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Kære medlemmer af Europaudvalget

Folketinget har fornylig vedtaget ny Lov om Udviklingssamarbejde og strategien "Retten til et bedre liv" med et bredt flertal. Begge steder står princippet om Politik-kohærens for udvikling eller Policy Coherence for Development (PCD) helt centralt og vil fremover blive et væsentligt element i fremtidens danske udviklingspolitik.

Concord Danmark har netop udgivet en ny international rapport; *"Delivering Results – How Denmark can Lead the Way for Policy Coherence for Development"*, som giver en række konkrete bud på, hvordan princippet om Politik-kohærens for udvikling kan omsætte til handlinger, der får en reel betydning for verdens fattigste. *"Delivering Results"*-rapporten indeholder dels en grundig undersøgelse af andre EU-landes erfaringer med politik-kohærens for udvikling samt en konkret forslag til, hvordan PCD-princippet kan operationaliseres i en dansk kontekst. Rapporten er udarbejdet under supervision af en international styregruppe med deltagelse fra bl.a. OECD, Dansk Institut for Internationale Studier, Københavns Universitet og European Centre for Development Policy Management (ECDPM). Desuden indeholder rapporten tematiske bidrag fra en række internationale eksperter med bud på hvilke politiske målsætninger Danmark bør forfølge inden for landbrug og energi- og skattepolitik.

Rapportens forslag er både ambitiøse og realistiske og kan opsummeres på en 'check liste' med tre tiltag, som regeringen som minimum skal sikre er til stede, før PCD er implementeret i det danske politiske system (se rapportens side 12).

- For det første skal en dansk national handlingsplan udstikke Danmarks politiske visioner og mål, som kan fremsættes sammen med regeringens udviklingspolitiske prioriteter, der kommer til efteråret.
- For det andet skal der etableres en fast PCD- screening af EU-kommissionens årlige arbejdsprogram mhp. at fastlægge, hvor udviklingshensynet skal indgå i Folketingets drøftelser af kommende EU-initiativer.
- Og endelig skal udviklingsministeren pålægges at afrapportere om den danske PCD-indsats til Folketingets Udenrigsudvalg hvert andet år.

Det er vores klare anbefaling, at Danmark giver det absolut topprioritet at udarbejde en dansk handlingsplan for politikkoherens for udvikling. Beslutningen om at udarbejde handlingsplanen bør ske ifm. offentliggørelsen af regeringens årlige udviklingspolitiske prioriteter i august 2012. En dansk handlingsplan skal både være ambitiøs og proaktiv - men samtidig til at administrere og implementere. Vi bidrager naturligvis gerne med forslag til indholdet i en sådan handlingsplan.

Rapporten er på engelsk og er vedhæftet.

Med venlig hilsen
Concord Danmark

Delivering results



– How Denmark can lead the way
for Policy Coherence for Development

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Report coordinator: Knud Vilby
Overall responsibility: Laust Leth Gregersen, Adam Fejerskov and Morten Emil Hansen (Concord Denmark).

Photo frontpage: POLFOTO/AP-Michel Euler
Graphic Design: Ægir/Koefoed
Print: Jønsson Thomsen Elbo A/S

International steering group



Ebba Dohlman: Head of the Policy Coherence for Development Unit at the OECD and Senior Advisor to the Secretary-General.



Nanna Hvidt: Director of the Danish Institute for International Studies. Has worked on European development policies in the European Commission, at the Danish Permanent Representation to the EU and in the Ministry of Foreign Affairs.



Laura Sullivan: European Policy and Campaigns Manager, Action Aid International. Coordinates ActionAid's advocacy and campaign work in Europe.



Morten Broberg: Professor, Faculty of Law, University of Copenhagen. Morten Broberg has published extensively on international development and EU law including Policy Coherence for Development and the regulation of EU trade with developing countries.



Rilli Lappalainen: Secretary General of Finnish NGDO platform to the EU, member of CONCORD Europe board with PCD portfolio, former chair of PCD coordination group.



PI Gomes: Ambassador of Guyana to the EU and Belgium. PI Gomes is chairing the ACP subcommittee on sugar and was in November 2011 elected as the chairperson of the European Centre for Development Policy Management (ECDPM).

Each of the individual experts is responsible for their contributions to the thematic chapters:

The introduction was contributed to by Knud Vilby, Laust Leth Gregersen (Concord Denmark), Adam Fejerskov (Concord Denmark) and Morten Emil Hansen (Concord Denmark).

The EU Institutional Framework chapter was contributed by Niels Keijzer (ECDPM)

The thematic chapter on Biofuels was contributed by Knud Vilby

The thematic chapter on Illicit Financial Flows was contributed by Raymond W. Baker (Global Financial Integrity). Sarah Johansen (Concord Denmark) has contributed with vision and objectives.

The thematic chapter on Agriculture and Food Security was contributed by Steve Wiggins (ODI)

The chapter on the Danish operationalizing of PCD was contributed to by Knud Vilby, Laust Leth Gregersen (Concord Denmark), Adam Fejerskov (Concord Denmark) and Morten Emil Hansen (Concord Denmark).

For further information about this report: llg@concorddenmark.dk

Please go to our website for news related to Policy Coherence for Development:
www.concorddenmark.dk

Aim of the report

This report sends a message of urgency! Policy Coherence for Development (PCD) has for too long been articulated – without translating the commitments into action. Ever since the PCD agenda was introduced officially more than 20 years ago the international donor community are still experimenting and mostly involved in pilot projects. The greatest challenge is therefore to identify the right institutional model, which can realize the European PCD commitments. As stipulated in Lisbon Treaty PCD and the new Danish Development Law, PCD is a legal obligation. Getting PCD right thus matters more than ever before.

With this report, Concord Denmark aspires to advance, not only the PCD agenda in Denmark, but also in Europe. The primary aim is to develop a progressive and realistic approach, which will realize Denmark's PCD commitments. Yet, the principles and the model of operationalisation is transferable to most European contexts, and may thus be utilized to advance PCD in all EU member states.

Policy Coherence for Development is a mutual obligation to assist poor countries to develop. It therefore also implies that donors move beyond the traditional donor-recipient relationship and away from a narrow focus on development aid only. We cannot demand results and question lack of progress in developing countries as long as our own policies continue to undermine Europe's own commitment to poverty eradication. But just as important as these moral grounds, PCD is motivated by the evident need for getting value-for-money in development policy in times of rough austerity all across Europe. No matter how focused Western countries find themselves supporting and inciting new and innovative development and poverty-eradicating policies the potential incoherencies of Western non-development policies may render all these efforts useless. As the Danish minister for Development Cooperation stated in a recent speech, "PCD is not just another ingredient of the alphabet soup, but all about making our development efforts more effective, transparent and inclusive".

The need for urgent action is illustrated by the magnitude of challenges and barriers for development stemming from incoherent European policies in three global areas, which are challenging both European policies and the policies of individual EU member states: Food and nutrition security; the energy challenge with a focus on bioenergy and; Illicit financial flows. The need for more comprehensive political debates on the shortcoming and incoherence of these policies are prominent.

In the report we have developed a concrete proposal for the operationalisation of PCD in a Danish context that is both realistic, transparent, and yet ambitious. Our aim is to advance the learning from other EU member states and build on existing Danish institutional mechanisms and structures, which will make PCD a systematic management tool guiding Denmark's future policy making. We firmly believe this model will enhance Denmark's influence on European and International policies beyond aid, and thereby also contribute substantially to the fight against global poverty. There is no valid excuse for further delaying the implementation!

Content

- 03 • Aim of the report
- 05 • Executive Summary
- 09 • 1. Introduction: Delivering results – How Denmark can lead the way for Policy Coherence for Development
- 13 • Policy Coherence for Development in a changing world: The OECD Strategy on Development towards a broader approach to PCD
- 17 • 2. Operationalizing Policy Coherence for Development: A Danish Approach
- 23 • 3. Dressed for success or simply for the occasion?
- 32 • 4. Policy coherence for food and nutrition security: Pointers for the EU in 2012
- 41 • An ACP view on Agriculture, Food Security and Land grabbing
- 43 • 5. Bioenergy and PCD
- 50 • 6. Illicit financial flows

Executive Summary

With this report, Concord Denmark aims at pushing forward, not only the Policy Coherence for Development (PCD) agenda in Denmark, but in Europe. The aim of the report is to develop a progressive and feasible approach that will realize Denmark's PCD commitments and advance PCD substantially on the national agenda, but also to construct a concrete proposal for a model of operationalization that is transferable to most European national contexts, and may be used to advance PCD in all EU member states. To achieve this, the report includes six chapters. It begins by setting the scene in an introduction, a chapter presenting the proposed Danish approach to PCD and subsequently a chapter on the experiences of implementing institutional PCD mechanisms in other Member States of the European Union. Three chapters followingly constitute the thematic content on key issues including Agriculture and Food Security, Bioenergy and Illicit Financial Flows.

INTRODUCTION

The achievement of poverty alleviation requires more than effective development assistance and focused development policies. Domestic and foreign policies are interconnected and interchanging at many levels and their scope and consequences are often difficult to trace and identify. As such, the effects of a policy in one area may easily be undermined by policies in another, both intended and unintended, and no issues can be solved in its entire isolation.

Policy Coherence for Development (PCD) addresses these issues more than anything else, by stressing how Official Development Assistance (ODA) is only one component in a complex set of policies, which can promote or limit development in developing countries. Policy Coherence for Development can become a decisive tool for sustainable and comprehensive development oriented cooperation on more equal terms between Europe and the world's poorest countries. But this will only happen if and when proper political visions and necessary institutional mechanisms are established and the right policies are implemented.

All EU policies must be in support of development needs of developing countries or at least not contradict the overall aim of poverty eradication. This is the obligation, which the Lisbon Treaty through article 208 on Policy Coherence for Development (PCD) has made mandatory for the European Union and its member states. At the national level Denmark is now also legally required to take account of development objectives in formulation and implantation of policies across all areas affecting developing countries.

The reality, however, is very different. This report from Concord Denmark points at the gap between the obligation for policy coherence and the very incoherent realities of current EU policies, but it is also proposing the necessary institutional mechanism which can change PCD from rhetoric to forward looking result oriented and implementable policies. After years of promises it is time to make PCD a reality.

In Denmark, no systematic coordination or mechanisms of PCD have yet been established despite continuous heavy criticism from OECD (in both the 2003, 2007 and 2011 Peer Reviews of Denmark) and repeated domestic commitments. This needs to change.

The aim of this report is thus to underline how PCD is not an administrative undertaking, but rather a political one. PCD, we argue, is not an administrative burden, but rather a responsibility for politicians to take positions on how to act in a complex and changeable world, where the traditional perception of development assistance and aid is challenged by externalities and incoherencies of policies. Policies can naturally never achieve a level of perfection and isolation, and PCD thus becomes a case of making trade-offs and understanding how different decisions affect different issues and policy areas.

We cannot demand results and question lack of progress in recipient countries when both Danish and European positions are currently hindering the potential for progress in many developing countries by maintaining and continuously formulating new policies holding policy incoherencies with negative effects for these.

This report from Concord Denmark proposes a very concrete and specific model for an institutional PCD-mechanism in Denmark dealing both with Danish input to EU-policies and domestic Danish policies and guaranteeing transparency and regular open political debate about the vision and objectives. It is also recommending development of research programmes in collaboration with stakeholders in developing countries to improve conditions for PCD screening of EU proposals, which is today both ad hoc and low scale.

OPERATIONALIZING PCD IN A DANISH CONTEXT

The report proposes a Danish institutional PCD-mechanism based in the foreign ministry and building on existing structures and processes in relation to Danish EU-policies, but involving the relevant stakeholders, including research, business and the civil society in Denmark but also partners in developing countries through a reporting mechanism linked to Danish delegations. The mechanism is based on high-level political commitment, regular reporting and political and public debate, making it possible to assess progress or shortcomings in relation to the political priorities and the overall thematic visions for PCD.

The report proposes the following outline of the roles and responsibilities of different actors when operationalizing PCD in the Danish context.



It is a government decision to place the overall political responsibility for the Danish PCD-process and it is recommended that the political responsibility lie with the Minister for Development Cooperation in the Ministry of Foreign Affairs. The Minister for Development Cooperation should be responsible for preparing and publishing the overall analytical vision that will form the baseline in monitoring and reporting on the progress of implementation of PCD mechanisms in the Danish context, and the further development and political adjustments thus remains his responsibility. The Minister for Development Cooperation should be responsible for publishing a biennial PCD progress report whose cross sector character entails that it must be discussed and approved by the government's coordination committee before it is published.

The Minister for Development Cooperation should initially be responsible for a process leading to a PCD work programme with thematic focus areas. The first work programme should cover two years. After this period an annual decision on whether to change or to keep the same priorities should be made through an open consultative process. The work programme should reflect global challenges identified by the EU as well as by the new strategy for Danish Development policy and it should refer to EC's PCD Work Programme.

The strengthening of PCD as an integrated part of Danish domestic and EU policy and the establishment of institutional PCD mechanisms needs to be based upon an overall vision for the results Denmark wants to obtain in cooperation with the EU. Such a vision should be based on an analytical examination of the present policies within the focus areas established in the EU PCD policy.

As clearly stated by the OECD, specific institutional mechanisms are a necessary element in the implementation of PCD. The European Affairs Committee of Parliament (Folketingets Europaudvalg) is a natural anchorage point in a Danish context, since the committee is specifically charged with ensuring a parliamentary debate of the negotiating mandate of Danish ministers in the EU Council of Ministers.

