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GREEN PAPER ON EU DEVELOPMENT POLICY - BUSINESSEUROPE RESPONSE TO QUESTIONNAIRE

Introduction

BUSINESSEUROPE welcomes the Green Paper on EU Development Policy and strongly agrees to the Green paper's statement that "...aid alone will never succeed in pulling millions of people out of poverty" and that "it must tackle the roots of poverty rather than its symptoms and primarily be a catalyst of developing countries' capacity to generate inclusive growth, and to mobilise their economic, natural and human resources in support of poverty reduction strategies". This shift in EU development policy towards a stronger focus on facilitating inclusive growth and mobilizing economic, natural and human resources in the developing countries as integral components of poverty reduction strategies is an important step in the right direction.

In general, BUSINESSEUROPE also welcomes the Green Paper focus on facilitating more growth in developing countries and recommends following a country specific policy mix. Specific obstacles to economic growth will need to be addressed in partnership with the business community. Dialogue with the European private sector on EU development policy will therefore be crucial. At the same time, the EU should support public-private dialogue in developing countries. The private sector in developing countries can be an engine for economic reform, but it often does not have the organisational capacity to make its voice heard. Enterprises and business organizations from the EU can also play a crucial role in the implementation of EU development policy, not just by fostering investments but also through transferring capabilities to our partners in the developing countries.

When it comes to ensuring a high EU impact development policy, the idea to use EU development aid as leverage is welcomed. The EU should to a larger extent use its public aid as a catalyst for other types of capital flows. This can be done by improving the framework conditions for doing business in order to attract foreign direct investment (FDI), and by offering a portfolio of capital (equity, loans, grants, mixed credits) and risk mitigation instruments, which will allow private investors to engage in developing countries with high risk profiles. The EU should focus more on building infrastructure (particularly within ICT, energy and transportation) and developing innovative solutions such as low cost housing, which are strongly needed in developing countries. A range of different methods including public private partnerships, soft loans and other suitable instruments can be used to do so.

While recognising that budget support is dealt with in a separate green paper, we think that it is useful to discuss budget support also within the overall framework of development policy. From our point of view, it is foremost the task of an overarching development policy strategy paper to discuss and define appropriate means of development aid.

Answers to questions raised in the Green Paper

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?*

The current provisions of procurement focus too heavily on the lowest bidder, often at the expense of quality and sustainability. BUSINESSEUROPE therefore supports the three proposed conditions. These conditions should take an holistic approach, taking into account a large variety of criteria, such as: (1) quality; (2) life-cycle costs and sustainability; (3) innovation and suitability of technical solutions, (4) operational responsibility and viability and (5) involvement of the local private sector.

2. *What are current good practices at EU and Member State level on which to build?*

See question 17.

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?*

The EU should use public aid as a catalyst for other types of capital flows to a much larger extent. This can be done by improving the framework conditions for doing business in order to attract FDI, and by offering a portfolio of capital (equity, loans, grants) and risk mitigation instruments, which will allow private investors to engage in developing countries with high risk profiles.

Furthermore, there should be a more extensive dialogue with potential and existing private investors in developing countries. BUSINESSEUROPE recommends a structured dialogue with the most relevant stakeholders (financial institutions, private sector organizations etc.) e.g. through a board of advisors. The dialogue should take place on a high level and feed directly into the strategies and policies of the EU.

Diversity of aid flows should be seen as an opportunity to find the best ways to promote development.

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?*

In order to ensure a higher impact of EU aid to education, the aid should to a large degree focus on qualifying or professional education and training, which give the students the skills necessary to obtain a job or to start their business. The qualifying or professional education and training should build on a proper primary education.

In many instances where primary education is in place, the quality is poor, with the result that students do not learn to read and write. To remove this obstacle for further education and the development of skills, BUSINESSEUROPE recommends a stronger focus on quality in education and a strong focus on qualifying or professional education and training, building on a proper primary education.



Development policies to strengthen education and healthcare should be more result oriented and impacts based and lead to increasing responsibility of partner country governments.

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?*

The EU should push for a stronger public-private dialogue in partner countries in order to ensure that the education offered is suitable for the demand from the private sector. In many countries the paradox exists that there is high unemployment while the private sector lacks employees with the right education and training. The private sector should be involved on different levels, i.e. both in policy formulation at national and regional level and in advisory boards for schools and similar.

