



Contribution of the German Development Institute / Deutsches Institut
für Entwicklungspolitik (DIE) to the Green paper consultation on:

**“EU development policy in support of inclusive growth and
sustainable development – Increasing the impact of EU
development policy”**



**Contribution of the German Development Institute / Deutsches Institut für
Entwicklungspolitik (DIE) to the Green paper consultation on**

**“EU development policy in support of inclusive growth and sustainable
development – Increasing the impact of EU development policy”**

Question 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?**

Agreeing on a number of conditions and criteria that have to be fulfilled for all programmes, projects and support is key for EU and member state development policy to have high impact.

The European Consensus on Development, the Code of Conduct on Complementarity and the Division of Labour, the Paris Declaration and the Accra Agenda for Action all provide important guidance that would, if fully implemented, lead to a higher impact of development cooperation. Any development of Guidance Instructions should build on these policy documents and help bridge the implementation gap. Clear objectives and common partner country strategies are crucial for European development policy to have an added value (see question 12).

However, the EU needs to take a bold step and go beyond the ‘best endeavour’ language that characterises its joint policy papers, such as the European Consensus and the Code of Conduct. This requires that member states clarify, agree on and trust the EC’s role within the Union on development policy. In addition, at the country level, the preparation of EU-wide development assistance exit strategies developed in consultation with partner countries could also be a stimulus for achieving a more efficient deployment of EU and member states resources.

More EU-wide coordination is also needed at the implementation level. A set of Guidance Instructions should therefore include reaching an agreement on a common intervention logic adapted to the partner country or region. Such an intervention logic should go beyond a common country strategy and include agreements on the management of aid modalities such as budget support, programmes and projects. For example, donors should agree on a

common guideline for the use of conditionality, for the release or withdrawal of budget support funds and for assessing the performance of a partner country. A common understanding of underlying principles and partner country's breach of them would enable the EU to send clear and consistent signals to partner country governments.

Again, it is important that the set of Guidance Instructions includes measures to ensure the effective implementation of such agreements and common principles. While automatic sanctions mechanisms are politically unlikely and could even be counterproductive, accountability could notably be ensured by incorporating elements of a 'peer review mechanism' among donors (including non-EU) at the implementation level. Such a mechanism is all the more relevant as partner countries' technical and political capacities to hold donors accountable to their commitments are often weak. At the same time, however, care should be taken that more consistent donor positions do not lead to inflexibility or unresponsiveness to partner countries' and regions' own development agenda and concerns (see question 12).

Question 2

What are the current good practices at the EU and member states level on which to build?

As discussed in question 1, the European Consensus on Development and the Code of Conduct on Complementarity and the Division of Labour are good practices on which the development of a set of Guidance Instructions can be built. However, if a set of Guidance Instructions on EU level is developed, the EC and Member States should be careful not to hamper those strategies that are developed at partner country level. For instance, in some countries, e.g. Ghana, Uganda, Zambia, Tanzania and Kenya, EU and non-EU donors have developed Joint Assistance Strategies (JAS) which build on the Poverty Reduction Strategy Papers (PRSP) of the partner country. These joint programming documents usually include a common country analysis and a joint response strategy. Those strategies are formulated and planned at partner country level and, as stated above, include EU and non-EU donors, thus holding great potential for harmonisation, alignment and ownership. So far, however, the JAS process has generally not delivered on its full potential (e.g. in terms of reducing transaction costs), as its implementation has been hampered by procedural and operational challenges in donors' systems. Here too, the introduction of 'peer pressure' elements could provide a valuable stimulus to address this situation (see question 1).

Question 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?

Recent reforms in European development cooperation and newly introduced instruments such as the Governance Incentive Tranche (GIT) put emphasis on providing more financial incentives for governance reforms. Experiences with these instruments so far indicate that

they can potentially provide a valuable tool for engagement. The EU, however, needs to make better use of the already existing instruments. In doing so, clear and coherent incentives for improving reforms, especially with regard to governance reforms, are essential for improving the effectiveness and sustainability of external assistance. The EU needs to reconsider its incentives for reform in the following areas:

Firstly, there is a need of harmonizing reform incentives among European donors and developing common criteria among donors to judge the degree of reform that has been reached. Unfortunately, the existing incentives for reform are often not harmonized among European aid agencies and the interpretation of reform efforts by partner governments are often interpreted differently by European actors. In order to make use of the full potential of incentives for reform, also better coordination between the European Commission and EU member states is key. In this regard joint analysis of the country context should be strengthened as well.

Secondly, improving the design as well as the practical implementation of already existing instruments such as the GIT should be a first step to better use incentives. For instance, in case of the GIT financial incentives were provided *ex ante* and without clear monitoring processes in place. The quality of the requirements expected from the partner country in return for an increase in the allocation of assistance did often not enough inform the final size of the tranche.

Thirdly, a key objective for the provision of financial incentives for governance reforms should be the strengthening of domestic accountability. The design of the GIT is currently organised in a way to use the instrument to foster primarily dialogue between donors and the partner government. The future use of incentives instead needs to ensure that incentives foster dialogue on governance among the government and domestic stakeholders.