The implementation can be achieved by making PCD a mandatory section in all background notes of the European Affairs Committee. In its PCD section, each background note must assess whether there are relevant international development concerns in the EU initiative to which the note refers

This process is already used in relation to the "principle of subsidiarity" and "socioeconomic effects" that are both included as mandatory sections in all background notes. As in the case of these two standard sections, a possible response to PCD relevance could be "not applicable".

VISIONS FOR THREE KEY THEMATIC AREAS

The report addresses three thematic issues of Danish and European politics that are of key relevance to the Policy Coherence for Development agenda.

AGRICULTURE AND FOOD SECURITY

Policies to reduce the proportion of people in the world suffering from hunger and malnutrition have stalled in the last 15 years. After substantial progress between 1960s and the mid-1990s, we now see very little advancement and increased food prices have again thrown millions of people more into food insecurity. Hunger and malnutrition is today a reality for one billion of the world's population.

A number of new and serious challenges have made it more difficult to reach food and nutrition security in the world. The problem is not overall lack of food, but poverty combined with a new type of competition for land resources.

The increasing production of biofuels and an increasing number of land deals (land grabbing) in developing countries has also led to new and serious concern in relation to food and nutrition security. Investments in agriculture in developing countries are in principle welcome and in some countries necessary but the way land dealing takes place both for growing biomass for transport fuel and as part of commercial food production can be very harmful both for poor people who may lose their land and for the environment.

As a major world trader and producer of agricultural products EU has a special obligation to work for global food security. While last decade's reforms of the EU's Common Agricultural Policy (CAP) have reduced the negative impacts on developing countries significantly, there are still evidence of cases where European subsidized exports and safety net policies have undermined the income and livelihood of smallholder producers and food security in developing countries. The impact of the CAP also involves the EU's massive appropriation of arable land in developing countries used producing feedstuffs for European production. Concord Denmark proposes the following vision and objectives in the policy area of agriculture and food security:

Agriculture and Food Security – Vision:

The Danish Government envisages a global agricultural system that incentivizes increased production in developing countries; minimizes trade distorting policies and harnesses a global shift towards more sustainable and climate-smart models of production. The Danish Government will work to advance the Right to Food and Rights-based Food policies.

Political objectives:

- 1) A more development friendly CAP and agricultural trading system
- 2) A more climate-smart global agricultural and trade system supporting developing countries efforts to adapt and mitigate climate change
- 3) Advancing rights-based food security policies at international and local level

BIOENERGY

Efforts to reduce greenhouse gas emissions have resulted in the increasing use of plant biomass as energy, including for transport fuel. EU directives are encouraging this development, which involve considerable import of biomass and biofuels from developing countries.

The basic premise behind political efforts to increase the use of biofuels is that it is "carbon neutral". This premise is, however, increasingly being challenged by research findings. The burning of biomass does not necessarily result in reduced emission of greenhouse gases, and legislation that encourages substitution of fossil fuels by bioenergy, irrespective of the biomass source, may even result in increased carbon emissions and thereby accelerate climate change and global warming.

The increased cultivation of biomass for bioenergy leads to increased competition for land, it increases the pressure on the Earth's land based ecosystems, and it competes with efforts to provide sufficient food for the world's growing population. It has a negative impact on food security and it leads to growing food prices. Besides it can lead to irreversible impacts on biodiversity. Concord Denmark proposes the following vision and objectives in the policy area of bioenergy:

Bioenergy – Vision:

The Danish Government envisages a European energy system based on renewable carbon neutral energy produced in sustainable ways with the aim of eliminating negative climate impact as a result of energy production and consumption. Production and consumption of bioenergy may not in any way, directly or indirectly, have negative impact on food production capacities or food security in developing countries.

Political objectives:

- 1) Guarantee bioenergy use only from additional biomass, reducing greenhouse gas emissions without displacing other ecosystem services
- 2) Implement EU energy policies guaranteeing the objective of fighting climate change in the promotion bioenergy.
- 3) Guarantee that the right to food security in developing countries are not impacted negatively and that EU and member states are not involved in unsustainable competition for the use of arable land in developing countries to be used for bioenergy

ILLICIT FINANCIAL FLOWS

Illicit financial flows from developing countries to the rich part of the world reach approximately 1.000 billion dollars a year or 8 to 10 times more than Official Development Assistance from the rich countries of the world to the same countries. About two third of the illicit financial flows consists of commercial tax evasion from international companies.

Illicit financial flows are made possible by the world's financial institutions and assisted by Western governments including in the European Union. This constitutes an appalling violation of Policy Coherence for Development.

While it is unrealistic to stop illicit financial flows completely it is simple to curtail the flows very considerably. Billions of dollars can be made available for development in a much more equal partnership between richer and poorer countries if a few measures are taken.

The vision and the objectives are setting the direction for EU and member state policies to fight illicit financial flows. Concord Denmark proposes the following vision and objectives in the policy area of illicit financial flows:

Illicit financial flows – Vision:

The Danish Government envisages a global financial system based on transparency and a fair contribution from all types of national and international incomes to development purposes. The government will work actively and including through the European Union and UN to assist developing countries in fighting commercial tax evasion and other types of illicit financial flows and strengthen taxation systems in developing countries

Political objectives:

- 1) Transparency and clear information about beneficial ownership of all companies and account holders in all types of financial institutions, particularly in tax havens
- 2) Country-by-country reporting for all multinational corporations.
- 3) Multilateral automatic exchange of tax information between countries.



1. Introduction

Delivering results – How Denmark can lead the way for Policy Coherence for Development

POLICY COHERENCE FOR DEVELOPMENT – POLICY MAKING IN A NEW GLOBAL CONTEXT

The achievement of poverty alleviation requires more than effective development aid. As stipulated in both in the Lisbon Treaty and the new Danish Law for Development Cooperation the development objectives must be taken into account in policy making across all areas that will affect developing countries. These legal obligations reflect the realities of today's densely interconnected world. Globalisation has now advanced to a stage where the boundaries between domestic and foreign policy are so blurred that it is no longer sensible for political decision makers to ignore the global impacts of their policy choices. Nowhere this is as evident as in the field of development cooperation where contradictory policy impact on the ground results in a waste of development money

and huge opportunity costs in the transition to a sustainable global economy.

Massive outflows of illicit finance facilitated by European and American accounting legislation dwarfs global development aid by 8-12 times. The EU's response to milk market crisis in 2009 provides another grave example of how policy measures implemented in one place may displace negative impacts to other regions. As the European Commission engaged in heavy intervention buying and reintroduced export subsidies for dairy products resulting in a huge export surge to Sub-Saharan Africa, Camerounese dairy farmer's eventually found their livelihood being undercut when they were suddenly squeezed out of local value chains that had taken more than 10 years to build, supported by development assistance from the EU.

Whether intended or unintended such cases are clearly unacceptable, especially in times when the international community more than ever emphasises the need to deliver results in development policy. Adapting our policies in to the vastly changing global landscape is a matter of absolute urgency. The concept of Policy Coherence for Development (PCD) addresses this challenge more than any other policy instrument by stressing how Official Development Assistance (ODA) is only one component in a complex set of policies that can promote or limit development in developing countries.

As global economic activity is moving East and South, development has become a multidimensional and complex issue reaching far beyond the traditional perceptions of donor-beneficiary relationships between rich and poor countries. For the first time in decades, poorer developing countries have experienced faster growth than OECD countries in the 2000s. In far too many states however, this economic progress has not been translated into improved living standards for the poorest and most vulnerable groups. More than 70 % of 1.4 billion people that are still living in extreme poverty now reside in middle-income countries (MIC) (Overseas Development Institute 2012).

Creating better conditions for the people at the very bottom of global society is not solely a moral obligation. It's becoming increasingly clear that safeguarding Europe's long-term prosperity also

depends on our ability to improve living standards of poor people in developing countries. It's naive to think that the first can be achieved without the latter. As stressed in the latest Global Risk Report of the World Economic Forum 'severe income disparity' presently poses the most serious risk to for economic progress and stability in the world (World Economic Forum, 2012).

To tackle the challenge of global poverty and inequality political leaders need to rethink the relationship between rich and poorer countries fundamentally. In the future, cooperation must be founded on a common will and mutual accountability to address the structural causes of poverty and marginalisation rather than just focusing on the deployment of development aid in a donor-recipient relationship. It's hypocritical to demand results and question lack of progress in recipient countries if we are not willing to scrutinise and recourse Danish and European policies undermining development in our partner countries.

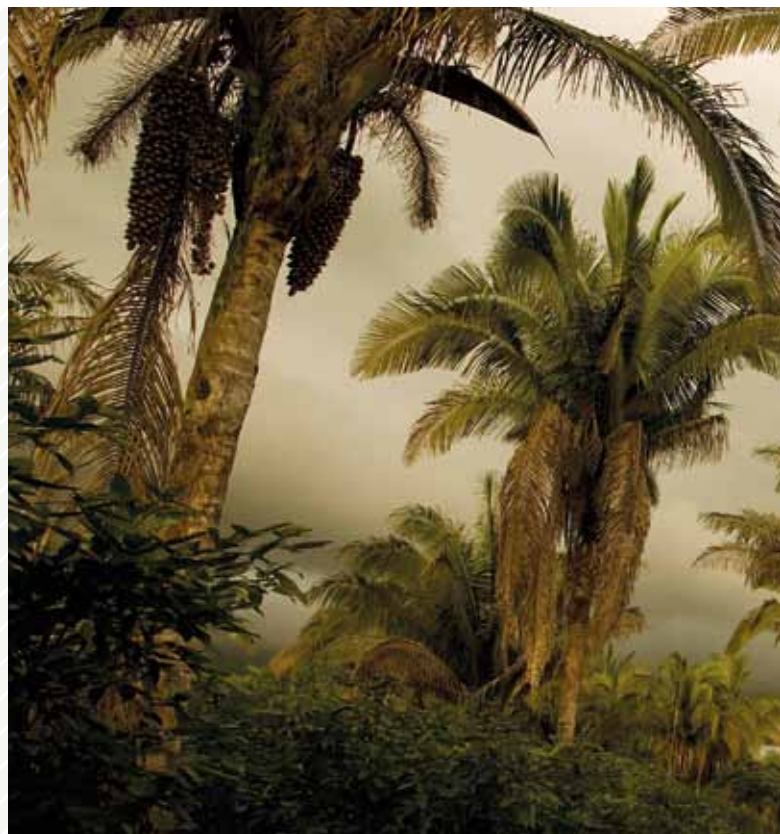
In this context PCD can become instrumental in creating a more sustainable, effective and equal cooperation between Europe and the world's poorest countries. But this will only happen if and when the necessary political will is mobilised and proper institutional mechanisms established, and development champions like Denmark leads by example.

“The Union shall take into account the objectives of development cooperation in the policies that it implements which are likely to affect developing countries”

Article 208 of the Lisbon Treaty of the European Union

“It is acknowledged, that developing countries are not only affected by development policy efforts, but also by efforts in other policy areas”

The new Danish Law for Development Cooperation



With this report, we aim to demonstrate how Denmark can lay path by presenting a comprehensive political model for operationalization of PCD based on the present Danish context, of which key elements can also be transferred to other EU Member States.

Implementing the model will, however, require a fundamental change of attitude from the Danish Government. For almost ten years Danish decision makers have failed to deliver on its commitments to the PCD agenda. Despite ambitious rhetoric from the present Government, an implementation plan is still missing and nor has any institutional mechanism or strategic thinking on the subject been presented. The appeals we put forward are a matter of urgency.

DENMARK MUST WALK THE PCD TALK

The PCD agenda is not new to the Danish politicians or development community. Denmark has over the last decade, repeatedly been criticized of its lack of political will to implement institutional PCD mechanisms. OECD DAC has in its past three Peer Reviews of Denmark's Development Assistance led this critique: In 2003, Denmark was criticized for not establishing a formal framework for PCD implementation, and in both 2007 and 2011 the criticism was repeated.

Since 2010 Denmark has made several commitments to strengthen PCD, though without any noticeable progress. In the last OECD Peer

Review, the former Danish government promised to prepare an action plan to ensure that "its own domestic policies do not affect those of developing countries negatively" (OECD, 2011). The new government has strengthened the declared commitments to PCD – PCD is part of the government bill; *it is part of the objectives paragraph in the new Danish Law for Development cooperation and features in the government's Development Strategy*. But still no implementation plan translating these legally binding commitments into practice has been produced.