EU should also promote with its private sector professional training (technical and high level) in the beneficiary countries and in Europe within bilateral programs. Such programs should target public and private workers. Regarding students, a Erasmus-type program should be defined and conditioned by return to the origin country while graduated. EU should help partner countries to develop their own professional training centers sponsored by their EU counterparts.

6. *How can the EU adapt its approach, instruments and indicators in support of governance reforms in developing countries/regions?*

In order to support governance reforms, the EU should to a larger degree push for stronger public-private dialogue in partner countries. The private sector can be strong catalyst for reforms, due to its self-interest in good governance and a good business-enabling environment. However, in many countries private sector organizations are weak and in need of capacity development. The EU should therefore as part of its support for governance reforms support capacity building of business membership organizations as well as these organizations' push for more public-private dialogue.

The EU should strengthen multilateral institutions, promote the participation of developing countries in pluri- and multilateral agreements and support them to make them capable to fulfill the provisions. Bilateral trade and/or investment agreements can be used to strengthen governance in partner countries as well.

7. *How and to what extent should the EU integrate more incentives for reform into its aid allocation process, for both country and thematic programmes?*

Capacity building and technical assistance are interlinked with structural, regulatory and governance reforms in beneficiary countries. They are to be jointly defined and implemented by EU and the partner country.

The EU's general budget support should be used to put in place growth and employment strategies in developing countries. The variable tranches of budget support can be used to incentivize reforms, particularly in the business environment. A link to the World Bank report on doing business could be established to measure results.

For more see question 6.

8. *How should the EU promote sound frameworks to assess and monitor development results achieved by recipient countries?*
9. *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?*

One of the main reasons that conflicts break out again in post-conflict states is lack of income opportunities for the former troops. Therefore, one of the main priorities in fragile and conflict-prone states should be to establish economic opportunities through job creation and entrepreneurship opportunities. This can especially be done by building infrastructure using as many local resources as possible depending on the state of the country. Economic development should be prioritized to reduce the risk of instability.

10. *How could the EU better coordinate with development actions when programming security interventions?*

Through the new External Action Service, EU should build a coherent and coordinated crisis and reconstruction strategy and task forces. Currently, there is no link between member state and EU actions. Moreover, the EU financial support policy is quite complex and the great number of programs can be very confusing for businesses.

11. *How can the EU best address the challenge of linking relief, rehabilitation and development in transition and recovery situations?*
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?*
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?*

Improving the impact of budget support (2.7)

A high percentage of development aid at EU level (up to 50% of programmable funding) is currently delivered as budget support.

Budget support can be criticized on a political level for undermining the democratic process because the government is not dependent on their electorate for this (sometimes large) part of its budget. For the EU as a donor it is possible to impose certain conditions related to the budget support, but it is still very difficult to ensure that the budget support does not indirectly support purposes that the EU does not approve of by releasing other resources for these purposes. Furthermore, budget support may have negative consequences for the economies of especially small states. Budget



support may stimulate inflation due to the injection of liquidity, and it may strengthen the local currency, which will impede the competitiveness of the country's export sector.

For some countries (especially small island states with no national resources) and in some cases (post-conflict situations and countries that have shown strong results in reform and governance) there is a role to play for budget support. However, the above-mentioned disadvantages of budget support means that it should play a less important role in EU development aid in the future.

Thus, the EU should rethink their means of funding. We are convinced that other instruments are more appropriate in fostering sustainable economic development, creating a business-friendly environment and attracting investments, creating jobs and thus lifting people out of poverty.

While instruments, such as public private partnerships, provision of capital (equity, loans, grants), and risk mitigation instruments as well as project and programme funding in crucial areas, such as trade-related infrastructure, trade policies and regulation, productive capacity building, should be extended, budget support should be reduced.

A precondition for budget support is "institution building". The EU should consider providing budget support only to those countries, where budget support has not only clearly proven its contribution to the attainment of the MDGs but also to creating a business-friendly environment. This further implies to redirect the scope within budget support - from general budget support (GBS) to more targeted sectoral budget support (SBS).