Fourth, the EU would need to better take into account the domestic setting of the partner country and differentiate more strongly between different countries in applying incentives. Incentives might be most valuable in cases where a large agreement between the partner side and the EU on the direction of reforms already exists. In these ‘effective partnerships’ incentives can help to ‘lock in’ reforms. In other cases, particularly in those where the EU has limited means of setting relevant incentives for reforms, the EU should use incentives much more carefully and probably support governance reforms rather through direct assistance. Moreover, aid allocations are often also guided by disbursement considerations that tend to weaken the credibility of incentive systems. This becomes especially problematic in countries with weak governance systems, where the credibility of incentives is essential for achieving results.

Fifth, the performance tranche in program aid (Budget Support) should be increased, if one wants to increase the leverage of the instrument on domestic reforms.

In sum, the problem of crafting coherent and credible incentive systems for reform is often not related to the quantity of incentives but rather to their quality. Thus, it would be a huge

achievement, if the EU could make existing incentives in country and programmatic programmes more coherent, credible, and context-sensitive.

Question 8

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

In many developing countries, especially in least developed and aid dependent countries, monitoring and evaluation efforts are strongly donor-driven. Moreover, the evaluation scenery of development cooperation is still highly fragmented and often responds more to the domestic needs of the respective donor country than to the needs of the recipient. Many evaluations still lack quality, are not embedded in the recipient countries systems and are not well coordinated amongst donors and partner countries as well as amongst donors.

Thus, the EU (as other donors) needs (a) to improve its internal incentive system to strengthen partner orientation of monitoring and evaluation activities and (b) to strengthen its activities in promoting independent monitoring and evaluation capacities on the partner side, which are capable to align donor efforts in monitoring and evaluation

In addition, the EU needs to better take into account the domestic context of the partner country, thereby also being more honest about the limits of incentives for reform in certain country contexts. In this regard, the EU also needs to better assure that domestic accountability is strengthened and not undermined by external incentives for reform.

Question 9

How should the EU tackle the nexus between security and development, especially in fragile and conflict-prone countries and put together emphasis on democratic governance, human rights, the rule of law, justice and reform of the security sector when programming development interventions?

Preserving peace, preventing conflicts and strengthening international security are objectives for EU external action defined by the Lisbon Treaty (Article 21(2) of the TEU). The impact of EU funding could be enhanced in this respect, particularly with regard to developing countries.

For the time being, the effectiveness of EU activities in the area of peace, security and conflict-prevention does not seem to be primarily a function of a more or less efficient use of instruments. Instead, in many cases the EU still lacks a coherent policy that would involve a broadly shared consensus on objectives, an honest prioritisation in the face of trade-offs, and a convincing strategy including definition of instruments and division of labour.

The term ‘security development nexus’ is far too abstract to be useful as a guide for policy. As rightly stated in the questionnaire, a ‘nexus’ is the linkage between the two processes. When thinking about security and development there are of course many linkages, some of which are multidimensional. Examples include aspects of governance, security sector reform,

ethnic tension, property rights, and even youth unemployment in certain cases. Policy design needs to be oriented towards addressing these linkages while anticipating externalities.

Some of the linkages between security and development are illustrated by the issue of state fragility. There are several issues that OECD donors and the EU should bear in mind when addressing the problems of fragile states.

Firstly, fragile states are not all the same. It is useful to address different types of fragile countries. Typologies should account for challenges along three distinct, but interrelated dimensions: i. state authority / monopoly of violence / effective control over a given territory; ii. state capacity to provide basic regulation and services; iii. state legitimacy as perceived by social groups over whom it seeks to exercise authority.

Secondly, expectations about the depth of change that can be effected by international intervention in fragile countries need to be kept modest.

Thirdly, always take local political and social processes as the starting point for change. External efforts to impose unfamiliar governance models that are not embedded in the society in question invariably fail.

Fourth, with regard to universal values (human rights in particular): communicate them clearly, but be strategic in demands for improvement (so as to not risk major backlashes). Furthermore, care needs to be taken with the language of universal values, as this sets a high standard for domestic and international behaviour – so high in fact that many developed countries struggle to observe the standards they set for others.

Fifth, accept the fact that trade-offs do exist between sustainable local processes and short-term security benefits for Western donors/the international community. Manage those trade-offs or dilemmas, but withstand the temptation to neglect them.

Sixth, maintain credibility through coherent policies across sectors (or at least communicate constraints to your coherence in an open manner in order to avoid justified accusations of hypocrisy).

Question 10

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

While early, preventive action often suffers from divergent interests among member states and EU institutions that make a common approach difficult, the immediate response in the face of urgent crises, while often thought of as a window of opportunity (for compromise), is usually dictated by short-term concerns and the set of instruments that are currently available rather than by a long-term strategy. Typical trade-offs emerge between a long-term developmental perspective centred on (human) security for partner countries and short-term security and economic concerns of the EU.

On this basis, and with a preference for a developmental perspective, those activities that address a more political level and/or are oriented towards long-term prevention should be given priority over instruments of ‘immediate effect’, such as security and defence capabilities. Better coordination with development actions would benefit from active diplomacy aimed at conflict prevention in vulnerable countries, strengthening links with key strategic partners with whom the EU can co-operate on security and development issues (especially multilateral actors such as the UN, the AU and APEC), investing in the EU’s peace-building and crisis preparedness, and designing comprehensive country packages that help partners invest in long-term stability, human rights and sustainable and equitable economic development.

Question 11

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

The principles for managing the transition from crisis relief to development are mostly established. Improving the EU’s performance in this area is mostly a matter of improving policy coherence and actor coordination so that existing tools work better. There may be potential gains from streamlining financial instruments designed to foster this transition, such as the Instrument for Stability and the African Peace Facility. Any potential efficiency gains would need to be weighed against potential losses in flexibility.