Based on the research and experiences of other countries (see chapter 2) Concord Denmark underlines that implementation must be based on a genuine political will to make PCD an integrated part of Danish domestic and EU policy. This implies a fundamental recognition that PCD is an inherently political issue that must be dealt with by politicians who can be held democratically accountable rather and cannot be dealt with only by *technocrats* in the administration (which is currently the case in most countries adopting an approach to PCD). PCD mechanisms therefore need to be anchored in an explicit vision for the global development results Denmark wants to obtain through development and non-aid policies, both as a national actor and in cooperation with the EU. Naturally, such visions should be based on a thorough analytical examination of the possible impacts of present and future policies, but at the



“PCD is not just another ingredient of the alphabet soup, but all about making our development efforts more effective, transparent and inclusive”

Christian Friis Bach, Danish Minister of Development Cooperation

“It is essential to examine the interdependence and coherence of all public policies – not just development policies – to enable countries to make full use of the opportunities presented by international investment and trade, and to expand their domestic capital markets”

The fourth high Level Forum on Aid Effectiveness in Busan in December 2011

Danish PCD check list

Tool	Outcome
- A national PCD work programme containing clear and tangible political visions of which results must be obtained to make Danish and EU policies coherent with development objectives within certain focus areas.	- The visions both as a political platform that allow for, <ol style="list-style-type: none"> 1. Pro-active efforts within the focus areas 2. Measurement of progress and results
- A national PCD screening mechanism attached to relevant Committees of the Danish Parliament	- Parliamentary scrutiny of the co-ordination with development objectives across policy areas
- A biennial national PCD progress report on Work programme to the Danish Parliament published by the Government	- Transparent monitoring and democratic accountability

same time the approach rejects the idea that indicators can be determined and assessed in an entirely objective manner.

PCD is about political choices and priorities and as such the Government's policy objectives must be publicly accessible and parliamentary scrutiny must be placed at the very heart of the PCD practice.

The proposal for operationalisation of PCD in a Danish context sets out a realistic, clear and transparent Danish model for a result oriented institutional PCD-mechanism for working with PCD both in relation to EU and domestic Danish policies. It includes a model for its implementation that guarantees regular reporting and high-level political and public debate on results and shortcomings.

Beyond the institutional focus the report also has three thematic chapters, each illustrating the magnitude of problems and some of the many serious barriers for development stemming from incoherent European policies and three major global challenges: Food and nutrition security; The energy challenge with a focus on bioenergy

and; Illicit financial flows. These three chapters are all written by external experts and their opinions do thus not necessarily reflect our. In the same way, the recommendations and visions created from the chapters are done by us and do not necessarily reflect the opinion of the authors. It will be clear whenever this is the case.

All thematic chapters also include a vision constituting Concord Denmark's interpretation of how the issues raised in the thematic areas may be addressed in policy making. The vision also sets out overall and specific objectives that can form the basis for sensible assessment and discussions of results and shortcomings in the implementation of concrete policies in specific areas.

The box summarises this report's recommendations 'check list' of the key elements that must be included in a new Danish PCD tool box, which can translate Denmark's legal commitments into practice. The check list encompasses all of the OECD's three building blocks for PCD: 1) Commitment 2) Policy co-ordination 3) Monitoring. Denmark has still not yet implemented neither building block 2) or 3).

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The OECD Strategy on Development towards a broader approach to PCD

Ebba Dohman, OECD

GREATER INTERCONNECTEDNESS CALLS FOR GREATER COHERENCE

The global economy has been undergoing a major structural transformation. Developing economies, particularly emerging economies, are becoming key drivers of global economic growth and play an increasingly important role in international finance, trade, innovation and development co-operation. Their dynamism and growth are leading to shifts in global economic governance and contributing to changing the architecture of international development co-operation as well as the nature of development financing.

With the structural realignment in the global economy, the geography and structure of poverty are also changing. A growing proportion of the world's poor is living, and will live, in middle-income countries and urban areas rather than in low-income countries and rural areas. As Official Development Assistance (ODA) becomes a shrinking portion of the overall budget for poverty reduction programmes, sound institutions, good policies and improved policy-making, play a key role in fostering sustainable economic growth that is inclusive of the poor.

ODA remains critical, particularly for the Least Developed Countries as a key source of development financing, and can play a catalytic role. At the same time, there is a growing recognition of the crucial role of policy coherence for development (PCD). Fostering mutually supportive policies across a wide range of economic, social and environmental issues can unleash the development potential of countries, and help them transition away from aid dependence. As highlighted in Busan it is essential to examine the interdependence and coherence of all public policies, not just development policies.¹

In an increasingly interconnected world economy, challenges have become global. Economic shocks can reverberate quickly, and externalities such as macro-economic instability, social and economic inequalities, and conflict can have large and wide ranging spillover effects worldwide. At the same time development challenges have implications for all. Collective and coordinated action to address these challenges therefore needs to transcend the old distinction

between the "North" and the "South", and allow for cross fertilisation between different experiences and diverse development models.

Development is multidimensional in nature. To understand its prospects requires approaches that cut across multiple disciplines, that tap into the diverse experiences, knowledge and different perspectives from countries, international organisations, policy communities and key stakeholders, and that take into account the need for PCD at the national, regional and global level.

THE OECD'S ROLE IN PROMOTING PCD

The OECD has worked to promote PCD for its members since the early 1990s, and the approach has evolved over time. An OECD Ministerial mandate in 2002 focused PCD work on two main dimensions 1) avoiding impacts that adversely affect the development prospects of developing countries, and 2) exploiting the potential of positive synergies across different policy areas, such as trade, investment, agriculture, health, education, the environment and development co-operation.² The OECD work focused mainly on institutional, sectoral, and country-specific levels. It contributed to raise awareness and foster analysis on development impacts of members' policies. It also developed a framework for assessing DAC members' progress towards PCD. This is conceptualised as three-phase cycle, with each phase supported by a "building block": (i) political commitment and policy statements; (ii) policy coordination mechanisms; and (iii) systems for monitoring, analysis and reporting.³ This framework has been a key element in the guidance for carrying out DAC peer reviews since 2002. At this time, the DAC started systematically including a chapter on "Beyond aid" which looks at the DAC members' political commitment and how their government organisations work to promote PCD, including their capacity to analyse the potential impact of policies on development and monitoring results.

The *OECD Ministerial Declaration* adopted in 2008 further strengthened the dual-focus of OECD's PCD work. In the Declaration, Ministers reaffirmed their strong commitment to PCD and resolved to continue efforts to ensure that development concerns

1) "Busan Partnership for Effective Development Co-operation"

[http://www.aideffectiveness.org/busanhlf4/images/stories/hlf4/OUTCOME_DOCUMENT_-_FINAL_EN.pdf]

2) "OECD Action for a Shared Development Agenda" From the OECD Council at Ministerial Level, Final Communiqué, 16 May 2002.

[http://www.oecd.org/document/46/0,2340,en_2649_33721_2088942_1_1_1_1,00.html]

3) OECD (2009): Building Blocks for Policy Coherence for Development, Paris.



are taken into account across relevant policies. They requested the OECD to help enhance understanding of the development dimension of policies and their impact on poverty reduction. A new element was to strengthen dialogue with partner countries in sharing experiences on the effects of OECD members' policies on development and to consider the increasing relevance of PCD in developing countries' policies. They also called for better international coordination to help ensure that benefits of globalisation are broadly shared.⁴

In 2010, an *OECD Council Recommendation* called on members to take further measures to strengthen PCD. It identified institutional practices and lessons learned, drawing on DAC peer reviews and on work by the OECD Public Governance Committee, to foster "whole of government" approaches to policy-making and help to better integrate consideration of development issues in designing and implementing national policies.⁵

At the level of the Organisation, the OECD established in 2007 a dedicated unit in the Office of the Secretary General to promote

PCD, consistent with its own good institutional practice recommendations. Since then, Committees and Directorates have been encouraged to identify inter-linkages across policy areas to strengthen the integration of the development dimension in their programmes of work, enhance synergies and develop joint projects. To facilitate the sharing of good practices and evidence-based analysis on PCD, the OECD also set up a Network of National Focal Points for PCD in 2007 and launched in November 2011 a web-based *International Platform on Policy Coherence for Development*.⁶

In 2012, at the OECD's 50th Anniversary Ministerial Council Meeting (MCM), members made an historic decision to launch an *OECD Strategy on Development*. They endorsed a strategic *Framework* which provides the Organisation with the basis to broaden its approach to development, drawing more effectively on its multidisciplinary expertise and longstanding experience in development and development co-operation, and strengthening its partnerships and mechanisms for knowledge sharing.⁷ The Framework outlines the key elements of a comprehensive approach to development, in which PCD is a core objective. A new element is the emphasis in fos-

4) C/MIN(2008)2/FINAL, 4 June 2008. "OECD Ministerial Declaration on Policy Coherence for Development" [<http://acts.oecd.org/Instruments/ShowInstrumentView.aspx?InstrumentID=138&InstrumentPID=134&Lang=en&Book=False>].

5) C(2010)41, 29 April 2012. "OECD Council Recommendation on Good Institutional Practices for PCD" [<http://www.oecd.org/dataoecd/6/54/46159783.pdf>]

6) Visit: <https://community.oecd.org/community/pcd>

7) See: C/MIN(2011)8, "Framework for an OECD Strategy on Development", endorsed at the OECD 2011 Ministerial Council Meeting [<http://www.oecd.org/dataoecd/8/17/48106820.pdf>].

tering PCD at different complementary levels: with members, within the OECD itself, as well as with partners countries and globally.

TOWARDS A BROADER APPROACH TO PCD

Despite the political will expressed by OECD members in 2008 as well as the efforts made by most DAC members to put in place the necessary institutional mechanisms, limited progress has been made in delivering better policy coherence for development. Experience with peer reviews on institutional practices and mechanisms for PCD has shown that the three building blocks for PCD, are necessary to raise awareness and build efficient decision-making, but not sufficient to translate into greater PCD policy making. In addition, DAC peer reviews do not go into detailed thematic and sectoral analysis or impact assessments. In fact, most PCD commentators point out that the biggest challenges to achieving progress is the lack of robust methodologies and indicators to measure progress and as well as of specific evidence-based impact analysis adapted to country contexts.

Against this background there is a need for updating and broadening the PCD approaches, adapting our instruments, and responding more effectively to the increasingly complex development challenges. This means not only deepening our evidence-based analysis and strengthening our tools for members, but looking also at the global and cross-sectoral dimensions of PCD, as well as the relevance of PCD issues for developing countries. PCD Going forward, key actions to improve the design and implementation of more coherent policies could include:

- *Build more systematic approaches to evidence-based analyses with strong involvement of developing countries.* Feedback from developing countries on the impact of policies on development is fundamental to generate the necessary evidence to inform policy and convince decision makers to act. This dialogue is particularly needed given the heterogeneity of developing countries and the fact that policies might affect each country differently. Without systematic dialogue and feedback, country-specific impacts are difficult to determine.
- *Shift the focus away from a single-sector to multidimensional and cross-sectoral approaches.* Efforts to improve understanding of incoherence and to promote development-friendly policies have been carried out on a sector-by-sector basis, such as trade, agriculture, investment environment, technology, migration, amongst others, but without giving due attention to the inter-sectoral inter-linkages and the multidimensionality of development challenges. There is a need to reduce the sectoralisation and to look in a comprehensive manner at a range of inter-related factors and relevant areas for designing more coherent policy solutions.

- *Consider PCD relevance for developing countries.* PCD has had a strong donor focus. Dialogue on issues related to PCD has been carried out mainly among donors and focused on the incoherences between aid and non-aid policies. This will continue to be important to ensure mutual accountability, but PCD also has a domestic dimension and applies to both advanced and developing economies. Understanding the policy inter-linkages and trade-offs can help inform decision-making to prevent contradictory policies and strengthen development impact. For instance, trade between developing countries themselves – what we call south-south trade – depending on the policy choices could be one of the main engines for growth over the coming decade. OECD estimates suggest that were southern countries to reduce their tariffs on southern trade to the levels applied between northern countries, they would secure a welfare gain of USD 59 billion.⁸
- *Take into account the global dimension of PCD.* PCD in the new global context is also about creating an enabling environment for mutually supportive policies to unleash the development potential of countries. As stated in the Monterrey Consensus, national efforts (policies) need to be supported by an enabling international economic environment to send the right policy and market signals, create confidence, and facilitate cooperation and exchange among sectors and governments. From this perspective, PCD can facilitate the design of collective responses to global development challenges, and build common ground on global public policies and the provision of global public goods.

One example where such a multidimensional and cross-cutting approach to PCD is necessary is global food security. This is an issue which requires action by OECD members, by developing countries and at the global level. The challenges include amongst others: improving agriculture productivity as well as research and innovation systems; reducing waste; reconciling increased agricultural productivity with other potentially competing objectives and constraints, such as bioenergy, water scarcity, climate change; facilitating and increasing trade; and creating enabling environments for investment by removing barriers and incoherent policies. PCD can serve as a tool to address these interlinked factors.

THE OECD STRATEGY ON DEVELOPMENT: EMBARKING ON A BROAD EFFORT TO ENHANCE PCD

The *OECD Strategy on Development* seeks to adapt OECD approaches to a rapidly changing global context. Three elements are considered essential to address development in the current context: 1) more effective collective action that involves key actors and stakeholders, through inclusive policy dialogue, knowledge sharing, and mutual learning, as well as stronger partnerships; 2) more comprehensive approaches to address the multidimensional-

8) OECD (2010): *Perspectives on global development 2010: shifting wealth*, Paris.

ity of development; and 3) greater emphasis on policy coherence for development. The *OECD Strategy on Development* will be open OECD's policy dialogue to a wider range of countries on the basis of mutual learning among peers, strengthen its support for members and partners who aspire to better policies for better lives, and contribute more effectively to development process and global development architecture.

