

The EU's development policy is moving away from an approach based on human rights and people.

Initial contribution of ALOP to the debate on the EU's development cooperation policy.

January 2011

This document is submitted to the European Commission as a general and initial contribution of the Latin American Association of Organizations for the Promotion of Development (ALOP) to the debate about the future development cooperation policy of the EU. The consultation launched by the European Commission with the Green Paper: *EU development policy in support of inclusive growth and sustainable development. Increasing the impact of EU development policy* opens this debate, to which we will continue contributing to and building inputs from ALOP.

This contribution is focused on two of the main objectives outlined in the Green Paper: how to ensure a high EU impact development policy and how to facilitate more, and more inclusive, growth in developing countries.

With the Green Paper, the European Commission (EC) launched a debate on the future of EU development cooperation policy with the prospect of presenting in the second half of 2011 proposals related to modernising of European development policy. It is clear that the changes that have occurred in the world in recent years, the evident crisis in various sectors, as well as the progress and setbacks on the international agenda of development and the Millennium Development Goals, raised the need to assess and revise current EU policies on development. Therefore, we welcome this initiative and effort of the EC, recognizing the importance and need of reviewing and developing innovative approaches to EU development cooperation policy. The global crisis has not only been a crisis of the global financial and economic system, but it extends to other dimensions such as climate crisis, energy crisis and food crisis, so it must lead to a review and a new joint approach to the issues of development and cooperation.

The idea presented by the European Commission about a *policy of "high impact development"* is related to the agenda of aid effectiveness and the results-based approach that have marked the international debate on development cooperation in recent years. This conceptual framework assumes that there is a consensus on the desired result: "development", and therefore focuses on aid effectiveness and impact, where "aid" is at the core of the debate and not "development".

For ALOP and a large number of civil society organisations in Latin America is clear that in order to talk about performance and impact, it is first necessary to have clarity and consensus on the concept of "development", because the traditional concept of development and concrete ways in which it can actually materialize are deeply and highly questioned. Therefore it is necessary to promote a broad reflection at various

levels on the current concept and model of development and the desired one, as a collective construction of society. In recent years, new paradigms based in human rights and the rights of nature, sustainability, equity, and the ancestral wisdom of our peoples are emerging in Latin America, for example *sumak kawsay* or "good life".¹ **We encourage the European Commission in the context of the debate on the future development cooperation policy of the EU to undertake a broad and deep reflection on "development" and the current development model.** A reflection that not only concerns the so-called developing countries, but the world as a whole.

We believe that the Green Paper offers no clarity or consistency as to what the primary objective of EU development cooperation policy should be. In the introduction, the paper recognises the main objective as defined in the Lisbon Treaty "*reduction and eventual eradication of poverty*", but the Green Paper repeatedly seems to put economic growth as the goal, which would lead to poverty reduction. In various sections of the Green Paper there are intertwined goals, values and interests, leading to confusion about the priorities set. The EC proposal seems to frame the EU development cooperation policy in the range of instruments to deal with the crisis (economic and financial but also of political project and values) that afflicts the EU. In a scenario of uncertainty and apparent lack of alternatives, the proposed solution is to cling even more to a model in crisis: it sets economic growth as the target that will lead to development, and promotes private initiative as the ideal mechanism. This proposal and strategy raises serious concerns that we elaborate below.

1. **Growth = Development: an equation undermined by evidence**

The ideas presented by the European Commission in the Green Paper and some of the existing cooperation programs with Latin America, point to a EU development cooperation policy that moves away from an approach based on human rights and people (rights-based approach) to focus on an approach geared towards economic growth and business (corporate rights). A simple fact that says much: the word *growth* appears 52 times in the Green Book, the word *investment* 26 times, the word *business* 12 times, but the word *rights* appears only 9 times. On the other hand, in the European Consensus on Development of 2005 the word *growth* appears 7 times, the word *investment* 7 times, the word *business* 1 time and the word *rights* appears 35 times.