Question 12

What are the most appropriate manners 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?

A major difficulty for joint programming lies in the different institutional set-ups and decision-making centres within the EU on development policy. Some institutional rearrangements and rethinking of internal structures and policies are required urgently for them to take effect in time for the financial perspectives for 2014-2020 and the post-2013 programming of EU’s financial instruments for development.

As discussed in question 1, clear-cut decisions and concessions are required to move towards a sharper division of roles and responsibilities within the EU on development policy, while at the same time improving coordination. This can be done by drawing from the relative strengths and weaknesses in this area of shared competences. In broad but practical terms, as the EC’s programming cycle allows for greater predictability of resources, its focus could be on longer-term programmes and projects, while member states’ would support short- to medium-term components, according to the ‘timing’ of their programming cycles. With generally shorter cycles, member states have greater flexibility to mobilise resources and engage in joined-up approaches among donors. In terms of intervention levels, the EC could

take the lead in engaging with regions, as it has extensive experience – albeit not all positive – in doing so and not all EU member states are or can intervene at that level. Those member states that are active at the regional level should align their support on existing strategies, priorities and mechanisms. Others could engage in providing support for the regional agenda from the national level, where member states are also generally better experienced in engaging in political dialogue with partners (see also question 19).

However, greater EU coordination has generally been prevented because it entails a loss of visibility of individual contributions. Development policy is still to a large extent considered a national prerogative and is driven mostly by donor priorities and interests. These trends undermine greater alignment and ownership in partner countries. Creative solutions need to be found to address this tension, e.g. regular and clear communication to the European public on the requirements for an effective European development policy. More fundamentally, there is a need to foster greater support from member states for a common and coherent EU development policy in order to effectively address global challenges. At the same time, greater EU coordination should not outpace coordination with the partners, to the risk otherwise of frustrating ownership. Effective consultation mechanisms must be in place at the EU-partner interface to allow for the careful synchronisation of efforts. The EEAS (especially the EU delegations) has a key role in helping feed into European policy processes the perspectives of partners.

A more consistent European response is thus a long term objective and political sensitivities will certainly be ruffled as the details are worked out. An incremental approach must therefore be adopted, that is politically acceptable and feasible in its context. Joint country analysis as a common basis for EU engagement should be the practical starting point towards complementarity. An EU legislation could be required in this respect. Mandatory and continuous EU-wide country and regional working groups could be established as an intermediary step – possibly in the form of development assistance exit strategies developed in consultation with partner countries – whereby a common work agenda, work relations and trust would be fostered towards more joint action and, eventually, an effective division of labour. Joint approaches could be facilitated through the identification of a common intervention logic informing the decision as to when EU donors can and should start trusting government structures and systems (see question 1).

Question 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?

Over the last decade, the OECD's Development Assistance Committee (DAC) has reviewed the efforts of its members (including the EU Commission) to enhance policy coherence for development (PCD) as part of the peer reviews of ODA policies it regularly conducts. PCD has been a major chapter of the peer review reports since the beginning of the 2000s. In

2008, the OECD Secretariat synthesized core lessons for enhancing PCD from a large number of preceding peer review reports [COM/SG/DCD(2008)1REV1, 21.10.2008].

These lessons describe efforts towards enhanced PCD essentially as a policy coherence cycle involving three major building blocks: (i) Political commitment: setting, prioritising and articulating objectives, (2) Ensuring effective policy coordination, (3) Improving implementation, monitoring, analysing and reporting.

The lessons were approved by the OECD Council (the supreme decision-making body of the OECD) as the "Recommendation of the Council on Good Institutional Practices in Promoting Policy Coherence for Development" on 29 April 2010 [C(2010)41].

The EU should take the Recommendation and the underlying analytical work as a guideline for its efforts to improve PCD for two reasons: First, the Recommendation is based on practical experience and represents the state of the art regarding PCD work. Second, the majority of EU member states (15) plus the EU Commission are members of the DAC and 21 EU member states are members of the OECD and therefore have taken part in the DAC's work on PCD and the Council's adoption of the Recommendation, respectively. They should stick to what they have approved in the OECD and avoid reinventing the wheel. As for the EU members that are not members of the OECD and the DAC, the Recommendation should be seen as good practice worth applying in their own countries.

Question 15

How could the EU ensure that support to economic development guarantees fair social inclusion of the benefits and provides better protection of social and economic rights, including implementation of core labour standards and better accountability?

The EU should help governments of partner countries to put in place a social and ecological market economy that encourages sustainable business operations and stops dangerous business practices. The EU development policy could promote the dissemination and enforcement of internationally accepted norms and standards of entrepreneurial activity and work towards binding bilateral, regional multilateral agreements within the international community that help ensure reliable conditions for private businesses.

In the field of corporate social responsibility EU development policy should:

- Improve the frameworks put in place by governments to foster pro-development business practices
- Foster private sector commitment to sustainable development
- Improve the preconditions for partnership-based cooperation between the government and the private sector

The promotion of corporate social responsibility is an important instrument in development policy for achieving development goals such as human rights, in particular fighting

discrimination against women and minorities and effectively encouraging the adoption of internationally accepted social, environmental and transparency standards.

Furthermore, attention should be paid by both the EU and partner governments to the question as to how much the poor benefit from economic development. Inequitable growth should be avoided not only because of its negative social consequences but also because it may also have negative medium term effects on economic and political developments.