In line with this comprehensive approach, the OECD will scale up its work on PCD to:

- Support more effectively its members, by fostering collaboration with other partner institutions to develop PCD indicators, monitor progress and assess the impact of diverse policies on development in a more systematic manner.
- Ensure that OECD's policy advice is coherent and consistent with development, by mainstreaming the development dimension throughout Directorates and Committees, re-focusing analytical work to take into account the impact of specific policies on development outcomes, identifying particular areas of policy incoherence as well as synergies; and reinforcing the existing institutional mechanisms for PCD within the Organisation.
- Strengthen the mechanisms to promote greater opportunities for dialogue and knowledge sharing with developing countries and key stakeholders on the effects of policies on development and to share experiences and good practices on PCD; and build strong evidence on the cost of incoherent policies as well as on the benefits of more coherent policies.
- Apply a PCD perspective to global public goods and "bads" as well as key global issues which need to be addressed in a comprehensive manner, such as global food security, illicit financial flows and green growth.



2. Operationalizing Policy Coherence for Development:

A Danish Approach

INTRODUCTION

Concord Denmark will in the following outline how the principle of Policy Coherence for Development can be operationalized in a Danish context and propose concrete actions that must be adopted by the Danish government in order to ensure a successful implementation of PCD. After having summarized Denmark's commitments to Policy Coherence for Development, we will identify existing institutional mechanisms and discuss how the Danish government can substantiate the Danish PCD endeavors within both existing and new institutional frameworks, and outline the roles and responsibilities of different actors in the operationalization.

The aim is not only to develop a progressive and feasible approach that will realize Denmark's PCD commitments and advance PCD substantially on the national agenda, but also to construct a concrete proposal for a model of operationalization that is transferable to most European national contexts, and may be utilized to advance PCD in EU member states.

DANISH COMMITMENTS TO PCD

The Policy Coherence for Development agenda is not new. Denmark has over the last decade repeatedly been criticized for its lack of political commitment to implement institutional PCD mechanisms. OECD DAC has led this heavy critique in its past three Peer Reviews of Denmark's Development Assistance. In 2003 Denmark was criticized for not establishing a formal framework for PCD implementation and Danida was criticized for lack of leadership among Danish institutions in promoting PCD in decision-making processes. In both 2007 and 2011 the criticism was repeated; *"There is no formal framework within which the MFA can take the lead in promoting policy coherence for development with other ministries. This remains as much a challenge as it was in 2003"* (OECD, 2007); and

"Denmark needs to strengthen policy coordination mechanisms and systems for monitoring, analyzing and reporting on the impacts of both Danish and EU policies on development in partner countries" (OECD, 2011).

Since 2010 Denmark has made several commitments to strengthen PCD, though without any noticeable progress. In the last OECD Peer Review, the Danish government promised to prepare an action plan to ensure that "its own domestic policies do not affect those of developing countries negatively" (OECD, 2011). The government also promised to "strengthen the coherence between policy areas and instruments for the benefit of development" in the 2010 Strategy for Denmark's Development policy, and the new government also declared its commitment to PCD in the government bill, stating that *"The Government will work to ensure better coherence between EU policies within all the many sectors affecting developing countries"*.

In spite of the international criticism, Denmark has not yet drafted or adopted a plan of action for the operationalization of PCD.

THE EXISTING MECHANISM FOR PREPARING DANISH EU POSITIONS

The European Affairs Committee of the Danish Parliament (Folketinget) is the parliamentary committee approving the Danish position and mandate in relation to EU-policies, and the institutional structure is the following: The first institutional level for preparing the Danish position on specific policy initiatives from the European Commission is called the EU Special Committees (Specialudvalg). A number of EU Special Committees deal with different aspects of EU policies. The committees are convened by the ministry with primary responsibility for a given policy area and consist of civil servants and often include representatives from interest groups such as la-





bor unions, employer associations, environmental organizations and think tanks. The legislative basis for developing Denmark's position in a given area is in the form of official background notes (samle-notater), which represent an important channel for influencing the official position. The prepared position then subsequently moves through a ministerial chain of command until it ends up as recommendations to the Europe Committee in the Parliament.

OUTLINE FOR A DANISH PCD INSTITUTIONAL MECHANISM

The operationalization of PCD needs to be strongly anchored in government. The political commitment and policy implementation needs to emerge from the highest possible level, as PCD in principle encompasses all policy areas and because the responsible administrative mechanisms need to benefit from the greatest possible political support to achieve the goal of making development policy objectives cut across government as an overarching area of focus.

The outline is developed on the basis of the principles described in OECD's building Blocks for Policy Coherence for development (2009): The Policy Coherence cycle.

The Danish PCD effort should be two-sided and have both a national and a European focus. The national focus should be anchored at ministerial level through a PCD mechanism that simultaneously screens proposed policies for their potential negative impact on developing countries, through participation in relevant committees. Through this process, Denmark would be able to ensure that its policies are not in conflict with the objectives of development cooperation.

At the European level, Denmark's efforts should help ensure that the different policy areas of the EU are not in conflict with the objectives of European development cooperation, by advancing Danish EU positions that are in line with the national efforts of eliminating incoherencies influencing negatively on developing countries.

The mechanisms need to build upon existing structures for preparing positions on both domestic and international policies, but in order to maintain significant influence and impact, PCD needs to be established as a main thematic task that benefits from a clear mandate – the pursuit needs to move from a latent part of policy-making to a clear outspoken objective in practice.

When pursuing PCD in a European context it must be a priority to identify thematic focus areas, in which Denmark is considered to have an advantage in relation to political leverage. The present problems with pursuing an effective PCD agenda at the EU level show the need for more active efforts of member state governments to strengthen and influence EU policies and a national Danish mechanism based on thematic priorities will benefit this process.

In the national pursuit specific thematic areas of focus are less important and the screening of proposed policies in practice should aim at eliminating incoherencies in all policy areas. At the national

level a decision to only focus on a handful of issues will be a dilution of the PCD efforts rather than a concretization.

The institutional mechanism aims at involving not just the relevant Danish PCD-stakeholders but also to include channels and methods for people in developing countries to be heard when they are affected negatively in their rights to development by incoherencies in EU policies.

The following sections outline the roles and responsibilities of different actors when operationalizing PCD in the Danish context, including concrete proposals for institutional mechanisms and instruments of systematic coordination.

THE GOVERNMENT LEVEL

It is a government decision to place the overall political responsibility for the Danish PCD-process and it is recommended that the political responsibility lie with the Minister for Development Cooperation in the Ministry of Foreign Affairs. The Minister for Development Cooperation should be responsible for preparing and publishing the overall analytical vision that will form the baseline in monitoring and reporting on the progress of implementation of PCD mechanisms in the Danish context, and the further development and political adjustments thus remains his responsibility. The Minister for Development Cooperation should be responsible for publishing a biennial PCD progress report to the Parliament whose cross sector character entails that it must be discussed and approved by the government's coordination committee before it is published.

The Minister for Development Cooperation should initially be responsible for a process leading to a PCD work programme with thematic focus areas. The first work programme should cover two years. After this period an annual decision on whether to change or to keep the same priorities should be made through an open consultative process. The work programme should reflect global challenges identified by the EU as well as by the new strategy for Danish Development policy and it should refer to EC's PCD Work Programme.

The strengthening of PCD as an integrated part of Danish domestic and EU policy and the establishment of institutional PCD mechanisms needs to be based upon an overall vision for the results Denmark wants to obtain in cooperation with the EU. Such a vision should be based on an analytical examination of the present policies within the focus areas established in the EU PCD policy.

PCD VISIONS AS POLITICAL BENCHMARK

Ever since the PCD agenda have entered official institutions, methodological discussions have centered on the challenge of how to measure the coherence of policies with development objectives. Presently, a consensus on the need to move towards more evidence-based PCD and to evaluate progress on the basis of indicators is emerging. The implicit assumption here seems to be that

evidence and indicators can be determined and assessed in an objective manner. However, this approach disregards the very political nature of the PCD principle.

Rather than trying to define technical indicators, the biennial Work Programme should set out clear political visions of how Denmark want to see policies in different areas move in a more development friendly direction. Such visions should also include overall objectives that can serve as PCD benchmarks of the government's policies and EU positions in relevant political processes that are taking place within the scope of biennial work programmes.

The political visions and their policy implications may naturally be challenged in discussions on concrete political decision. E.g. the opposition or other stakeholders may voice their disagreements in public or parliamentary debates and even succeed in overturning the government's position. Yet, this is part of the political PCD game and legitimate democratic scrutiny of any government.

Concrete examples on PCD visions can be found on page 40, 49 and 54.

THE ADMINISTRATIVE LEVEL

A specific PCD mechanism should be established within the Danish Ministry of Foreign Affairs, with the following main tasks;

Screen existing and proposed policies for their potential negative effects on developing countries and Denmark's development assistance, 2) support committees across ministries in reporting on the potential negative effects of proposed policies, and more specifically support the EU Special committee in supplementing all background notes with a section on PCD and the potential negative effects of relevant included policies, 3) report biennially to Parliament on the Danish PCD progress.

Aside from these general responsibilities, several specific tasks should be of importance.

First, Policy Coherence for Development should be an annual issue for discussion at negotiations and meetings with partners in countries receiving Danish development assistance. Such meetings and discussions should both guide Danish priority setting and PCD-assessments and improve the possibilities for Southern partners to influence policy coherence in their relations and negotiations with EU. The Ministry of Foreign Affairs is responsible for preparing this process and may commission studies that serve as input or look at specific issues emerging from the process.

Recurrent discussions of focus areas should also be made in relation to the biannual strategic discussion at the beginning of each changing EU Presidency, with the relevant work programmes of the European Commission and the EU Presidency as point of departure.

Second, all background notes to the European Committee in Parliament shall include a compulsory section establishing whether a policy or legislative proposal have impacts on development objectives – a PCD-assessment. This is already common practice in the Netherlands. The selection criteria, for which EU initiatives are relevant for such assessments, should be the European Commission own PCD-screening of its annual work programme used for inter-service consultations. Assessments may be based on inputs from external stakeholders with relevant expertise in line with the already existing hearing procedures of the Specialudvalg of the European Committee.

Third, the PCD-mechanism should include a mechanism for receiving, assessing and addressing reports from partners in developing countries on incoherencies in relation to the impact of Danish and EU policies and ultimately the economic, social and political development influenced by these policies. PCD is an essential part of the rights based policy for development, and it is important to develop the policy in dialogue with partners and civil society organizations. It will involve the active participation of Danish embassies to develop and promote such a reporting system, which will also include unintended technical and bureaucratic barriers hindering development.

Forth, Danish PCD-assessments are made available for the PCD-process in the EU, including for the EU Commission and the European Parliament, and a system is established for exchange of lessons learned among likeminded EU member states trying to move forward the PCD-agenda.

It is recommended that the administrative responsibility for a PCD-mechanism be placed in the management group of the Ministry of Foreign Affairs.

THE STAKEHOLDER LEVEL

External stakeholders should be considered a resource base and their insight and knowledge should be utilized and taken into account in both the preparation of the initial Danish PCD work programme and the subsequent annual consultative processes on the revision of this. Their access to the EU special committee should furthermore be enhanced and their role formally institutionalized.

The PCD-assessment included in background notes will be based on the inter-ministerial work of the EU special committees, but the work shall include the involvement of relevant stakeholders from civil society, the business community and research institutions. When necessary the PCD-mechanism can also order external input as part of the assessment.

Partners in developing countries are similarly invited to submit examples of lack of coherence for development both in policies and in bureaucratic and technical procedures of relevance for EU and/or Denmark. Partners should be invited to report through the Danish embassies or through civil society organizations.

Model for implementation of a Danish Institutional PCD-mechanism

As clearly stated by the OECD, specific institutional mechanisms is a necessary element in the implementation of PCD. The European Affairs Committee of Parliament (Folketingets Europaudvalg) is a natural anchorage point in a Danish context, since the committee is specifically charged with ensuring a parliamentary debate of the negotiating mandate of Danish ministers in the EU Council of Ministers.

The implementation can be achieved by making PCD a mandatory section in all background notes of the European Affairs Committee. In its PCD section, each background note must assess whether there are relevant development concerns in the EU initiative to which the note refers. The

PCD section will also implicitly address other relevant Parliamentary Committees (e.g. Foreign Affairs, Agriculture or Environment) that receive the background notes in parallel with the European Affairs Committee. The procedure thus encourages PCD co-ordination between the different Committees of the Danish Parliament.

A similar process is already used in relation to issues of “principle of subsidiarity” and “socioeconomic consequences” that are both included as mandatory sections in all background notes. As in the case of these two standard sections, a possible response to PCD relevance could be “not applicable”.



1. Screening by the EU Commission:

The PCD unit of DG DevCo makes a screening of the Commission's annual work programme and chooses initiatives where PCD input will be provided during the inter-service consultations in the Commission.

- The screening of the Commission provides the basis of the Danish planning

2. Danish administrative planning:

EU Coordination Unit, responsible of coordinating the EU input of the ministries and the special committees, meet annually with the EU development department in the MFA and the various organisations and decide on which EU initiatives to offer PCD input.

- The Danish planning meetings provide the basis for ensuring PCD input to the special committee processing of the chosen EU initiatives (input can be either written or through audience).

3. EU Special Committee process:

Civil society organisations provide input – written or through audience depending on the procedure of the individual process. It can be decided to also invite other external expertise from research institutions such as DIIS or equivalent as opponents.

- The external input provides the basis of the PCD section in the background note on the specific initiative.

4. Process in the European Affairs Committee

All PCD sections in background notes are included as part of the basis of the debate of the European Affairs Committee on specific EU initiatives.

- The minister can, after debate in the European Affairs Committee, be assigned a regard for PCD as part of the negotiation mandate in the EU Council of Ministers.