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?

The EU should first and foremost support industrial investment projects by pushing for good framework conditions for the private sector. Developing a better business enabling environment should be based on a demand-driven approach, i.e. the needs of the business sector in each individual country rather than a one-size-fits-all approach.

The EU can also support specific industrial development projects by offering a portfolio of capital and risk mitigation instruments (see question 3). The focus should be on adding value locally, e.g. through industrial development and capital goods. There should be a link between the provision of financial, capital and risk mitigation instruments to training and maintenance activities for capital goods.

In the area of raw materials, the recently established dialogue between the EU and Africa should be deepened and made operational. The EU can play a pro-active role in supporting countries in developing strategies for managing their raw materials and other resources in a sustainable manner. Large investments by EU companies could also be structured through public-private partnerships to improve infrastructure. The EU should also engage with partner governments to improve governance, promote

transparency, and build a level-playing field for extractive industry worldwide. Governments in developing countries should also be assisted in putting in place the conditions for upstream value creation.

With regard to the balance between extractive/energy interests and the promotion of industrial sectors, we believe that post-extractive industrial sectors interests are best served by establishing investment-friendly framework conditions such as the effective protection of intellectual property and the rule of law. EU development policy should discourage countries to rely on unfair trade measures such as export taxes and dual pricing. These measures often do not deliver the desired outcome of promoting certain 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?

In the support for economic development it is important to involve several stakeholders including business membership organizations, labour unions, and other important civil society organizations. These organizations should give a voice to their constituents. At the same time, the EU can play a proactive role by pushing for a good legislative framework as well as better implementation and enforcement of laws. In many countries the right laws are in place, but a lack of information and enforcement creates confusion.

In addition, it is important to ensure a development in which more and more companies move into the formal sector where working conditions are generally better than in the informal sector.. In its programmes, the EU should therefore push for incentives for company formalization in partner countries.

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?

The first priority for EU in supporting a good business enabling environment is to support capacity building of business membership organizations and steps towards increased public-private dialogue in partner countries in order to ensure demand-driven reforms of the business environment.

The EU should use the knowledge of the ILO enabling business environment schemes and WorldBank Doing Business reports to define priority actions. The recipes for enabling business environment are clear. Such programs should be implemented in all countries in which the EU is active.

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?

As mentioned before, the EU should to a larger extent use its public aid as a catalyst for other types of capital flows. This can be done by improving the framework

conditions for doing business in order to attract FDI, and by offering a portfolio of capital (equity, loans, grants) and risk mitigation instruments, which will allow private investors to engage in developing countries with high risk profiles.

For example, the Danish government established the Africa Commission in 2008 with participation of several African leaders, leaders of international financial institutions (IFIs), the private sector, and decision makers from various donors (including the EU). The Africa Commission made its recommendations in 2009 which included improving access to capital for SMEs. One of the Africa Commission's initiatives was to establish the African Guarantee Fund, which will provide guarantees for SMEs to gain access to finance through local commercial banks. In this manner the banks gain experience working with the SME segment. From the outset the African Guarantee Fund will operate in nine countries in Western, Eastern and Southern Africa. The EU could consider supporting such projects or engaging in similar types of partnerships.

Another good example is the Danish mixed-credit scheme: www.mixed-credits.dk, which mixes traditional grant aid and commercial loans. These loans finance equipment and related services for development projects in developing countries. Their objective is to help mobilise funds for projects that are financially "non-viable" and, therefore would not be carried out without financial subsidies. By offering a mixed credit facility, development projects that cannot be financed on normal market conditions can be carried out at the lowest possible cost.

Additionally, in most EU 15 countries, there are well functioning Development Finance Institutions. This is however not the case in most of the more recently acceded member states. The EU could engage in a coordination exercise to enable partnership and cooperation between EU member states in this area.

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

An important way to ensure knowledge and technology transfer is through business partnerships between companies in the developing world and companies from EU. The main barrier for these partnerships is the first phase, i.e. moving from interest to concrete activity. A very effective way of creating incentives for this is through national and EU delegations. BUSINESSEUROPE therefore recommends establishing a facility for delegations to address this issue.