Practically, interventions supported by EU development cooperation should focus on labour-intensive sectors and medium-size rather than large-size companies.

In parallel, the EU should become more active in supporting social protection systems in partner countries as outlined in ERD 2010.

Question 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?

Promoting an enabling environment for private sector development is a key factor to reduce poverty. Only dynamic private sector development can create the jobs that are necessary for increasing the incomes of the poor in developing countries.

The targeted promotion of specific firms has been largely abandoned in the last decade as results were often disappointing. Support schemes were prone to corruption and capture by well connected firms, which were, however, frequently not the most competitive ones. Therefore, the creation of an enabling business environment has become the main area of intervention in development cooperation with regard to private sector development. Indeed, a conducive regulatory business environment (in terms of lower costs of dealing with government regulations) in particular, is an important precondition for private sector development.

However, to unleash private sector dynamism it is far from sufficient to reduce the regulatory burden for firms. What is needed in addition, are targeted policies in the areas of infrastructure, education and technology in order to increase the competitiveness of firms. Building the capacity to create and constantly reform business regulations is a process that requires arguably more resources than a few interventions to cut red tape.

There is insufficient evidence to suggest that cutting red tape is beneficial for micro-enterprises, thus pro-poor and appropriate to lift the workforce in the informal economy out of poverty. Formalisation is necessary but does not automatically increase productivity. Targeted measures, which can be regarded rather as a mix of social and economic policies than pure economic policy-making, are needed to address the complex phenomenon of the informal economy.

For domestic SMEs in developing countries, it is important to take into consideration their needs in the design and reform of business regulations. Often large and/or foreign firms are able to lobby for specific reform that are exclusively beneficial for them but not the private sector as a whole.

The EU green paper rightly highlights the need to support a gradual evolution of the domestic banking system. Currently, the growth of at least some SMEs is constrained by a lack of access to finance. But this evolution will take some time and it seems justified until then to think about other ways e.g. partial credit guarantees to increase the availability of finance for SMEs.

Regarding innovation, while it is indeed necessary to benchmark against global standards, it is unlikely that firms in most developing countries will be able to develop new technologies that are not already available elsewhere. Measures to stimulate innovation among SMEs should aim at promoting an innovation system (e.g. by supporting the exchange between the education system and the private sector) that helps firms to transfer and make use of existing technologies. Adapting technologies to local markets and introducing them at the firm level may help to be more productive and produce goods and services that can at least compete in local markets.

Since a large part of the population in most developing countries will continue to depend on the informal economy for their subsistence for a long time to come, it is important that these firms are helped to become more productive and provide better jobs. If economic policies are not incorporating strategies to deal with the informal economy, they are excluding a large share of economic activity. Although most of the informal firms have a very limited growth potential, EU development policy should help to initiate public-private dialogue about the role of the informal economy.

Question 18

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

Current literature sees innovations as the outcome of a complex interplay between public and private institutions, generating new scientific and technological knowledge and implementing it in order to bring new products or processes to the market or to its application by society. EU intervention should, thus, apply a systemic approach to the promotion of scientific and technological capabilities in the partner countries. This does not necessarily mean covering all elements of the partner country's innovation system (IS), but taking the systemic approach as the starting point for the intervention, identifying major gaps and designing the intervention accordingly. Interventions can have the objective of strengthening main elements of the IS and/or the linkages among them.

The EU can capitalize on the vast and diverse experiences of European countries with science, technology and innovation (STI) policy, their successes and their failures, in order to advise partner countries in the design of their relevant policies. Important aspects are: How

can public resources be invested most effectively in order to promote research that enables the private sector to apply new knowledge to strengthen its competitiveness in the globalized economy? How can market failure be overcome in order to foster innovations that contribute to the transition towards ecologically more sustainable development patterns? These questions are of high relevance, independently of the state of development of scientific and technological capabilities.

Two German institutions can be seen as interesting models for STI promotion: the Fraunhofer Society (FhG) for applied industrial research and the Steinbeis Foundation for the transfer of technology to private companies, especially to small and medium enterprises (SMEs). Both are lean organisations, implying relatively low transaction costs. FhG has a financing model that fosters customer orientation, while at the same time assuring cutting edge research and technology development. Steinbeis Foundations links private companies with the Universities of Applied Science, institutions that are very much oriented towards R&D that leads to process and product innovations to be applied by SMEs.

Additionally, German experience implies that an exceptionally promising approach to STI policy is the organisation of open competitions (such as the BioRegio or the InnoRegio competitions) that reward the most promising options for practical STI application with public support. These competitions, implemented since the second half of the 1990s, have led to the formation of local and regional networks of “like-minded” actors from different sectors (academia, public administration, private sector) with the objective of bringing forward technology oriented developments in their localities.

Furthermore, experiences with the German “Exist” program can show how a culture of entrepreneurship can be fostered at Universities, as the most important “cradles” of innovative companies, based on creative and high technology ideas. “Exist” has provided evidence of how different agents (universities, local banks, and public authorities) should cooperate in order to create an especially conducive environment for the formation of new and technology based companies.

Question 19

How can the EU’s experience better inform regions seeking to strengthen their integration?