Danish development NGOs are normally only involved in the work of the EU Special Committee on development, not in other EU special committees of relevance for PCD. As a consequence of the PCD-policy Danish development NGO's should become part of more than the EU Special Committee on development. This would make them able to promote a PCD perspective in a wider range of forums.

Concord Denmark has been invited to participate in Special Committees on Development, Agriculture and Financial regulation. But this is an informal participation, which has not yet been formalized institutionally.

Concord Denmark as a network and other relevant development NGO's should be given access to the special committees in all legislation processes. What legislation is considered relevant should be based on Danish thematic focus areas and be decided on basis of the European Commission's own screening of the EU annual work programme carried out by DG DevCO.

THE PARLIAMENTARY LEVEL

The Minister for Development Cooperation presents the annual report on the PCD process to the European Committee and the Foreign Committee in Parliament. Parliament should then subsequently discuss the report in a parliamentary debate. The report is made public and relevant stakeholders are invited to submit comments to the findings and conclusions.

THE NEW DANISH DEVELOPMENT STRATEGY

Designing an ambitious Danish institutional set-up for Policy Coherence for Development must be a key priority in the preparation of Denmark's new Development Policy.

With growing demands of value-for-money and results from the recipient side of development assistance, PCD should be incorporated in the new strategy as a responsibility that we must take on ourselves to uphold the high expectations of effectiveness in development cooperation. We cannot demand results and question lack of progress in recipient countries when both Danish and European positions are currently hindering the potential for progress in many developing countries by maintaining and continuously formulating new policies holding policy incoherencies with negative effects for these.

PCD should not only be written into the new Development Policy as a vague crosscutting issue. Rather it should be in the centre of the new Development Policy, signaling clear-cut political will and ambition of integrating PCD into the heart of the government.

Aside from the institutional mechanisms proposed in this chapter, the new Development Policy should determine and prepare specific benchmarks and baselines on the progress of implementing PCD in a Danish context, allowing for a transparent and accountable process of monitoring the efforts.



References:

- OECD, 2003 "Denmark – DAC Peer Review" OECD, Paris
- OECD, 2007 "Denmark – DAC Peer Review" OECD, Paris
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3.

Dressed for success or simply for the occasion?

Assessing institutional mechanisms to represent interests of low-income countries in European policy processes

By Niels Keijzer, ECDPM

1) EUROPEAN COMMITMENTS TO PCD: FROM MAASTRICHT TO BUSAN?

On the 1st of December 2011, a wide variety of development stakeholders gathered in Busan, Republic of Korea, to endorse a new partnership for effective development cooperation. While poverty and inequality were confirmed as remaining at the core of the challenge of global development, the outcome document adopted at this fourth High Level Forum on Aid Effectiveness acknowledges

that "(...) it is essential to examine the interdependence and coherence of all public policies – not just development policies – to enable countries to make full use of the opportunities presented by international investment and trade, and to expand their domestic capital markets." ¹Building on existing international declarations², the outcome document thus clearly expressed that development aid will never bring development on its own, and that other policies should make positive contributions to global development. Although countries with an increasing influence on global development – including China, Brazil and India – only agreed to implement the agreements made in Busan on a voluntary basis, the outcome of the meeting was welcomed and considered significant by many stakeholders.

Commitments to improving the coherence of public policies towards development objectives are nothing new for the European Union and join an impressive queue of existing statements on what

1) The Busan Outcome Document is available here: www.aideffectiveness.org/busanhlf4/images/stories/hlf4/OUTCOME_DOCUMENT_-_FINAL_EN.pdf

2) E.g. the UN Millennium Declaration, the 2002 Monterrey Consensus and the 2010 UN MDG Review Outcome Document.

has become known as Policy Coherence for Development (PCD). Re-using language that had been in the EU Treaties since 1992, the Treaty for European Union (or 'Lisbon Treaty'), which entered into force in December 2009, states that the Union '(...) shall take account of the objectives of development cooperation in the policies that it implements which are likely to affect developing countries (Art. 208).' Of these development objectives, the primary objective is defined by the same article as 'the reduction and, in the long term, the eradication of poverty.'³ The 2005 European Consensus for Development emphasises that poverty is a multidimensional phenomenon, and that its reduction depends on giving equal attention to investing in people, the protection of natural resources to secure rural livelihoods, and investing in wealth creation.

Given that the term 'policy' can be defined in many ways, it is important to stress that the process of promoting Policy Coherence for Development should cover the full sphere of influence of the EU: from highly politicised policy reform processes with large financial implications (e.g. the review of the Common Agricultural Policies) to rather technical policy implementation issues (e.g. levels of toxins in imported products and acceptable sizes of vegetables) to the enforcement or absence of EU policies (e.g. how to make sure that all European fishing vessels outside its borders follow EU regulations?). This wide field of work means that promoting PCD is highly challenging in a political, technical and institutional sense, but also that "where there is a will, there is a way".

In the past two decades, various studies have emphasised the need to establish institutional 'mechanisms' that have to help governments deliver on these commitments. In April 2006, the European Council of Ministers adopted a political statement in which it invited '(...) the Commission and the Member States to provide for adequate mechanisms and instruments within their respective spheres of competence to ensure PCD as appropriate' (Mackie et al 2007). Such mechanisms can help to clarify the political level of ambition and direction for the EU's contribution to global development (explicit policy statements), help to facilitate the exchange of views and adoption of coordinated positions inside government (institutional coordination) and provide research or monitor the degree to

which the EU as a whole or its individual Member States contribute to development (knowledge input and assessment).

The Organisation for Economic Cooperation and Development (OECD) has played a particularly important role in informing European and international discussions on PCD. The OECD's work on PCD was mandated at the 2002 OECD Ministerial Council Meeting as part of the 'OECD Action for a Shared Development Agenda'. OECD Ministers renewed their commitment to PCD in June 2008 by issuing a Ministerial Declaration on PCD⁴ that encouraged members to continue best practices and guidance on PCD promotion and improve methods of assessment of results achieved. Since 2000, all peer-reviews of the members of the OECD's Development Assistance Committees include a chapter on PCD. This chapter looks at what progress has been made in terms of promoting policy statements, institutional mechanisms, what efforts are made in the area of assessments – besides pointing to particular achievements or challenges in relation to specific policy areas.⁵ The OECD secretariat is currently preparing a strategy on development that describes how OECD members can "(...) contribute to a future in which no country will have to be dependent on development assistance" across its full range of policies (OECD 2011b).

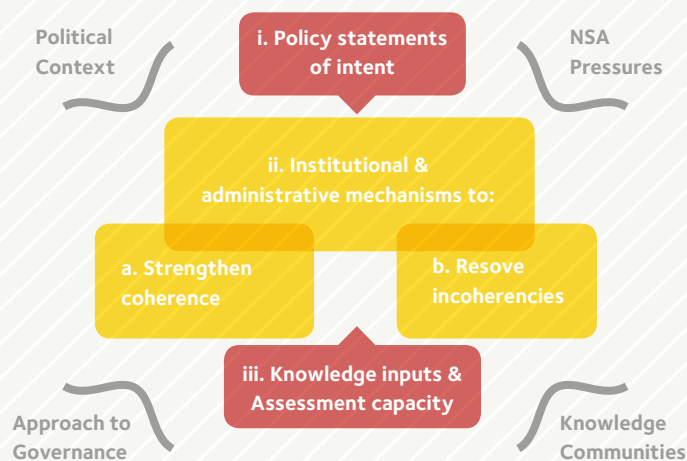
This chapter will look at what progress has been made by different EU member states in terms of putting in place mechanisms to promote PCD. It has been structured as follows:

- Section 2 presents some basic concepts, a brief theoretical background and puts forward some ideas as to what mechanisms might be effective in different country contexts
- Section 3 looks at past discussions in the EU and OECD about mechanisms, and discusses to what extent progress in creating PCD mechanisms have contributed to PCD.
- Section 4 looks at a limited number of cases of specific mechanisms in different contexts
- Section 5 puts forward a selection of conclusions and recommendations that mainly point to a need to improve assessment and awareness of how high-income country policies affect the lives of people in low-income countries.

3) In Global Policy statements, similar commitments are increasingly found, most notably in relation to Millennium Development Goal (MDG) 8 that concerns giving shape to a global partnership for development. The most recent high-level review of the MDGs included the following specific paragraph on PCD, as well as the additional references to particular policy areas that should be made more coherent: "We call for increased efforts at all levels to enhance policy coherence for development. We affirm that achievement of the Millennium Development Goals requires mutually supportive and integrated policies across a wide range of economic, social and environmental issues for sustainable development. We call on all countries to formulate and implement policies consistent with the objectives of sustained, inclusive and equitable economic growth, poverty eradication and sustainable development" (UN 2010: 41).

4) [http://acts.oecd.org/Public/Info.aspx?lang=en&infoRef=C/MIN\(2008\)2/FINAL](http://acts.oecd.org/Public/Info.aspx?lang=en&infoRef=C/MIN(2008)2/FINAL)

5) According to the DAC website, Each DAC member country is peer reviewed roughly every four years with two main by examiners from two DAC member states. The process typically takes around six months to complete and culminates with the publication of the findings. Eighteen months after each review, the DAC Chair visits the reviewed country to check its progress in implementing its peers' recommendations. All reviews (Denmark was reviewed in 2011) can be accessed here: www.oecd.org/document/41/0,3746,en_2649_34603_46582825_1_1_1_1,00.html



2) PCD MECHANISMS: HOW TO DEFINE AND CONTEXTUALISE THEM?⁶

The first ‘official’ efforts to systematically monitor Europe’s progress in PCD were launched in 2005, when the EU Council invited the European Commission to prepare a biennial report on the EU’s performance in the 12 areas defined in the EU Consensus. The Commission has since prepared and published three such reports, respectively in 2007, 2009, and 2011. They serve as input for political discussions on PCD in the meetings of EU Ministers responsible for development cooperation, who gather in the Foreign Affairs Council that is chaired by the High Representative of the EU for foreign affairs and security policy.

While mostly covering on monitoring the EU’s performance in the 12 areas, the EU biennial reports also include analysis of the efforts made by EU member states and institutions in relation to the realisation of specific ‘mechanisms’ for promoting PCD: formal and systematic efforts to foster PCD in given contexts. These mechanisms can be divided into three types, which in a similar form are also used by the OECD/DAC in the Peer Reviews⁷:

1. explicit policy statements of intent;
2. administrative and institutional mechanisms (such as inter-departmental coordination committees and specialist coherence units);
3. knowledge-input and knowledge-assessment mechanisms (information and analysis capacity).

Mechanisms for promoting PCD vary from one country to another, depending on the national political and administrative context. For this reason, they should always be considered in a broader context. Promoting policy coherence should not be studied in splendid isolation, but should be seen as part of the regular process of policy formulation, refinement, adoption and change. Although governments committed to policy coherence will seek to reduce or eliminate trade-offs between different aspects of policy, there will often remain moments when they are inevitable. For this reason, most formal PCD mechanisms are found in the middle layers of government. Below these levels, efforts to promote coherence will tend to be of

6) Most elements of this section have been adapted from two earlier publications: (1) Mackie, J. et al (2007). Evaluation Study on the EU Institutions & member States’ mechanisms for Promoting Policy Coherence for Development. Studies in European Development Co-operation Evaluation 7. Amsterdam: Aksant Academic Publishers. Available at www.three-cs.net. and (2) Keijzer, N. 2010. EU Policy Coherence for Development: from moving the goalposts to result-based management? (Discussion Paper 101). Maastricht: ECDPM.

7) The OECD speaks of three essential ‘building blocks’ as part of a ‘PCD cycle’: (i) setting and prioritising objectives, (ii) coordinating policy and its implementation, and (iii) monitoring, analysis and reporting

Comparing country contexts for PCD

(horizontal: approach to governance,
vertical: approach to policy change)



a more informal, consultative nature. Higher up, on the other hand, political decision-making and trade-offs will be relied upon in order to overcome unresolved aspects of incoherence.

The following figure gives an idea of how the three types of mechanisms can work together and are influenced by various factors in their efforts to try to strengthen PCD or resolve policy incoherence:

A joint-evaluation led by France and co-managed by Belgium, Germany, the Netherlands and the European Commission looked into what mechanisms had been put in place in the EU (Mackie et al. 2007). The evaluation concluded that the nature of a governance system in any country is an important factor that determines the government's choice and effectiveness of a PCD mechanism, as is the institutional balance of powers (parliamentary system versus semi-presidential system) and how consensus is built in this system. In other words, a particular mechanism that might be very effective in the Netherlands would not work in France, and vice-versa. Following Lijphart (1999)⁸, the joint-evaluation aimed to compare country contexts for PCD based on the degree of centralisation of power and how governments approach policy change:

In addition to being of a particular nature in terms of their function and the context in which they operate, one can distinguish PCD mechanisms based on other. Four basic characteristics come to mind:

- Level of formality** – i.e. formal and institutionalised mechanisms or informal ones. Formal mechanisms are most likely to generate binding decisions, but informal mechanisms can be important to help produce such decisions.
- Nature of competence** – i.e. is their mandate of a political or a technical nature. Fewer decisions are taken at the second technical level, particularly in so far as the content of policies is concerned.
- Policy scope** – i.e. do they cover a range of policies or only a limited number that is coherence between development and one other policy sector.
- Degree of specialisation** – i.e. are they highly specialised in promoting PCD and created specifically for that purpose, or do

8) For a comprehensive analysis of the differences between majoritarian and consensus approaches to government, please refer to: Lijphart A., Patterns of democracy. Government forms and performance in thirty six countries. Yale University Press. New Haven and London: 1999

they have a wider range of tasks and are existing mechanisms with upgraded 'mandates' for PCD.

