European Centre for Development Policy Management
Centre européen de gestion des politiques de développement

European Commission Green Paper on Inclusive Growth and Sustainable Development

Preliminary Reflections for the Secretariat of the African, Caribbean and Pacific Group of States

ECDPM, Maastricht (Netherlands), *17 December* 2010

1 Background

On 10 November, the European Commission published the Green Paper *"EU development policy in support of inclusive growth and sustainable development. Increasing the impact of EU development policy".* Linked to the Green Paper is a public consultation process that runs until 17 January 2011. Individuals, organisations and countries are invited to send their reactions on the Green Paper. The Commission indicates in the paper that in particular contributions from the EU's partners in developing countries would be greatly valued. Commissioner Piebalgs visited the ACP House and presented the paper immediately after the Commission had adopted it. With the ACP Group of States being at the core of EU development cooperation, the group as well as individual ACP countries, organisations and individuals can provide important input to the consultation process.

There is a distinct political and institutional background to this paper that is worth exploring briefly. First in an age of austerity and with the EU budget under pressure there is a desire for EU and EC development assistance to be seen to be giving value for money. Secondly there is a "relatively" new European Development Commissioner who does not come from a development background but has a reputation for being an effective manager who wants to "set out his stall". Thirdly it comes at a time when the Commission is eager to protect its unique engagement and contribution to development, particularly vis-à-vis the European External Action Service, while at the same time be seen to be giving EU leadership. Fourthly, the global development agenda is shifting and there is a need to reflect and refocus and this is one serious and early attempt by the EU to do so. Finally there is the growing concern that the EU is loosing strategic ground in developing countries to China and rising emerging powers who have adopted a more aggressively "win, win" economic diplomacy approach.

The consultation process does not stand on its own. It coincides with various other consultation processes, in particular on budget support[1] and on funding for EU external action after 2013.[2] There is also an ongoing Structured Dialogue on the

[1] The public consultation on budget support runs until 31 December 2010. See: http://ec.europa.eu/development/how/consultation/index.cfm?action=viewcons&id=5221
[2] The public consultation on EU external action instruments after 2013 runs until 31 January 2011. See: http://ec.europa.eu/development/how/consultation/index.cfm?action=viewcons&id=5240

involvement of civil society and local authorities in development cooperation.[3] What is furthermore relevant in this context is the 10th EDF Performance Review that will be published as a Staff Working Paper by the European Commission in the first months of 2011, the Europe Energy 2050 proposal from the Commission expected in February 2011, as well as the Common Agricultural Policy Reform post-2013 (expected to be published in July 2011). The different consultation processes and policy proposals are likely to influence the shape of the new EU financial instruments post-2013.

The Green Paper states that the consultation process will feed into a Commission Communication on a Modernised EU development Policy, that will include *"the consideration whether it is opportune to review the European Consensus on Development".* While Development Commissioner Piebalgs has previously announced a review of the Consensus, the above quote indicates that this is no longer certain and may or may not be undertaken. The final decision will be influenced by the positions of EU member states, some of whom seem more inclined to support an EU wide strategy on support to inclusive growth and sustainable development, rather than a review of the Consensus. If the ACP Group has strong views on whether a review of the Consensus would be beneficial for EU – ACP relations or not, it may wish to already bring those to the fore in the current Green Paper consultation process.

2 Trends in the Green Paper

The Green Paper is broad in nature, which makes it quite challenging to respond to. In this sense, it is distinct from the Green Papers on budget support and the EU's instruments for external action that focus more specifically on aid modalities and instruments. Strategic choices may be taken by the ACP Group to focus on a selected number of key issues instead of trying to cover all topics touched upon in the Green Paper.

To guide such strategic choices, it is important to identify the key trends in the Green Paper. As key trends one could list the following:

1. An increased emphasis on results and impact;
2. Focus on inclusive growth and private sector development;
3. Aid as a catalyst to leverage additional resources for development;
4. Priority for the areas of climate change, renewable energy and agriculture and food security.

An emphasis on results and impact can be found all throughout the paper as one of the EU's aims for its future development cooperation is to become more visible on the basis of a more coordinated approach and using aid as a catalyst for

[3] 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. See https://webgate.ec.europa.eu/fpfis/mwikis/aidco/index.php/Structured_dialogue

additional sources of funding. Sections 3-5 below describe and analyse trends 2-4.

3 Focus on inclusive economic growth and private sector promotion

According to the paper, inclusive economic growth is most effective in reaching development objectives. The paper argues that for EU support to enhance growth, aid needs to target governance reforms and the private sector. The private sector will be assisted in bringing about growth (through risk-sharing etc.), while governments receive assistance to create growth-conducive conditions, including a favourable business climate. The focus on growth and private sector development is in line with global trends, as illustrated by the Millennium Summit in September and the Africa – EU Summit in November 2010.