Promoting regional integration can become the EU’s key distinctive feature in a more competitive world of partnerships (not to say donorship). As a product of its own deeper integration, the EU has a clear comparative advantage in engaging with regions: Europe has a wealth of knowledge and experience to share on the successes and challenges of its economic, legal, political or fiscal integration. For instance, the aftermath of the global crisis in Europe has shown that an appropriate regulatory framework is critical to adequately monitor cross-border activities of banks and other financial institutions and safeguard financial stability. The greater the degree of financial integration, the higher is the risk of contagion of financial shocks and crises from one country to another. Countries aiming for far-reaching integration of their financial sectors therefore need to implement a close co-

operation between financial authorities and harmonise their regulation to prevent regulatory arbitrage.

However, the EU's starting point when supporting regional integration beyond its borders should be to acknowledge, understand and work with the region-specific rationale driving the process. What was successful for Europe might not be elsewhere. In some cases, action might be needed at the national level first to prepare the ground for a successful implementation of the regional project. Regional support might also need to be sequenced with – if not preceded by – other policy areas, e.g. trade policy, to ensure that the necessary conditions are in place for the regional project to be fully beneficial (e.g. effective custom administrations, harmonisation process of the taxation systems or regulations across the region, compensation mechanisms to offset the negative effects of integration, e.g. loss of tariff revenue, adoption of social safety nets, etc.)

The EU critically needs to adopt a more flexible, prudent and politically astute approach when dealing with these intricacies, than the seemingly prevailing technocratic approach, notably in the context of the EPAs. The EU should rethink its approach to become more supportive of endogenous processes, including between regions. Admittedly, complex situations such as the multiple and overlapping memberships of African integration make the formulation of a consistent EU response more difficult. Nonetheless, Europe can support, not initiate integration. It is thus important that the EU allows for sufficient space and support for the region-specific agenda.

Thorough political economy analysis is therefore crucially required before drawing from the EU's experience, to the risk otherwise of irrelevance and of frustrating ownership. Depending on the context, the extent and scope of integration achieved, political and policy dialogue, knowledge and expertise – or even training – could be provided. EU member states' experience can be particularly insightful, as the success of the regional project fundamentally depends on effective implementation at the national level.

In this view, regional integration needs to be effectively mainstreamed and promoted as a tool for development in EU (EC+member states) institutional structures, policies and modes of operation. As yet, this is insufficiently the case. Effective and functional feedback loops must be set up to improve the communication and coordination between delegations on regional matters and the efficiency of the headquarters-delegations relation. The chain of responsibilities needs to be clarified and better articulated to overcome the 'natural' fragmentation between the national and regional agendas. Mandatory cross-cutting approaches (e.g. structured processes, regular reports, routines in programmes and projects) could increase transparency and EU coordination. Staffing capacity on regional issues should also be strengthened. Europe can also learn from its own experience to optimally organise support to regional integration processes elsewhere.

Question 20

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

Trade and development have their origins in different policy communities and are driven by different rationales. Ensuring an overall consistent response on their linkages involves both political and administrative challenges that are difficult to resolve. The declaration of rather offensive objectives for European trade policy in general has made European development goals within trade agreements less credible. For instance, the EC seeks to conclude bilateral agreements beyond trade in goods only. However, a consensus on a development-friendly approach to issues such as services, investments, non-tariff barriers, export taxes or raw material supply, is even more unlikely than in trade in goods. These issues are economically and politically highly sensitive: there will always be potential winners and losers within both constituencies, but the weaker will be at most risk. An intensive dialogue must therefore take place: the EU needs to better articulate its trade and development agendas, substantiate claimed development effects of trade deals with developing countries and convince partners.

Effective and timely coordination of policies and of all actors involved – including partner countries and regions – is crucial for trade and development to be mutually supportive. With the establishment of the EEAS, it will notably be critical to ensure that regular dialogue and effective feedback loops exist between the European trade and development communities, especially considering that DG Trade is not formally part of the EEAS. The EU also needs to substantially increase its ability to be more responsive to the trade-related development concerns of partner countries and regions than it has in the past. The EU must improve its capacity to facilitate the reform process required for trade to act as a tool for development and allow sufficient time and trial for such transformation to take place, for instance building on monitoring mechanisms designed with partners. The EEAS has a key role to play as a sounding board for partners, and a coordination platform between the field and European capitals.

For the trade component, the commercial value of existing trade preferences for developing countries is being eroded as the EU liberalises its markets further. The EU can revitalise these preferences and create new ones in areas where Europe does not yet extend free trade to all its partners, such as in services. Concrete proposals on how to create a pro-development trade policy in a post preference world have been made in the trade chapter of the European Think Tanks Group's memorandum of February 2010, "New challenges, New beginnings". In addition, as it is increasingly using bilateral trade agreements to open up foreign markets, the EU needs to demonstrate measurable development-oriented flexibility in the content negotiated with developing countries. If it is not able to give convincing meaning to the developmental orientation of its trade policy, the EU risks losing its credibility as a valuable development partner. Using impact assessments more rigorously to inform trade negotiations with developing countries is a practical first step, results-based monitoring that includes processes, is a next. Supporting adjustment and/or flexibility to adjust agreements in case of negative outcomes and impacts is a necessary complement.

For the development component, development assistance must be brought closer to trade agreements and trade-oriented pro-poor growth strategies. If donors don't sufficiently prioritise trade within their development policies, (weak) partner countries won't either (see question 21).

A more comprehensive approach to development assistance within Europe may also be required, which mobilises and involves the European private sector as well. More thought and analysis is needed to define the terms of this approach and actors involved.