There are obviously many combinations of these four characteristics, but the joint-evaluation distinguished between the following four relevant groups:

- Group 1: Mechanisms with a political competence and specialised in PCD
- Group 2: Mechanisms with a political competence and non-specialised
- Group 3: Mechanisms with a technical competence and specialised in PCD
- Group 4: Mechanisms with a technical competence and non-specialised

3) PROGRESS MADE, AND THE LACK OF ASSESSMENT MECHANISMS AS THE EU'S ACHILLES HEEL⁹

Among the mechanisms that were identified by the joint-evaluation, more than eighty percent belonged to either Group 2 or Group 4: mechanisms of respectively political and technical competence that already existed and were later 'upgraded' to work on PCD in addition to other issues. An example is a mechanism in a Member State to draw up government-wide responses to EU policy proposals, which can be equipped with a standard question on impact on developing countries. A smaller number of mechanisms have a technical competence with a pure PCD specialisation, while an even smaller group was identified that have a political competence combined with a specialised PCD mandate. More recent studies by the OECD and the EU do not indicate that this pattern has changed drastically.

When looking at the three types of mechanisms, the 2007 joint evaluation found that only 12% of the identified mechanisms (i.e. 10 out of 85) were of the third type and focused on knowledge input and assessment. Among other things, this means that even though a number of EU member states have structures in place for coordinating shared positions on (more coherent) policy decisions, such structures do not necessarily benefit from a steady flow of relevant information and/or regular assessment. A similar conclusion was reached by the OECD's analysis of DAC Peer Review chapters on PCD, which noted that many countries were found to either "(...) lack analytical capacity, or were failing to make good use of their analytical capacity" (OECD 2008).

A related obstacle to measuring progress in PCD is the absence of either a clear 'baseline' that shows how coherent the EU's policies are at a given point in time, or any agreement on how coherent such policies should have become by a given deadline. In the absence of a sufficiently unambiguous objectives and targets, one may argue that when the European Commission claims that the EU has made substantial progress at the same time as EU civil-society organisations describe progress as absolutely disappointing, both of them are in fact making valid points.

In September 2009, the European Commission published a Communication together with the second EU biennial report on PCD, entitled 'Policy Coherence for Development – Establishing the policy framework for a whole-of-the-Union approach'. The Communication observed that due to closer interactions and ever-intensifying globalisation, other EU policies were having increasingly marked side effects on developing countries. The Commission suggested to define a number of areas on which the EU could engage more proactively as part of its PCD agenda. On the basis of the Commission's proposal and the 2009 biennial report, the EU Council adopted a set of political statements in November 2009 that set out the future of the EU's efforts on PCD. Recognising the progress made, the EU member states called, however, for a more 'targeted, effective and strategic' approach: '*Although progress has been made in improving PCD within the EU, the Council agrees that further work is needed to set up a more focused, operational and result-oriented approach to PCD in order to more effectively advance this commitment within the EU at all levels and in all relevant sectors*'¹⁰ (*Ibid.*). On the basis of the Commission's proposal, the Council adopted five broad priority areas where the EU wanted to engage more proactively and strengthen its result-orientation, namely: (1) trade and finance; (2) climate change; (3) global food security; (4) migration; and (5) security and development. The Council asked the Commission to prepare a PCD Work Programme for 2010–2013 setting out the role of the EU institutions and the member states in making progress in relation to the five areas. The ministers agreed on the following key ingredients for the plan:

1. It should describe how the five priority issues will be addressed;
2. The work programme should create political momentum in all relevant policy areas for the five issues;
3. It should establish a clear set of objectives, targets and gender-disaggregated indicators to measure progress; and
4. The programme should facilitate a dialogue on PCD with developing countries.

Following a Commission-wide consultation process and a relatively light consultation of Member State officials and NGO experts, the European Commission's Directorate-General for Development

9) Most elements of this section is based on a summary of Keijzer, N. 2010. EU Policy Coherence for Development: from moving the goalposts to result-based management? (Discussion Paper 101). Maastricht: ECDPM. Parts have been updated to reflect more recent developments.

10) The Council conclusions are available at: <http://register.consilium.europa.eu/pdf/en/07/st14/st14921.en07.pdf>



published a Staff Working Paper entitled 'Policy Coherence for Development Work Programme 2010–2013' in its 2010 Spring Package of policy proposals.¹¹ In a sense, the Council did no less than request the Commission to prepare a proposal for clarifying the Union's ambitions in promoting PCD and improving accountability in this area.

The process used for preparing the work-programme in 2010 – whereby different groups of representatives from EC Directorates-General prepared proposals for the different areas – gives that the resultant wording of the Work Programme broadly reflects the quality of the internal EC dialogue process. On the 14th of June, EU ministers gathered in the Foreign Affairs Council's only adopted a single paragraph as their political response to the Commission's proposals, which reads as follows:

"The PCD work programme outlined by the European Commission for the period 2010–2013 supports a strengthened focus on those policy areas being potentially most relevant for meeting the MDGs, notably trade and finance, climate change, food security, migration and security. In accordance with its Conclusions on Policy Coherence for Development of 18 November 2009, the Council encourages consultation with member states with a view to a proactive and early use of the PCD Work Programme as a tool to guide EU decision-making on the broad range of decisions that affect developing countries beyond development assistance."

This rather 'modest' response and the lack of a formal acceptance/endorsement of the plan conveyed implicitly that much remains to be done to realise the Council's decisions from November 2009. However since the publication of the Work Programme and the discussion

in the Council few efforts seem to have been put in further developing this work programme, with the EU Development Commissioner in fact not giving it much prominence at all in his recently proposed Agenda for Change for EU development cooperation¹². The actual proposals put forward by the EC however do not prevent the EU Member States to give more political prominence to PCD in the context of their Council Conclusions on the Agenda for Change, or by means of separate Council Conclusions if they consider this important.¹³

In December 2011, the EU's third biennial report on PCD was published on the website of the DG for Development and Cooperation, this time not accompanied by a dedicated policy proposal such as with the 2009 report, which suggests that the EC still considers the current policy plans relevant and in progress. This report for the first time presents progress made and difficulties faced by the EU in relation to the five EU PCD areas, and offers a number of concrete and operational suggestions that can inform decisions by the EU member states on PCD during the Danish Presidency and beyond. The document ends with a list of lessons learned in relation to the PCD Work Programme itself, institutional mechanisms and some recommendations on each of the five areas. The first recommendations of the Work Programme in fact implicitly urge the EU to look again at its November 2009 plans and see how PCD could be made more result-oriented, notably through a more participatory process for drawing up a successor to the Work Programme and making better use of research evidence – for which much more solid investments are needed (EC 2011).

Despite the important recent statements on PCD in the Busan Outcome Document, the lack of concrete political attention and discussions to PCD in the European Union throughout 2011 would

11) European Commission (2010). 'Staff Working Document (SEC(2010)421): Policy Coherence for Development Work Programme 2010–2013. Brussels: European Commission.

12) http://ec.europa.eu/development/icenter/repository/SEC_2010_0421_COM_2010_0159_EN.PDF

13) Despite the entering into force of the Lisbon Treaty which among other changes led to the High Representative of the Union for Foreign Affairs and Security Policy now chairing the EU's Foreign Affairs Council, EU Member States can still take important initiatives in the in the area of EU development policy when they hold the rotating EU Presidency. PCD was referred to in Communications published by the European Commission 2011, but never took the foreground

Example of actions and objectives formulated by the Netherlands government: a predictable and non-discriminatory global trading system (DGIS 2011b)

Goals

- A WTO system that promotes sustainable development and takes greater account of inadequate capacity of and need for policy space for poor developing countries. Where necessary, WTO rules on regional integration and the relationship between the WTO and multilateral environmental agreements (MEAs) are clarified.
- Discussion about the impact of trade rules on intellectual property rights on the access to medicines, the protection of and access to genetic resources, and innovation and transfer of climate-related and agricultural technology to poor developing countries.
- Improved participation of poor developing countries in WTO decision-making, negotiations and dispute settlement procedures.

Actions

- Continued effort within the EU to achieve a development-friendly and sustainable trade agenda in the WTO.
- Continuation of effective aid for trade to promote capacity development in poor countries.
- Contribute to maintain the existing TRIPs flexibilities and the Doha Declaration on TRIPs and Public Health in bilateral EU trade agreements.

seem to point to dwindling levels of political will in the EU member states.¹⁴ The lack of progress made in setting targets and measuring progress could turn out to be the Union's Achilles heel as far as PCD is concerned. In the absence of functioning measurement and reporting beyond the level of inputs (i.e. what has been done), the actual value of monitoring institutional mechanisms is reduced to a more symbolical exercise, as no one can tell whether the setting up of coordination mechanisms and the adoption of policy statement has much relevance for finding out whether EU policies do on balance contribute to or inhibit the achievement of the Union's development goals.

To illustrate the relevance of further investments in this area, the next section will briefly describe three recent cases of EU member states that have taken specific to advance a situation where they are sufficiently 'dressed for success' in this area:

1. The Netherlands' proposed Practical Agenda on Global Public Goods
2. The Danish plans for an Action Plan on PCD and annual reporting to the Parliament
3. The Swedish' annual reporting to Parliament on their Policy for Global Development

4) CASES OF SPECIFIC INSTITUTIONAL MECHANISMS – WITH A FOCUS ON MONITORING AND REPORTING

4.1) The Netherlands' proposed Practical Agenda on Global Public Goods

On 4 November 2011, the Netherlands Minister for European Affairs and International Cooperation sent a policy memorandum to

the Parliament titled 'The development dimension of priority global public goods'. This memorandum was developed in response to a parliamentary motion by Christian Democrat and Social Democrat Members of Parliament, and was written by an inter-ministerial writing group made up of officials of the main ministries concerned. In the memorandum the government outlines a practical policy agenda including goals and actions to strengthen the development dimension of a number of priority global public goods (GPGs) (DGIS 2011a).

The Memorandum recognises the great diversity of GPGs and that the position of the Netherlands call for focus and working through international coalitions. The government's choices with regard to GPG priorities have been based on the aforementioned 5 EU PCD areas that were identified in November 2009¹⁵: i. trade and financing; ii. climate change; iii. food security; iv. migration; v. peace and security. After discussing the proposed agenda with the Parliament, the government plans to initiate consultations with all stakeholders involved on the detailed content and elaboration of the practical agenda (Ibid.). The focus lies on initiatives to benefit poor countries, to which the Netherlands hopes to make a concrete contribution on the basis of its own strengths (DGIS 2011b). The document identifies concrete actions and indicators that allow for planning, monitoring and evaluation of the government's engagement that relate to the EU's five areas. The above box gives an example of targets defined for the first of the five areas.

4.2) The Danish plans for an Action Plan on PCD and annual reporting to the Parliament

The recently finalised DAC Peer Review of Denmark notes that Denmark is preparing an action plan for ensuring that its own domestic policies do not affect those of developing countries negatively. The action plan is expected to help develop initiatives to improve the

14) PCD was referred to in Communications published by the European Commission 2011, but never took the foreground in these proposals in the way it did in previous years, and hence did not prominently feature in Council Conclusions capturing political statements by EU ministers responsible for development cooperation.

15) The Memorandum further notes that these five themes are either GPGs or global challenges with GPG characteristics.

awareness of sector ministries, select focus areas for Denmark and look to international best practices on coherence for development (OECD 2011).

The Peer Reviewers advised the government that once it prepares and, later on, implements this action plan, the MFA could consider re-establishing the inter-ministerial working group that was set-up to prepare Denmark's position on coherence for development in Freedom from Poverty. That way, the ministry could build on the awareness already raised and create a constituency for policy coherence for development across the administration. In relation to reporting, the Peer Review noted that Danida's annual report will include a section dedicated to PCD from 2011 onwards, which creates a basis for a more regular reporting to Parliament on what has been achieved in this area. Among its recommendations, the Peer Review suggested that as Denmark is pushing for policy coherence for development through the EU, it should consider how to strengthen the reporting, monitoring and evaluation of its achievements in the EU. (Ibid.).

See the proposal for an institutional Danish PCD-mechanism in chapter 1.

4.3) *The Swedish' annual reporting to Parliament on their Policy for Global Development*

In 2003, the Swedish Parliament endorsed the Policy for Global Development (PGD), making equitable and sustainable development the shared responsibility of all ministries and placing PCD at the centre of Swedish development policy. Under the PGD, ministers with responsibility for domestic issues, as well as those covering international issues, must ensure that their policies take account of development (OECD 2008).¹⁶

When a coalition conservative-centre government replaced the social democratic one after the parliamentary elections in 2006, it stated that the PGD would remain, but that it would be reformed in order to improve its efficiency, make it more results based and focused on fewer issues. Following additional deliberations, a government communication to parliament was delivered in March 2008, titled 'Global Challenges – Our Responsibility' (Government Communication 2007/08:89). In the Communication, six global challenges are defined which are to be tackled through the Policy for global development: Oppression, Economic exclusion, Climate change and environmental impact, Migration flows, Infectious diseases and other health threats and Conflicts and fragile situations. Three specific focus areas have been identified for each of the six global challenges. The aim of the focus areas is partly to keep a closer watch on a number of issues and processes vital to meeting the challenges and partly to help identify quantifiable objectives (Oden 2009).