The EU's proposed approach may bring about the following opportunities:

- **Move to a more comprehensive approach of pursuing the MDGs**: A focus on growth and investment would complement the traditional and more narrow approach of supporting MDGs by strengthening social sectors, such as health and education. It puts an emphasis on an area which Southern stakeholders increasingly value and want from the EU.
- **Engaging the private sector in development:** Working with the private sector, particularly strengthening SMEs in partner countries could have the desired inclusive growth effect the EU is hoping for. In addition, as environments become more conducive to business partly due to EU support, private European investments may also bring about growth. A win-win situation for both partner and European economies would allow to demonstrate the value of development cooperation to EU citizens.

Nevertheless, there are a number of risks the ACP may want to consider:

- **Forgetting about LDCs?** Will the focus on inclusive growth mean that resources will be spent in Middle Income Countries (MICs) rather than Least Developed Countries (LDCs) because MICs have higher growth potentials?
- **Not getting the aid-inclusive growth paradigm right?** A number of countries have experienced economic growth that has not been inclusive. A recent study by the Institute of Development Studies shows that today's bottom billion (3/4 of the world's poorest) lives in middle income countries. This is further illustrated by Oxfam International, who recently pointed out that from 1981 to 2001, global Gross Domestic Product (GDP) increased by $19,000bn, but that only a fraction of this (1.5%) went to men and women living in extreme poverty of less than $1 a day, even though they accounted for one in three of the global population at the start of this period. How to ensure that aid leads to inclusive growth and not just growth?.
- **Impact of EU trade policy?** EU trade policy can have a significant impact on ACP countries' economic growth. Will the EU make the link and make the necessary adjustments in line with promoting inclusive growth?

- **Support for social sectors falling off the agenda?** A comprehensive development agenda needs to be focused on promoting growth as well as ensuring that social sectors continue to be supported. A shift in approach to a focus on growth may lead to social sectors receiving less support.
- **Moving back to tied aid?** There is no doubt about the role the private sector can play in development, yet there is a need to develop criteria for 'development-proofing' private sector support, including how governments can work with the private sector without moving back towards tied aid.
- **European Commission capable of getting instruments right?** The European Commission does not have a significant track record in engaging the private sector in partner countries; the EC's procedures are currently inadequate for private sector work; past evidence for example of EC work on micro-credits is illustrative. It took decades to develop this work and results to date have been mixed (mostly because of bureaucratic hurdles and disincentive: risk averse system in the EC and the Delegations). If that is to change this is certainly welcome, but deciding to focus a new EU strategy on an area that is a widely known weak point of the EC will require considerable effort and change. In this regard, it is of pertinent importance to take account of lessons learnt by other (EU and non EU) development partners which have worked more in this area, like the World Bank. Starting from scratch will lead to a repetition of past mistakes.
- **(Mis)- understanding of good governance?** The Paper seems to adhere to the idea that institutions are transferable and that the introduction of 'good governance' reforms and regulations lead to effective governance. This is not in line with generally recognized knowledge about institutional change and institutional economics. With regard to the determinants of growth evidence shows a correlation between growth, trade integration and 'good governance'; causality is however not demonstrated. Evidence shows that the key to economic growth are institutions which are hardly covered in the Paper.

In brief, while moving beyond the traditional MDG agenda and putting an emphasis on promoting inclusive growth could bring about benefits for both ACP and European countries, there are a number of risks that come with such an agenda and the approach would have to be carefully shaped and take into account lessons learnt.

4 Aid as a catalyst

According to the paper, European aid should leverage other forms of funding (except in countries in a conflict-cycle). In line with this idea, the paper also promotes "blending" – the mixing of grants and loans.

Using aid as a catalyst for other forms of funding is being discussed in global fora as well (i.e. MDG summit). It is widely recognized that aid alone will not be able to bring about development and that there is a need to move beyond aid.

The ACP may want to consider the following risks in this regard:

- **HIPC initiative reversed?** An increased emphasis on blending grants and loans may lead to unsustainable debts. Caution is required by both the EU as well as the ACP side.
- **Lowering ODA ambitions?** Calling for aid to leverage other forms of funding and the statement that the Commission wants to move away from 'traditional' forms of aid (without defining traditional) may be an early indication of the fact that few still believe ODA levels of 0.7% of GNI will be reached by 2015. Instead they may seek other ways to ensure that ODA, although there is less of it, can still bring about substantial change with the help of other actors.
- **What future for support that doesn't leverage additional sources of funding?** Support to local human rights organizations or home-grown democracy movements are not direct catalysts for other types of funding, yet they are catalysts for societal development. Organizations like these have a role to play in creating growth-conducive conditions, as they support domestic accountability. The EU should make it explicit that 'traditional' development instruments are still relevant, and not only in countries facing conflict.