Question 21

How could the aid for trade provisions be improved in order to make maximum use of its leveraging potential for expanding sustainable economic activities in the developing countries, leading to further growth?

The emergence of the AfT agenda and the pioneer role played by the EU has given a much needed impetus to address a situation where trade and development were insufficiently coordinated over the years. Until then, there had generally been too little and too inconsistent support for trade policies and the trading environment in developing countries from the EU system (EC+member states). Significant progress has been achieved. However, beyond the impressive figures of European AfT, much also remains to be done on the qualitative commitments on aid effectiveness that are part and parcel of the AfT initiative.

From a broad perspective, a fundamental prerequisite is to better embed (regional) trade and AfT in the EU's development policies and support a similar process in partner countries. On the side of partner countries, the effective mainstreaming of the AfT agenda within partner countries' and regions' policies remains limited. Yet, it is important that (regional) trade stands as a national priority for developing countries, i.e. a priority for the government and for the private sector as a whole (both exporters and importers) to make maximum use of the leveraging potential of AfT. This process also requires fully taking into account that some of these actors can also be negatively affected and raise opposition to trade openness. Donor support for the formulation and implementation of well-founded trade and trade-oriented policies is critical to avoid the perception otherwise of donors pursuing their own interests. However, on the European side, the AfT initiative has not yet brought the level of coordination and cooperation among the EC and member states that is desirable. Awareness over the AfT agenda has not yet sufficiently trickled down to the implementation levels of donors' policies to facilitate dialogue and support on these issues. Bold political will is needed to bring formally independent agencies together around partner countries or regions and with respect to the comparative advantages of each party.

In addition, some risk-taking is needed in the utilisation of AfT resources, including in such a way as to enable partner countries and regions to use AfT resources to leverage additional funding from private sector and non-EU donors. The rules and procedures governing development assistance are generally too stringent to capitalise on the AfT's potential for expanding sustainable economic activities. Even before they engage on AfT proper, donors

need to front-load funds to support the formulation of well informed, prioritised, planned and budgeted operational strategies, the design of bankable projects or help kick-start projects, in close correlation to the regional agenda. This should not be linked to ongoing negotiations only, but be a constant element of support to growth-oriented policies.

Since these are intrinsically political processes which cannot be fully planned in advance, flexibility is needed in supporting such processes. In order to avoid (the perception of) a too narrow orientation of the European AfT agenda, neutral mediators such as the enhanced Integrated Framework (EIF) should be used and supported. They can also serve to achieve more harmonisation with the wider donor community, and facilitate the planning and implementation across sectors. The extension of the EIF to regional communities and to some non LDC countries within such regions is a useful step.

A more thorough use of results-oriented, participatory and inclusive monitoring and evaluation processes would be another important step, looking at both the positive and negative outcomes and impacts of trade and development packages. If these insights are embedded into inclusive policy dialogues, if agreements and assistance are flexible, and if concerned actors indeed see that their concerns are taken on board and adjustments are made, fear and resistance towards agreements could probably be softened and the effectiveness of AfT increased.

Question 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 production?

Mainstreaming climate change (CC) adaptation and disaster risk reduction (DRR) into development policy requires an assessment of many activities, including legislation, policies or programmes, in all areas and at all levels, to integrate them into the design, implementation, monitoring and evaluation of policies and programmes in all sectors.

- Assess and learn from past experiences on mainstreaming related issues such as gender and DRR into national development.
- Mainstreaming requires adequate and additional financial resources for the design, implementation, monitoring and evaluation of policies. To ensure that the funds provided are used for adaptation and DRR, such funds need to be dedicated to the chosen action and the partner countries informed accordingly.
- Contextualisation of mainstreaming ensures that selected approaches fit to national development priorities, projected CC impacts, cultural contexts, and different stakeholders involved.

- Responsibility for CC is often based in the Environment Ministry which might not be enough to give the topic the necessary weight. It is therefore helpful to include high-level decision makers, establish CC coordination offices, and also departments in other ministries dealing with CC.
- Preceding assessment of policy and management structures as well as stakeholder analysis of the CC community can avoid institutional conflicts over resources.
- Easy-to-use guidelines for practitioners must be tailored to the national and sub-national contexts. A checklist of resilience and adaptive capacity (AC) indicators related to CC can depict how policies and programmes account for adaptation and DRR.
- The EU could adopt such indicators as criteria for supporting adaptation, mitigation and DRR projects/programmes.
- Involve the civil society as well as the private sector in mainstreaming CC and DRR. This can be achieved through dedicated programmes on supporting NGOs.
- Creating incentives and generate knowledge at individual officer levels can come as training courses on CC adaptation and DRR. At organisational and institutional levels, conditions/criteria such as proof of mainstreaming CC into national development can be used as a prerequisite for EU funding. In addition, economic costs of not mainstreaming CC could be communicated to partner countries.
- Establish a platform whereby developing country researcher-teams or combined with researchers in the EU can serve as advisers to decision makers in developing countries.
- The text mentions the need for low-carbon development. However, the question only deals with adaptation while not mentioning mitigation anymore. Due to the upcoming challenges strategies for both adaptation and mitigation are also needed in developing countries, and these strategies should be linked in order to create synergies. As an example for the need for mitigation, the development of sustainable energy systems should be supported in order to deal with increasing energy demands. There is not necessarily a trade-off between CC mitigation and energy consumption. Investing in sustainable forms of energy generation and use can promote development in a sustainable manner.
- The promotion of social and economic development also serves as a strong way of supporting adaptation to CC and DRR, as it increases the resilience of people and thus also their AC. This leads to win-win-situations and through this pathway also deals with the uncertainties regarding the expected impacts of CC. The actual combination of concrete adaptation activities and the promotion of general development has to be adapted to national and sub-national contexts.
- Identify hotspots of CC vulnerability (societies/ecosystems) and target them particularly.