The central proposal of the EC is that EU development cooperation must be focused on promoting growth in developing countries. The terms "inclusive growth" and growth-oriented human development are used, but as empty concepts and no concrete measures are proposed to ensure that growth benefits the poor and excluded. It is rather the traditional concept of economic growth which permeates the Green Book, along with the importance of establishing a business and investment-friendly environment.

¹ Open Forum for CSO Development Effectiveness "*National consultations to Latin America CSO. Summary of Conclusions and Debates*". September 2010. [Consult here](#).

The EC's argument rests on the trickle down logic or theory: economic growth will reduce poverty and inequality. This logic was central to the economic strategy of the 90's, but history has shown that it has not been very successful in reducing poverty and it has increased inequality. It is surprising that the EC does not build its statements and proposals on evidence and solid bases that, at least, take into account and derive lessons from experience of past decades with the implementation of policies aimed at generating economic growth and the limited impact they have had on reducing poverty and inequality. Evidence, research and analysis are available, as its reality: **higher economic growth per se does not reduce poverty or leads to development.** In the absence of effective social programs, high growth may not deliver real development.²

More worrying this emphasis on growth if you consider that current academic research on the impact of aid on growth is torn between the theory that aid does not have any systematic impact on growth (Rajan and Subramanian, 2008³) and the theory that aid has a positive impact on growth only over the long run (Arndt, Jones and Tarp, 2010⁴).

Economic growth is important and should be an essential element in the framework of domestic development strategies that incorporate other economic, political, social, cultural and environmental dimensions, and which are based on human rights and aimed at improving the welfare of people. Poverty is not only a problem of lack of income and resources, poverty is multidimensional and complex, so the strategies for fighting poverty should also cover a wide range of policies in a coherent framework. The European Consensus on Development of 2005 emphasizes this fundamental vision, which is quite absent in the Green Paper of 2010.

2. Joint strategies for inclusive growth ... of the private sector?

The Green Paper's proposal is that the EU should consider establishing new *joint strategies for inclusive growth* in partnership with developing countries and involving private-sector stakeholders. These strategies could be based on priorities such as:

- *Promotion of productive and sustainable investments*: aid that mobilizes investments in infrastructure and risk sharing finance.
- *Access to capital and affordable credit*: for example by the creation of funds managed jointly by the EU institutions, European development banks and financial institutions to promote private investment (domestic or foreign).
- *Legal and regulatory framework*: supporting reforms that facilitate the creation of companies and investment protection.
- *Innovation*: scientific and technological cooperation and training, investment in knowledge, application and protection of intellectual property rights.

² Just to name some examples, the work of important economists such as Joseph Stiglitz, Dani Rodrik, Jeffrey Sachs, José Antonio Ocampo and Manfred Max-Neef.

³ Rajan, Raghuram G.; Subramanian, Arvind (2008) "Aid and Growth/ What Does the Cross-Country Evidence Really Show?", *The Review of Economics and Statistics*: Vol.40, No. 4, Pg. 643 -665.

⁴ Arndt, Channing; Jones, Sam; Tarp, Finn (2010) "Aid, Growth and Development: Have We Come Full Circle?", *Journal of Globalization and Development*: Vol 1, Issue 2, Article 5.

- *Decent work and social protection*: integrated employment and inclusive growth agenda focusing on skills, productivity and regulatory business-friendly environment. Mentions the example of social cohesion in the EU cooperation with Latin America as a key element of inclusive growth.

The Green Paper states that in all these areas, respect for human rights and social and environmental standards must be ensured by reference to treaties, conventions and guidelines. However, *these initiatives should complement, not substitute the efforts undertaken to enhance the business environment at country level and help to fill regulatory en enforcement gaps.*

The five priorities proposed by the EC for these *strategies* are already being implemented in the development cooperation of the EU in Latin America (LA). In 2010 the EC created the **Latin America Investment Facility (LAIF)** that is oriented to the first two priorities. The projects that LAIF contributes to are just beginning, so it is not yet possible to draw lessons from these⁵. Additionally, one third of the funds of EU development cooperation to countries and regions of LA for the period 2007 – 2013 are dedicated to support economic growth, the private sector, trade and the reform of legal and regulatory frameworks, as well as promoting innovation.