In brief, making aid a catalyst for other types of funding is necessary and could increase the impact of aid on poverty reduction in APC countries and beyond. Nevertheless, countries should not fall back into the debt trap and support to democracy-building measures and human rights organizations should continue.

5 Priority for climate change, renewable energy and agriculture and food security

Commissioner Piebalgs has emphasized that the EU will need to prioritise its interventions in order to have impact. There is a new emphasis on the importance of climate-proofing development cooperation and promoting the use of renewable energy. Focusing on climate change, renewable energy and agriculture/food security may indeed be areas where the EU has an added value and a set of skills and technology it could transfer.

However, the ACP may want to consider the following risks:

- **How much self-interest is reflected in these priorities?** Is this to benefit EU companies or Southern partners? Is the main motivation to reach EU goals for renewable energy while simultaneously "inflating" ODA budgets?
- **No need for Policy Coherence for Development in priority sectors?** The paper mentions the possible impact of policy coherence for development (PCD, taking account of development objectives in all EU policies), but this principle is not reflected in the sections on climate change, agriculture and fisheries. PCD should be used as an overarching framework to influence other policy areas affecting developing countries. It could leverage funds in

the identified priority areas (climate, energy) and ensure that these funds are used to promote development.

In brief, the EU's priority sectors should not only target the interests of Europe, but it has to be ensured that development objectives are at the forefront when the EU uses ODA in its proposed priority sectors.

6 Issues missing in the Green Paper that the ACP may wish to raise

While the Green Paper touches on a lot of issues, some things are omitted that the ACP may want to reflect on in its contribution to the consultation process as it could be key in strengthening EU development policy.

Challenge of delivery capacity
The paper does not address the challenge of delivery capacity. It focuses on policy without identifying capacity constraints that hinder current policies being put into practice. The ACP Group could underline the importance of the EU addressing capacity issues to tackle current policy–implementation gaps and ensure that new policy directions have the intended effect.

Role of political dialogue to create alliances and further common interests
The Green Paper does not address the key role of political dialogue to create alliances and further common interests on the global scene. In international fora the EU and developing countries, including the ACP, can be powerful allies. In this context it is particularly striking that the EU does not point to the need for reforms of global governance structures and EU engagement to contribute to those reforms.

Effective partnerships
While the importance of Partnership is noted there are questions as to how partners will be engaged and how the new agenda laid out in the Green Paper will relate to the conduct of existing partnerships (EU-Africa, EU-ACP in particular). Some indications are given by the EC Communication on EU-Africa relations, where Green Paper priorities seem to replace some of the earlier foci of the partnership.. Despite the limitations of the EU-ACP and EU-Africa processes, some learning on why ambitious development related policy proposals fail would be useful. It would also need to be clarified how "Joint Strategies for Inclusive Growth"[4] proposed in the Green Paper fit with the existing frameworks..

[4] Green Paper, page 12: "*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 exiting formal partnership arrangements between EU and groups of developing countries, or indeed with individual countries*".

Who does what

The paper speaks of the "European Union" without making any distinction between the European institutions (particularly the Commission) and the member states. It is therefore unclear what role and added value the European Commission sees for itself in the future as compared to what member states are doing. The ACP Group may wish to ask for a clarification in this regard. The group could also express its views on the added value of the Commission as compared to EU member states in EU – ACP relations, based on their experiences with a multitude of EU donors and partners.

The paper does not give much insight either in the role of key new players in EU development cooperation resulting from the Lisbon Treaty, namely the High Representative of Foreign Affairs and Security Policy and her European External Action Service. The institutional changes resulting from the Lisbon Treaty provide opportunities for a more consistent and integrated EU external action for development, but at the same time bring risks of an instrumentalisation of development aid and a marginalization of EU's relations with the ACP. The ACP Group could express its concerns and expectations in this regard.

Increased focus on private sector development and blending of loans and grants is likely to lead to an increased role of the European Investment Bank and other development banks to channel EU funding. This is however not specified in the paper, nor is it indicated how development agencies and banks are to work better together. The Mid Term Review of the European Investment Bank (EIB) external mandate 2007 – 2013[5] exposed clear weaknesses of the bank's approach to contribute to inclusive growth and poverty eradication, so an increased role of the EIB and other banks not only creates opportunities but also risks. The ACP Group could insist on EU efforts to ensure EU development banks work effectively with EU donor agencies and ACP partners in support of development objectives.

[5] European Investment Bank (2009). *European Investment Bank's external mandate 2007- 2013 Mid Term Review. Report and recommendations of the Steering Committee of "wise persons"*. See http://www.eib.org/attachments/documents/eib_external_mandate_2007-2013_mid-term_review.pdf