- Develop tools for monitoring the impacts of CC on any development activities (climate proofing); also have a particular focus on interlinkages and feedbacks of CC and important trends in developing countries (e.g., urbanization or changes in diets).

Question 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 play in progressively providing sustainable electricity to every citizen, combining development and climate change funding and leverage loans from Development Financial Institutions?

The key factors that hinder the deployment of sustainable energy and other climate change mitigation technologies include economic and institutional challenges associated with the transition towards a low carbon economy, immature innovation systems, trade and investment barriers and intellectual property rights (IPR) issues. The EU should address these barriers in order to create or enhance global partnerships for secure sustainable energy.

Due to a lack of technological capacity and knowledge in sustainable energy technologies, developing countries often resort to ‘traditional’ and, at least in the short run, seemingly cheaper sources of energy like coal plants. Technology transfer could ease this dilemma, but the transfer of existing climate friendly technologies for energy supply, mobility and industrial development across countries is not trivial. The EU should focus on innovation system research, which stresses the importance of the co-evolution of economic, social, political and technological aspects of innovation. This is important because transfer of low carbon technologies, even at zero cost, would not ensure their widespread application in developing countries: The relevant knowledge for new technologies may not be available and grid compatibility difficult to establish.

Against this backdrop, the EU should also focus on the key role of domestic factors such as energy innovation systems, the institutional environment, inherent power structures and lack of human resources in low carbon technologies. Pointing out the limitations of ‘technology transfer’ is not to deny the principal responsibility of industrialised countries to support developing countries in their mitigation and adaptation policies. Rather, it curbs over-optimistic expectations that such a transfer could be an easy solution if industrialised economies were willing to bear the costs. The case of China, being a market leader in PV cell production with low rates of PV energy installation, shows that availability does not equal deployment of technologies.

The EU should hence focus on the necessary institutional environment, human resources, innovation capacities and the mobilisation of private sector investment to make secure sustainable energy and low carbon development feasible and long lasting.

In addition to the social and economic conditions within a country, barriers to cross-border trade and investment flows can also prevent the diffusion of low carbon technologies. The EU should therefore also focus on the linkages between international trade and climate

policies with regard to a transition towards a global low carbon economy. There are a number of ‘climate-positive’ reasons for exploring synergies and aligning policies that could stimulate production, trade and investment in cleaner technology options, including the elimination of trade barriers for products and services that can enhance energy efficiency or reduce greenhouse gas emissions. While current policy debates indicate a propensity to view trade measures as ‘sticks’ in global climate negotiations, recent research indicates that a focus on ‘carrots’ such as technology transfer, combined with assistance for building absorptive capacity, is more promising and will be essential to foster the transformation towards a sustainable global economy.

Question 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 small holder and private sector investment in agriculture and fisheries?

The food security and environmental qualities of goals of agriculture do not fully appreciate the sector’s contribution to other areas such as economic growth, job creation in rural areas, raw material provision for value chains, women empowerment, or energy security. It is important to accept that these goals are partially conflicting, that they are location- and context-specific much more than in other policy areas, and depend on ecologic, economic, social and political factors. For each country and region these potentials, constraints, costs and benefits have to be thoroughly assessed, while also taking into account the external and internal influences that increase the risks and uncertainty of agriculture (ranging from markets, finance, exchange rates, infrastructure, communication and transport, to land ownership and land use, climate and natural processes or research and education). Because of the influence of this multitude of contextual factors, the policy and investment process can only be a continuous search for better, rather than best solutions.

That said, the first principle is to support the **linkages** of agriculture with other sector policies (policy coherence within the partner countries). Agriculture as a dominant but open sector cannot be steered by the agricultural ministries and administrations alone, as is the case in rich countries. Administrations, actors and policies should be closely linked to relevant policy processes, and enabled to respond, advocate and shape these linkages. For instance, food prices have a key role to play in food security and consumer interests need to be taken into account. A similar comprehensive approach is required to take into account land ownership and management, or environment concerns and economic issues.

The second principle of EU support to agricultural development in third countries should be to support regional, national and sub-national policy **processes** which take these factors into account as comprehensively as possible. This would require empowering the actors involved, the administrations, private actors including farmers and civil society organizations to negotiate feasible compromises, and to support the institutions (rules) and governance structures that facilitate the negotiations.

The third principle is to support the actors with good **information and research** that is guided by their needs. Close interactions between actors, research-based advice, information dissemination and systematic monitoring and evaluation is therefore required. While it may not solve the conflicts between the actors and the goals, such an all-embracing approach can provide technical, organizational, institutional and political alternatives, enhance transparency about benefits, costs and distributional effects and enable more evidence and results based policy making. It will also allow for factoring in agriculture's externalities and linkages to other policy areas.