Finally, **social cohesion**, a political priority in EU and Latin America relations for almost a decade, represents 40% of EU development cooperation to LA for the period 2007 - 2013. The concept of social cohesion in the development cooperation of the EU is very broad, does not include clear criteria and covers a wide variety of programs and projects implemented under the objective of promoting social cohesion. Therefore, its is very difficult to understand how the EC is promoting social cohesion and what are the outcomes of development cooperation devoted to this purpose. The main program at the regional level, EUROsociAL, is a technical cooperation program for the exchange of experiences between public administrations, with the aim of strengthening the institutional capacity to manage public policy. In the country strategies of the EU in Latin America, we find a large variety of programs under "social cohesion". To name a few examples: programs directly focused on the fight against poverty and inequality (El Salvador, Ecuador and Paraguay), others designed to promote political dialogue with the EU (Mexico and Chile), support to the design and implementation of state policies on justice and security (Guatemala), support to the modernization of the state, studies, courses, seminars and others (Costa Rica, Panama and Venezuela).

Joint strategies for inclusive growth proposed by the EC are strongly oriented to the promotion and creation of conditions to promote private investment and a favorable environment for business, where **human rights are at a secondary level and must be guaranteed as long as they are complementary to the economic growth target.**

Investment, private sector and business are a very important component for development, provided that they are promoted within a framework of respect for human rights and through appropriate mechanisms and regulations to ensure that they really contribute to human and sustainable development. The Green Paper does not provides

⁵ Consult a Brief produced by ALOP about LAIF, in Spanish, at: http://www.observatorioucal-alop.eu/wcm/dmdocuments/Brief12_LAIF_Ago2010.doc

an analysis regarding the conditions under which the private sector can generate positive impacts on development, nor does it recognize that this approach involves a number of risks, as evidenced in the past, where private investment hasn't had a positive impact on reducing poverty and inequality. If the EC decides to take this approach, at least it must conduct independent and participatory studies and assessments prior to implementing any program or project to support the private sector, regarding their possible adverse economic, social and environmental impacts, and establishing adequate monitoring mechanisms. But the experience so far, for example in the implementation of LAIF, shows that these studies and evaluations are not contemplated, or at least not as an explicit requirement for projects funded by the EC.

3. Governance, aid conditionality and incoherence

Another cause of concern is the insistence of the Green Paper on supporting reforms to establish a policy and legal framework in developing countries that favors private sector and investment protection. The document talks about **good governance**, referring to democracy, respect for human rights and the rule of law, transparency and participation, but it states that *"focus must also be put on enhancing the regulatory capacity of governments with a view to creating a business-friendly environment..."* The consultation questions in this section are about the best way to use aid to promote governance, proposing *new approaches offering incentives for reforms and for mobilising domestic resources*. **Wouldn't this be a new form of aid conditionality?**

The kind of policy reforms that the EC aims to promote are already being promoted in several Latin American countries with EU development cooperation and other mechanisms. These are reforms that are mostly aimed at creating a business-friendly environment in line with the economic interests and the trade policy of the EU, for the benefit of foreign investment to the detriment of both the domestic private sector and the policy space of states to regulate and direct investment towards achieving their own development goals.

Latin America's experience in implementing policies under the so-called Washington Consensus that generated economic growth but had negative impacts in most countries in terms of increasing inequality, reducing and limiting the policy space of the state, financial instability, corruption, and others, should be taken into account by the EC for its future policy proposals on cooperation for the development of the EU⁶.

The Green Paper points out that **policy coherence for development** (PCD) is a legal requirement under the EU Lisbon Treaty, which means that the EU will take into account the objectives of development cooperation in the implementation of policies in areas such as trade, fisheries, agriculture, migration, climate change, energy, and others. Although the European Commission has a PCD Work Programme, it faces the challenge of using this programme in a more proactive way and prior to the preparation

⁶ The impacts of the policies implemented under the Washington Consensus in Latin America and other regions are well documented in a variety of research and studies.

of new initiatives. There is also the challenge of further developing the approaches to assess the actual impact of EU policies on development goals.