The most recent annual report to the Parliament on the implementation of the policy reports on progress made in all six areas with a separate chapter titled 'Performance report on the government's work on policy implementation'. This report notes that the assessments of policy formulation and implementation for the 18 focus areas show that good progress has been made in the case of twelve areas and relatively good progress in the case of the remaining six (Government of Sweden 2010). The government plans to continue its reporting practices, and for its 2011 report may start a practice of singling out one of the six global challenges each year for a more detailed analysis.

5) CONCLUSIONS AND SOME FORWARD-LOOKING IDEAS

This chapter has reviewed some basic ideas, concepts and evidence of actual performance of EU member states in putting in place mechanisms aiming to help a government promote Policy Coherence for Development. It concludes that although progress has been made by many EU member states in putting in place policy statements of intent as well as mechanisms to facilitate coordination and inter-ministerial discussions, overall there has been little progress in the area of improving measurement of actual progress made. This makes it difficult to judge whether EU member states are dressed for success, or simply for the occasion, given that the results of these efforts remain largely unknown, unclear or at best ambiguous.

In the absence of further progress in defining clear objectives and targets as well as efforts to monitor these, political debates and the justification of public efforts towards PCD made will remain 'handicapped' and could disappear over time. Although EU Member States have their own interests in ensuring coherent policy-making (e.g. because incoherence is judged a sign of inefficiency), it goes too far to assume that these interests will induce these governments to take independent action to resolve any policy incoherence in all its policy areas. If anything, under the present economic and financial crisis, which in many Member States has increased political instability, it may be more difficult for governments to go beyond short-term domestic interests and adopt policies that represent long-term interests which the EU shares with developing countries. Rather than being a 'service' of the European Union to its partners in the South, Policy Coherence for Development will continue to be a right that will be claimed most successfully by those actors who are directly concerned (Keijzer 2010).

Although advocacy efforts (e.g. the 2011 CONCORD EU Spotlight report) play an important role in raising awareness of PCD and reminding different stakeholders of legal and political commitments made, what might be needed more in the future is increased collaboration with other (non-development) actors to effectively push for more coherent and development-friendly policies. Examples include collaboration between development and environmental

16) The policy is available for download here: <http://www.regeringen.se/sb/d/574/a/24520>

specialists in the context of the reform of EU fisheries subsidies, or broad support to phase out environmentally unsustainable and/or trade-distorting subsidies (which nonetheless remain strongly defended by beneficiaries). This might point to a need for different stakeholders, including governments, NGOs, researchers, to improve both skills and investments to look into the effects of EU policies in developing countries and more effectively present scenarios and seek new means and ways of communicating these.

Linked to further cooperation for more interdisciplinary networking and influencing of policy processes, it could be considered to improve the screening of new EU policy proposals by the Council secretariat before they are presented to the Member States (which could also be of relevance to the European Parliament). This would however only be relevant if investments are made into relevant research to allow the Council to do such a job, which the recent EU report on PCD recognises is currently too ad-hoc and low-scale (EC 2011). This research should be done in active collaboration with developing countries, which also provides an opportunity for key

actors from these countries (governments, researchers, businesses and other non-state actors) to become more aware of and involved in EU policy processes and make a more effective demand for PCD.

Although PCD remains an important concept, the fact that a wider group of emerging countries will be expected to take part in this endeavour (see Busan) might require European actors to reinvent their language into a more mutual-interest orientation and repack-age their efforts in terms of promoting 'collective self-interest' and a much more effective engagement to protect and regulate global public goods (Kaul 2010). Beyond language, however, this also implies a different conceptual approach to PCD, which when focused on global public goods will require formulating goals that are in the interest of all countries and see how each country can best contribute (and to what extent). The preparations for Rio+20 will provide opportunities to further look into this idea by means of the concept of Sustainable Development Goals (SDGs) that is referred to in the first draft of the outcome document.¹⁷

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17) See <http://www.uncsd2012.org/rio20/content/documents/colombiasdgs.pdf>. The SDGs are referred to in the zero draft outcome document for Rio+20.

4. Policy coherence for food and nutrition security

Pointers for the EU in 2012

Food and nutrition security: defining terms and scope

By Steve Wiggins

A widely-accepted definition of food security comes from FAO, as follows:

Food security exists when all people at all times have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life. [FAO 1996]

This concerns the welfare of individuals: significantly it differs from the use of the term 'food security' as a synonym for national self-sufficiency in staple foods.

The focus on individual welfare then allows a framework to be created for thinking about how to achieve food security that has four elements, as follows. Food security will be achieved when:

- There is sufficient food **available** – from production, trade and storage. For at least 40 years, there has always been sufficient food in the world to feed everyone adequately, hence situations where people go hungry for sheer lack of food exist only temporarily – until supplies can be brought in – in some places following failure of local harvests;
- People have **access** to the food available – either through their own production in farming households, or from incomes that allow food to be bought, as well as through other entitlements such as gifts, loans and transfers from government. Since most people buy in food, the price of staples are important for access;
- Food is well **utilised** – encompassing the way that food is distributed within households, how it is prepared, care of infants and their feeding, and the health of those consuming that is in turn influenced by sanitation and health services; and,
- When **availability** and access to food are reliable.

Some ambiguity exists over whether food security should be largely a matter of people having reliable access to food, or whether the concept should include nutrition as well. The UN Secretary-General's High Level Task Force on the Global Food Security Crisis formed in 2008 uses the term 'food and nutrition security' in the Comprehensive Framework for Action (CFA). Including nutrition makes

sense: after all the definition of food security is not just about access to food, but about being able to use this to promote individual capability to lead a healthy and active life. If that is the purpose of food security, then nutrition needs to be considered as well: there is little point in people having enough nutritious food to eat, but then suffering malnutrition on account of other factors.

But if nutrition is to enter the definition, then these other factors need to be considered explicitly as well. UNICEF focuses on the nutrition of young children: it sets out the causes of children nutrition at three levels, see Figure A, in another framework that is widely used. Immediate causes of child malnutrition can be found in either too little energy, protein, vitamins and minerals in the diet, or in disease, or a combination of the two. The critical point here for those coming from a background in food and agriculture is that disease can be as important as a poor diet in creating child malnutrition.¹ These immediate causes have their origins in not having enough food, deficient child care, and poor sanitary and health environment – that result from not having clean water, sanitation, or health care including preventive measures such as vaccination. These factors, in turn, have their causes in the working of economic and social systems.

The advantage of including nutrition as part of food security, then, is that the concept includes the critical outcome desired: the ability to lead a healthy and active life. It also allows this outcome to be measured in nutritional states, most commonly and readily by anthropometry – that can give a more reliable result than other measures such as 'under-nourishment'. The drawback is that the framework is quite complicated, since we are now dealing with an outcome that has many potential origins.

ACHIEVING FOOD AND NUTRITION SECURITY: THE CONSENSUS BEFORE 2007

Based on the understandings set out in the above frameworks, before 2007 and the spike in cereals prices on international markets, there was a broad consensus on food and nutrition security (FNS) – see, for example, Gillespie & Haddad 2002. The consensus was marked by the following elements:

- **Reduce poverty.** Since for the last half century or more, there has never been a physical shortage of food in the world, lack of access – or entitlement – has been the reason why people go hungry. Incomes are one determinant of access, hence reducing extreme poverty combats hunger. A particular concern is to maintain the entitlements to food of those who have plunged into destitution when lose jobs, assets, or production.

1) In parts of Southern Africa in the early 2000s it was common to see high levels of malnutrition among infants, but not among adults. The most likely cause of the difference was the high rate of disease suffered by young children, reflected in under-five mortality rates that were commonly more than 175 per 1000 at the time. [They have subsequently come down considerably.]



Figure A: Causes of child malnutrition

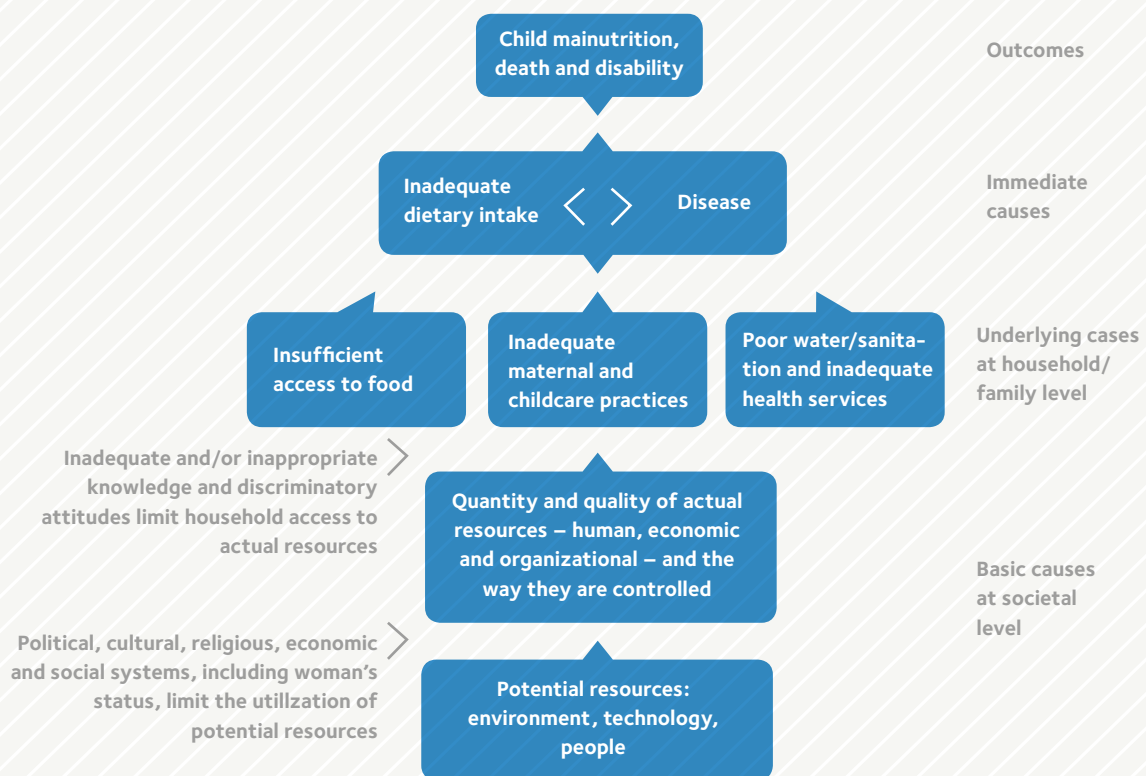
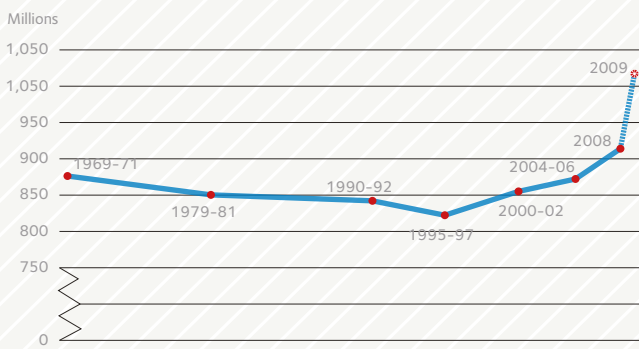
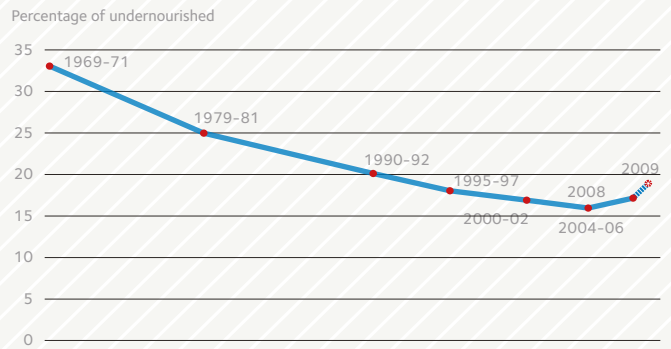


Figure B: Numbers and percentages of undernourished, 1969/71 to 2009



Source: FAO 2009



Source: UNICEF, 2009: Tracking progress on child and maternal nutrition: A survival and development priority, New York

- **Produce more food, push prices down.** If access is so important, the other determinant is the cost of food: hence reducing the real cost of food can be a great benefit. Internationally, the prices of the main cereals in 2000 had fallen to around one third of their values in 1960. Similar patterns were seen nationally, above all in those developing countries that were able to apply the green revolution based on improved varieties. The urban poor in Asia in particular benefited from falling real prices of rice and wheat;
- **Encourage smallholder farming** since this can contribute strongly to both of these, especially in low income countries. The green revolution overwhelming took place on small family farms, raising the implicit incomes of farm households, with strong multipliers in the local rural economy that raised incomes of those without land and those working in the rural non-farm economy. At the same time the increased production pushed down the real prices of cereals, with great benefit to those households buying in food in both urban and rural areas;
- **Improve health conditions for infants**, especially those under 36 months, through primary health care for infants and their mothers, including inoculation against diseases and growth monitoring; as well as through provision of clean water, sanitation. Infants are particularly susceptible to diseases, their nutrition likely to suffer when they are ill, and these are critical stages for physical and mental development, where setbacks can have lifetime disadvantages;
- **Remedy the hidden hunger of micro-nutrient deficiency**² by encouraging more diverse diets, fortifying staple foods with additional vitamins or minerals, including through bio-fortification, or through supplementation; and,
- **Ensure that girls get secondary schooling.** There is a close and strong connection between female education and child malnutrition (Smith & Haddad 2000). It is thought that the links arise because better educated females have higher earnings, more autonomy in the household, and may have more information on child care and feeding.