For the poorest countries, the emphasis for support to agriculture must be investment, not subsidies. They simply cannot afford to subsidise their largest economic sector and the bulk of their population. To the contrary, in those (numerous) countries the agriculture sector must be the motor of economic development. In middle-income countries, however, the ability to support agriculture increases, and many do so. This may not always be in the most efficient way from an economic or an ecologic perspective. At the same time, it should not come at the expense (trade biases) of third countries either. A forth principle should therefore be to foster **policy dialogue on fairness in agricultural policies**, including at the level of the World Trade Organisation. In this view, the EU has first to further reform its Common Agricultural Policy (CAP) which despite recent reforms is still not a role model in such a dialogue but regularly regarded as the most development unfriendly area of the EU.

Question 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?

Principles of support have been discussed in question 24. Strategic areas are here interpreted as referring to more concrete contents of agricultural development. The following areas are emphasized:

The development of **adapted production technologies** is essential for agricultural development in Africa and EU support is required at different levels. In most cases, low cost combinations of organic and mineral fertilizers have to be found which are best suited for the complex labour economy of smallholders. Pure organic farming may be an ecologically superior solution, but the economic feasibility needs critical examination of prices, productivity, markets, labour and risks. In turn, adapted mechanisation will be crucial: improved soil fertility and erosion management requires the intensive use of bulky organic materials. New, improved varieties as well as variety and crop mixtures will be needed to improve the responsiveness to fertilizers, reduce production risks and variability and continuously adapt to changing climates. Water harvesting, soil erosion and irrigation will be important for all modes of production, and interventions will have to be carefully designed.

Livestock and crop-livestock interaction is an often neglected, yet determining, aspect in some areas and for certain population groups. Various issues can be addressed, such as

animal health and animal and food born diseases, soil fertility and landscape management, value addition, nutrition etc.

Low input and higher output **prices** are highly desirable to provide incentives for higher input use and investments, especially for smallholders. However, higher food prices collide with consumer interests and poverty alleviation. This tension can be partially eased by reducing transport, communication and transaction costs, by improving storage technologies, strengthening farmers' bargaining position vis-à-vis traders, or through differentiated price policy measures. Policies to reduce price volatility are beneficial for all actors involved. However, formulating price policies requires effective policy management and governance skills, and thus targeted support.

In addition to improved production technologies (see above), the **integration of production and environmental goals** should more fundamentally be achieved through the spatial organization of production and conservation on farmers' fields. Agriculture, decentralization and environmental land management policies need to be combined for an integrated land and resource management planning. Associating agricultural activities to payments for environmental services, including carbon payments and adapted structural policies, poses significant challenges but also has strong potential for the future of rural areas and farm communities.

Smallholders will generally be the basis for most **business models**. In many countries, however, mechanisation and consolidation of the cultivation area are necessary to increase incomes and respond to the aspirations of better educated people. In addition, larger production entities with employed labour may be more competitive, for instance in flower or export horticulture production. New and more adapted business models have to emerge, and donors can help a lot in organizing these models in a fair way and support the negotiation capacities of the weaker partners.

Despite its politically highly sensitive nature, **land reform** and redistribution should be given particular attention for support, as in some instances, consolidation into larger farming units can only take place on the basis of more equitable ownership of land. **Farmer organisations** are instrumental in this process, and support should also be provided to build their capacities. Farmer organisations indeed have a key role in the creation of economies of scale in purchase and commercialization, and in countering the concentrated negotiation power of trader and processors.

Question 26

How should the EU support the fight against malnutrition?

Malnutrition is a complex phenomenon far beyond agricultural production and stretches to health, family, social and educational sectors. Malnutrition has severe health, social and economic consequences. Even industrialized countries are faced with growing problems of malnutrition (overweight, nutrition based diseases) and these are increasingly experienced in the better circles of developing countries, too. However, most problematic from a human

rights based angle is malnutrition linked to poverty. Under- and malnutrition particularly of small children can severely handicap the further development of people. In development cooperation, EU should restrict intensive support on malnutrition to **problems linked to poverty**, not affluence, without denying the importance of the latter and addressing it more extensively as part of sector programmes on health or education.

Fighting poverty related malnutrition is difficult enough and must be addressed **in different sectors** (policy coherence). Some measures must be **targeted at special groups**. The most urgent field is to avoid malnutrition in babies and small children. Here, mother education and awareness rising in conjunction with early child care (vaccination, health checks) is key. Targeted social security network (food or cash) programmes for the poorest must complement this. Adapted nutrition components, for instance fortified child food and/or awareness campaigns and skills development should all be envisaged and implemented when required. For elder children, school feeding may be the best opportunity. Life cycle and/or context aware nutrition elements should be a component of transition and recovery programmes (questions 10 and 11).

In addition, **availability of nutritious food** can be supported in the framework of agriculture projects, particularly horticulture and livestock (milk), both in a subsistence setting (home gardening) and for market production. However, for market production demand and markets often have to be increased. Reducing the production costs of nutritious food (pulses, milk and other animal products, vegetables and fruits) is a possible way forward. Another is the mass fortification of food (micronutrients), which can have a huge impact when it is cost-effectively integrated into private food markets. Linking small farmers to food and nutrition programmes carries the potential for win-win situations but also requires intensive inter-sectoral cooperation.

Less targeted measures are found in a wide range of sector policies. Access to clean water is extremely important (water sector), as well as general purchasing power (general economic development and poverty). Wide-ranging awareness can for instance be raised through support for the inclusion of nutrition into school curricula from the early years on, health and nutrition campaigns and broadcasting through the media.

Bonn, 17 January 2011.

Contact:

Davina Makhan

German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)

Tulpenfeld 6

53113 Bonn

E-Mail: Davina.Makhan@die-gdi.de