On the latter question, it is still unclear which is the relevance and appropriateness of, for example, the Sustainability Impact Assessments (SIA) of trade agreements negotiated by the EU and the countries and regions of Latin America. First, with regards to the scope and content, the SIA do not address comprehensively the impact on development and they even address PCD in the opposite direction: they recommend using development cooperation to support and promote the objectives of EU trade policy. Second, the fact that in most cases SIA have been made when negotiations were in their final stage or even when they were finalised (the case of EU-Chile), seriously questions the relevance of the SIA in the decision-making process.

The EC presents from the experience of the EU **regional integration** as an engine of growth and development, and the Green Paper wonders *how can the EU's experience better inform regions seeking to strengthen their integration?*

The regional integration processes and initiatives in Latin America are diverse and some are long standing experiences. Political and cooperation support that the EU has provided to these processes have been important and have generally allowed building and maintaining the institutional foundations of integration and progress in certain areas, especially in the economic dimension. However, it is crucial that the EU understands that the model and the EU experience cannot be "exported" or replicated in LA. It is necessary to take into account the current and historical circumstances of LA, and the current global context, to develop processes and integration mechanisms adapted to these circumstances and oriented towards achieving the objectives defined by the Latin American countries independently.

Additionally, the EU's support to regional integration should be given in a framework of policy coherence for development. For example, and particularly, the coherence of EU trade policy with development objectives. The Green Paper states that the EU "*has found that the key to growth and development starts with an integrated, vibrant, regional market*" and recognizes the problem that most of the trade in African countries (and Latin American as well) occurs outside their respective regions. However, the EU has embarked on the negotiation of trade agreements under which it requires the Latin American countries (and African) to open their markets in conditions that limit the scope for increasing intra-regional trade, moving up the value chain and reinforce a primary-exporting economic matrix. Demand (and recipe) which is not consistent with the history of development in Europe, where market protection was key to strengthening the domestic market, increasing productivity and generating added value.

4. **Differentiation and new approaches**

Another aspect of the Green Paper that is very relevant from a Latin American perspective is the approach of **differentiation between countries and regions that lead to new approaches to cooperation**. The EC proposes that in "*countries which are*

embarking on policies on growth enabling factors” growth-oriented cooperation would be more appropriate, whilst in “*countries most in need or those in a conflict cycle or in a fragile situation*” the EU would continue with the traditional development instruments focused on good governance and poverty reduction.

The EC does not specify the precise criteria under which this differentiation between countries would be made, but following the logic and reasoning of the Green Paper and the current EU debates on the issue, this distinction would be largely governed by the criteria of income and classifications developed by the World Bank. Basically, the differentiation between low-income countries and middle-income countries.

It is important that the EC recognizes that strategies and universal prescriptions are not adequate and that the current situation, context and history of each country are very important as part of the elements to take into account to define the orientation and mechanism of development cooperation. However, a simple and uniform differentiation as proposed in the Green Paper would be counterproductive. History has shown that there are no unique roads or formulas for development, most societies and economies have followed different paths based on specific domestic and sovereign decisions.

A differentiation between low-income countries and middle-income countries to make decisions concerning development cooperation, the main objective of which should be to eradicate poverty, is even more problematic when taking into account the results of recent studies estimating that **nowadays about 75% of the poor (about one billion people) live in middle income countries**. This research also reveals an interesting fact, which is that in 1990 it was estimated that 93% of the poor lived in low-income countries and 7% in middle-income countries. This relation becomes in 2007 of 28% of the poor living in low-income countries and 72% in middle-income countries. Although the number of low-income countries fell slightly, from 58 in 1993 to 43 in 2008, the number of middle-income countries remained virtually unchanged (103 in 1993 to 101 in 2008)⁷. These facts not only challenge the differentiation between countries proposed by the EC, but also its choice of giving priority to economic growth as an engine for development and poverty eradication.

⁷ Sumner, Andy (2010) “Global Poverty and the new Bottom Billion: What if Three-Quarters of the World’s Poor Live in Middle-Income Countries?”, Working Paper, Sept. 2010, Institute of Development Studies.