In addition, the elimination of barriers to trade in goods, services and mobility of experts is an appropriate way for developing countries to reduce the cost of incorporated knowledge and technology transfer.

Finally, a new instrument could be created that financially supports the transfer of innovative technologies towards African countries. This new fund would allow that for example also formulations (pharma, crop protection, etc.), adapted to the African needs, are developed and applied in developing countries.



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

Developing countries should make trade and regional integration a high priority in their development strategies. The main task is to tackle structural problems which can hamper business activity such as high transport costs, slow customs and inefficient financial systems. The business community can be a strong driver for this process (see question 16) and business organisations should be strengthened to ensure adequate public-private dialogue in developing countries.

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

The European Commission should continue to promote the positive impact of trade liberalisation on economic development worldwide. A quick finalisation of the Doha Development Round with ambitious targets towards freer and fairer trade will be an important driver of economic development, particularly in developing countries. Trade liberalisation further demands a removal of trade-distorting subsidies.

The EU should strengthen and support international/ multilateral institutions, promote the participation of developing countries in pluri- and multilateral agreements and support them to make them capable to fulfil the provisions. Not only in this regard, is it very important that the EU continues to provide Aid for Trade to developing countries. Aid for Trade embraces most notably technical assistance for trade policies and regulations, trade-related infrastructure, productive capacity-building and trade development. With regard to the latter a high priority should be laid on private sector development and cooperation with the private sector.

A stronger focus on sustainable economic growth as advocated in the green paper should also include making developing countries better equipped to trade both in a broad sense (focus on private sector development and competitiveness) and in a practical manner in terms of getting rid of trade barriers. Trade and development aspects of raw materials should also be addressed in a consistent manner.

EU trade and development policy should distinguish clearly between developing countries and emerging economies, e.g. in the General System of Preferences (GSP), to guarantee that preferences will be focused on those in need of them.

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?

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?



Climate measures and financing should above all focus on measures which are economically efficient and environmentally effective. For example, energy efficiency measures, including better insulation for buildings and low cost housing, are seen as one of the most cost-efficient measures to reduce energy consumption and costs, while increasing comfort.

Also new technologies and programmes, including drought-resistant crop programs for developing countries, should be fully supported since these could offer clear solutions to climate adaptation and food security, while spurring development and yields for millions of African farmers.

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?

The best way for the EU to work for improved access to sustainable energy is a two-pronged approach. First of all, the right framework conditions should be in place so that it is to the fullest extent possible to attract private investments to the energy sector. This includes a good business climate as well as the setting of electricity tariffs at commercially viable levels. Secondly, the EU should ensure the availability of the right financial instruments (equity, loans, grants), as commercial banks often shy away from investments in developing countries, especially in Africa, due to the high risks.

Finally, it is important to note that when talking about securing sustainable energy for developing countries; this should not only include renewable energies, but also investments in (smart) grids and resource & energy efficient technologies. Energy supply must be cost-efficient and reliable.

24. 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?

Increasing agricultural productivity and output is critical to decreasing the level of poverty and increasing food security. The EU should further support efforts of developing countries towards more sustainable agriculture/ farming and fisheries and to meet requirements of sustainable supply and value chains. Technical assistance and public-private investments to help the developing country exporters to improve their export performances by implementing the international and EU standards (e.g. phyto-sanitary standards) should be promoted.

25. 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?

The strategic areas the EU should engage in are (in alphabetical order):

- Agriculture
- Climate Change (mitigation and adaptation)
- Energy
- Health
- Infrastructure
- Raw materials

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

In many emerging and developing countries malnutrition is still prevailing, causing deaths particularly amongst children and hampering sustainable economic development. The EU should consider food fortification as part of its comprehensive food security and nutrition strategy in developing countries. Food fortification is a key long-term and cost-effective solution for malnutrition and complementary to food supplementation and dietary diversification.

The EU and EU Member States can bring a new dimension to the problem of malnutrition by including and promoting food fortification as a fully-fledged part of the EU food security and nutrition strategy towards developing countries. Concerning strategic partnerships with the private sector in this field, the EU could learn from experience already gained in bilateral cooperation of Member States (e.g. the “Strategic Alliance for the Fortification of Oil and Other Stable Food”).

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