under the CDM and may deliver co-benefits for adaptation and biodiversity. However, with only 1% of all CDM projects being forestry-related[14,] the extent of this project type has been limited so far. If co-benefits should materialize, it is by coincidence rather than by design. Potential co-benefits for biodiversity and climate change adaptation are also expected for projects that credit Reduced Emissions from Deforestation and Forest Degradation **(REDD).** However, as the mechanisms for crediting such projects are yet to be established, the link to adaptation and biodiversity is uncertain.

Possibly the most important indirect link between carbon markets and adaptation is through **revenues from auctioning emission allowances**. In the current, second trading period of the EU emissions trading scheme (ETS), only few Member States decided to auction significant amounts of allowances – among them Germany. Germany has earmarked 120 million Euro of revenues for its international climate protection initiative, through which it supports a number of adaptation projects. As of 2013, with the start of the third trading period, the share of auctioned allowances will increase markedly in all Member States. Among the possible uses of auctioning revenues, Article 10.3 of the EU Emissions Trading Directive includes adaptation measures in developing countries – either directly through projects carried out in these countries, or through contributions to the Adaptation Fund.

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12 COP-16, Conclusions of the LCA track, ch. II article 18, p. 4

13 COP-16, Conclusions of the LCA track, ch. IV-A article 100, p. 15

14 UNEP Risoe CDM pipeline, http://cdmpipeline.org/cdm-projects-type.htm, 1 January 2011

3.2 Conclusions and recommendations on sustainable development

Considerable efforts have been undertaken to improve the integration of climate change adaptation into development cooperation and for raising funds for adaptation in developing countries. However, many of these efforts are fairly recent, and in the case of climate finance and carbon markets, the actual implementation remains to be seen. Therefore, evaluating the achievements to date is difficult. However, some shortcomings of the actions undertaken so far already start to be visible and some recommendations can be given in this context:

- The degree to which climate change adaptation and DRR are successfully mainstreamed into development cooperation depends on **the amount of funds** available to this end. The EP considered the 60 million Euro committed to the GCCA initially to be "woefully inadequate" and called on the Commission to establish a long-term financing goal for the GCCA of at least 5-10 billion Euro annually by 2020.[15] Climate Finance (as part of the international climate regime) and carbon markets offer options to close the funding gap. In the context of the climate negotiations, the EU has committed itself – along with other developed countries – to contribute resources that are new and additional to ODA for developing countries, including for adaptation measures. Auctioning allowances under the EU ETS offer a significant source of revenue that can be used to this end. The EU now needs to stand by its word and **deliver on its commitments**.
- Mainstreaming climate change adaptation and in particular DRR in development cooperation will require not only the support of and coordination between environment and development constituencies, but also of **other actors**, e.g. those active in disaster reduction. This is true on the EU side, but also in developing countries. Environmental or development ministries, which often do not have the necessary standing in government hierarchies (as compared e.g. to defense or finance ministries), may lack the political clout to integrate climate change concerns into other policy processes, e.g. budget processes or infrastructure planning. For example, it has been observed that NAPAs are rarely integrated into national planning and budgetary processes in least-developed countries.[16] It is thus essential that EU development cooperation does not only support the work of environment ministries on climate change issues, but also works with other branches of government. In this regard, experiences with mainstreaming processes in other areas (e.g. gender) should be taken into account and inform the process.
- Mainstreaming climate change adaptation and in particular DRR in development cooperation should work as a process working in **two directions**. Climate change concerns need to be integrated into development cooperation, but environmental policy-making should also be sensitive to development concerns. For example, in the likely event that a 7th Environmental Action Programme is adopted for the period after 2012, it should include increasing coherence between climate change policies and development cooperation as an objective.
- There seems to be little systematic **evaluation** of the efforts undertaken so far on integrating adaptation and DDR into development cooperation. For determining whether EU efforts have any effects, such evaluation and monitoring is, however, essential. For example, it would be an important step to assess if the Commission's stated intents to include adaptation and DRR in development cooperation strategy papers are implemented and in what manner. Equally,

15 European Parliament, Report on building a Global Climate Change Alliance between the European Union and poor developing countries most vulnerable to climate change, Rapporteur Anders Wijkman, adopted by the Committee on Development on 19 September 2008. For an estimate on adaptation finance needed in Africa, see Germanwatch (ed.), Adaptation to climate change in Africa and the EU´s development cooperation, 2007, p. 39

16 Commission on Climate Change and Development, Closing the Gaps, Stockholm, 2009, p. 20. www.ccdcommission.org

monitoring to which extent the guidelines on *Guidelines on the Integration of Environment and Climate Change in Development Cooperation* are applied in practice.

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ANNEX

Comparing and Contrasting Inclusive Growth Concepts

Concept	Key idea	Process/Outcome	Income/Non-Income?	Income growth necessary?	Ease of measurement	Innovation
Strategy 2020	Growth that creates opportunities and expands access	Largely process	Income	Yes	Unclear	Very close to Ali and Zhuang
Rauniyar and Kanbur	Growth with declining inequality	Outcome	Both possible	Yes (income dimension)	Straight-forward	Nearly identical to relative PPG
Ali and Son	Pro-poor improvements in non-income dimensions	Outcome[9]	Non-income	No	Straight-forward	Close to non-income growth incidence curves
Ali and Zhuang	Growth that is based on and expands *equal* opportunities and access	Largely process	Both	Yes	Technically difficult	Close to extension of equality of opportunity concept
The World Bank	Growth that promotes productive employment	Largely process	Both	Yes	Difficult	Some relation to Ali and Zhuang approach
United Nations Development Programme	Growth with equality	Process and outcome	Both	Not necessarily	Difficult	Some relation to many related concepts

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