2) The most common and costly deficiencies are Vitamin A, iron, iodine and zinc.

3) Not all the difference is down to public policy, of course. Geography and settlement density can also make a difference. In some countries, such as Zimbabwe, children living in semi-arid areas at lower settlement density are more healthy than those in more humid and densely settled areas.

SLOW PROGRESS ON MILLENNIUM DEVELOPMENT GOAL (MDG) 1, TARGET 1.C: HALVE, BETWEEN 1990 AND 2015, THE PROPORTION OF PEOPLE WHO SUFFER FROM HUNGER

Despite this understanding, progress on reducing hunger and malnutrition has stalled in the last 15 years or so. Between the end of the 1960s and the mid-1990s, the share of the world's population estimated to suffer from an insufficient diet roughly halved, but since then there has been little or no progress in reducing the share of people in the world estimated to be hungry – see Figure B.

There has been more success in reducing the fraction of under-fives who are underweight, but not much, and not enough to reach the MDG target, see Figure C.

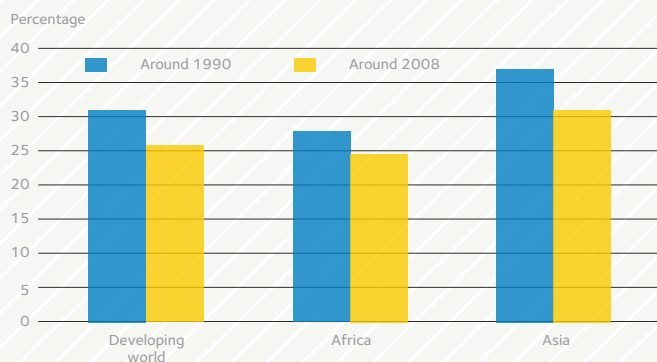
WHY HAS THERE BEEN SO LITTLE PROGRESS ON THE HUNGER MDG?

Two things have limited progress. One is that reductions in poverty have been slow in most parts of the developing world, the prime factor influencing access to food. Economic growth since 1990 in much of the developing world has been rapid. Yet this has not always led to commensurate reductions in poverty. Indeed, all too often economic growth has been badly distributed so that measures of inequality have been rising.

The other cause is lack of political will. Many things can be done by governments that are determined to reduce extreme poverty, to improve education and especially for girls, to provide basic health care, water and sanitation, and to protect the health and nutrition of infants, especially those in the most vulnerable period – the first thousand days of their life from conception.

Consequently, major differences in levels of hunger and nutrition exist between countries with similar levels of economic development. For example, in 2009 both India and Senegal had an average GDP of around US\$1,000 per capita, yet while stunting of under-fives was 38% in India, it was just 16% in Senegal. Overall, levels of income explain not much more than half the variation across countries, suggesting that independently of economic development, public policy can make a difference.³

Figure C: Share of children aged under 5 years underweight



THINKING ABOUT FSN SINCE THE FOOD PRICE SPIKE OF 2007/08

The spike in cereals prices on international markets of 2007 to mid-2008 saw prices of maize and wheat roughly double and those of rice treble. Although transmission of prices from world to domestic markets was uneven and incomplete, many developing countries experienced higher food prices. As an adequate diet became unaffordable for the poor, the estimated incidence of undernourishment rose: FAO estimates the numbers of hungry leapt up from around 800M to over 1 billion.

Politically, the spike focused attention on FSN in ways not seen for many years. Amongst other initiatives, the UN created a High Level Task Force on the Global Food Security Crisis and revived the Committee for Food Security at FAO. Many donors responded rapidly to the crisis with funds for seed and fertiliser. Most notable of all was the interest shown by the members of the G8 who in July 2009 at L'Aquila promised US\$22 billion for agriculture and food security, an initiative endorsed by the G20 meeting in Pittsburgh later that year. The Global Agriculture and Food Security Program (GAFSP) was set up at the World Bank to administer additional funds.

With renewed interest in FSN at a time of high world food prices, three sets of issues⁴ have become more prominent that either challenge the consensus or complicate the underlying analysis, namely: the need to prioritise production, using whatever means are necessary; a radical critique of food systems largely governed by markets where powerful private corporations are key participants; and, concerns over the environmental costs of current farming systems, the end of cheap energy, and the imperatives of climate change.

PRIORITISE INCREASED PRODUCTION BY WHATEVER MEANS

A renewed emphasis on food production is evident, since rising cereals prices were seen, at least in part, as a consequence of insufficient supply. Considerations of the impact of climate change

on production and the challenge of feeding another one billion by 2030 and two billion by 2050 have further focused attention on the need to accelerate the rate of growth of production. While the growth of cereals production needs to increase – although not by much, there is the danger that too much stress is laid on the availability of food, so that access to food and its utilisation – which are usually stronger determinants of hunger than food supply – are not given sufficient attention.

The stress on production has led to calls for more investment in public agricultural research. Some, moreover, have seized on the imperative of increasing production – as well as with coping with more variable weather resulting from climate change – to argue for promoting biotechnology, and in particular for relaxing controls on the use of genetically modified plants and animals.

Some have argued that to produce more, it will be necessary to operate farms at larger scales than the many smallholdings in the developing world, since this will allow greater application of capital, know-how and (more debatably) economies of scale (see, for example, Collier & Dercon 2009). This argument is not just theoretical: both corporations and state agencies have sought to obtain large areas of land in Africa and Southeast Asia to farm on a large scale.

A BROKEN WORLD FOOD SYSTEM THAT NEEDS RADICAL REFORM

Given that before the price spike 800M persons were estimated as hungry and more than one quarter of young children in developing countries were malnourished, it is fair comment that the food system was not functioning well. When entitlement to food depends primarily on incomes rather than need, with distribution of food through markets, it is not surprising that these are the outcomes in a world of considerable income inequality and widespread poverty.

4) These correspond to some degree to differing interpretations of the causes of the food prices spike. The High Level Panel of Experts (HLPE 2011) of the Committee for Food Security identified three sets of arguments: that a 'perfect storm' of different events – harvest failures, biofuels policies, etc. – came together to create an unusual price spike; that this was one more sharp example of the results of cycles of investment in agriculture where every 30 years or so under-investment leads to insufficient supply, the resulting price shock then leading to much increased investment; and, that the price spike reflects a transition from an era of cheap energy from hydrocarbons, relatively abundant land and water, significant pollution and loss of biodiversity from farming, to one where energy costs will rise, natural resources will be increasingly scarce and costly, and environmental costs will be unsustainable.

While some may see the way to improvement through reduction of poverty and food prices, with gradual reductions in income inequality; others see the system itself as fundamentally flawed and unlikely to be reformed since powerful corporate interests are allegedly determined to make profits from the current system. Several elements of the current system have come under attack. Free trade in food is seen as a threat to the livelihoods of farmers, particularly when food is exported at a low cost since the exporting country subsidises domestic production. The degree of control over seed, fertiliser and agro-chemicals exercised by some large corporations is criticised as leading not only to high costs of inputs, but also to reduced diversity of inputs and the promotion of farming heavily dependent on external inputs – see the next set of points as well. The entry of investment funds into futures markets for food commodities, the ‘financialisation’ of these markets, has been criticised as creating speculative bubbles in cereals prices that do not reflect underlying supply and demand.

Biofuels represent another concern. The idea that land used to grow food may have to compete with feedstock grown to power the vehicles of affluent societies – a competition that food is likely to lose, since wealthy drivers are likely to outbid food production – so that food prices rise, thereby depriving the poor of access, is seen as outrageous.

For these critics, the answers lie in re-localised farming and less reliance on trade, less dependence on external inputs and the corporations that produce them, and control over speculative investment on futures markets.

Some critics also include as part of this argument the following environmental arguments.

ENVIRONMENTAL CHICKENS COMING HOME TO ROOST

The food price spike was caused in part by higher oil prices. Some saw these as the result of cheap oil sources being used up, the future likely to be one of ever higher oil prices as easily accessible reserves are exhausted. This, combined with alarm over the need to expand and accelerate growth of production, as well as the threats of a changed and more variable climate, have brought to the fore concerns about the environmental sustainability of many current agricultures. Given their heavy reliance on hydrocarbons for machinery and nitrogenous fertiliser, pollution of soils and water, soil erosion and degradation through monocultures, reduced biodiversity, wasteful use of irrigation water, and high emissions of greenhouse gases, intensive farming based on heavy inputs from off the farm are increasingly seen as unsustainable and imposing unacceptably heavy costs on the environment.

Hence since 2007 calls for a transition to more ecologically sustainable farming have become more prominent, allied to demands for systems that are compatible with climate change or ‘climate smart’.

These three sets of challenges make debates about FNS more complicated than they were, threatening to obscure points of consensus, and to confuse some policy-makers. If these concerns are matched to the elements of the consensus on action for FNS set out above, however, then only one is being disputed: the focus on smallholder farming. It may therefore help to separate some of the different issues in debate, dividing the emerging policy landscape in and around food and nutrition security into three fields, as follows:

- The longstanding agenda of reducing poverty and hunger, and improving the health conditions faced by infants – for which almost all of the consensus outlined remains valid with few disputes;
- Tackling the new challenges of volatility on international cereals markets. While recent conditions on international markets may have been extraordinary, the sharp rise in prices shocked those who had come to expect low and relatively stable prices for cereals on world markets. Quite what can be done to reduce volatility, without incurring (very) high costs, remains in debate; and,
- Beginning the transitions necessary to make farming environmentally sustainable, economical in use of irrigation water, adapted and resilient to climate change, and to reducing net emissions from agriculture – issues over which there is technical debate as well as challenging agenda for creating policy options that would be effective and acceptable.

POLICY MATTERS: SETTING AGENDA AND MAKING POLICY COHERENT

Once the field is divided as set out above, it becomes clear that some subjects for policy are relatively clear, straightforward and immediate, while others are not. To keep matters tractable, what follows is largely about the longstanding agenda of reducing poverty and hunger.

In terms of what needs to be done, most if not all of the six points outlined as the consensus still apply: reduce poverty, produce more food, do both of these through smallholder farming where possible, improve health conditions, take specific actions to address micronutrient deficiencies, and educate girls.

To these might be added complementary measures to promote

- 5) Some of the most food insecure countries in the world have seen few national surveys of nutrition since 1990. Indeed, there are only 31 countries in Africa for which there were two or more such surveys between 1990 and 2007. For the other 24 countries there are too few surveys to show trends.
- 6) Ideas put forward in conferences at SOAS London 26 January 2009, and at the DFID Annual Conference, March 9 2009.
- 7) Such ideas are now being tried out in parts of Africa.

Proposed reform of the EU Common Agricultural Policy (CAP)

The CAP reform proposals published 12 October 2011 do not say much about impacts on developing countries.

They continue the move towards decoupling support to farmers from production, thereby making the CAP ever more compatible with the Agreement on Agriculture of the WTO. That should be good news for developing world farmers, since production stimulated by the EU payments led to subsidised exports.

Yet there is a concern. Safety net provisions foresee the Commission buying in produce when market prices fall abnormally, as one measure to reduce risks to farmers. The danger, however, is that produce bought in may then be disposed of on the world market using export refunds, that is subsidies.

This happened in 2008/09 when dairy prices fell, leading to buying in of milk and subsequent sales of milk powder with refunds. West African countries were then able to buy milk powder well below the world market price, with disincentives to their domestic dairy industries to buy milk from local farmers.

The Commission is proud to declare a large reduction in the use of export subsidies:

Export refunds: as a result of domestic reform towards more market orientation the use of export refunds has been strongly declining. In

2010, expenditure for export refunds for agricultural products from the European Union was 166 million EUR as compared to 5.6 billion EUR in 2000. This level is well below 1% of CAP expenditure.

[EC 2011]

But if refunds are to so small, why persist with them at all? There are other ways to dispose of surpluses, such as donations to charities and subsidised sales to institutional users such as school meals, hospitals, military, etc. The Commission should be asked why subsidies are still used, in contravention of the spirit of the Agreement of Agriculture, a full 17 years on from that treaty.

Sources:

EC proposals: http://ec.europa.eu/agriculture/cap-post-2013/legal-proposals/index_en.htm

EC, 'Impact assessment: Common agricultural policy towards 2020', SEC(2011) 1153, Commission Staff Working Paper, full text <http://ec.europa.eu/agriculture/analysis/perspec/cap-2020/impact-assessment>

Agitrade commentary:

<http://agitrade.cta.int/Agriculture/Commodities/Dairy/The-dairy-sector-and-the-EU-s-evolving-safety-net-policy>

Impacts of subsidised dairy exports on Cameroon dairy farmers

Brot für die Welt, 2009, Policy Brief: 02 Milk Dumping in Cameroon

flows of information that help not only focus technical efforts but also to make policy-makers aware of the problem. While more regular nutrition surveys would help,⁵ there may be scope for more innovative means of capturing information and disseminating it. For example, Lawrence Haddad⁶ has proposed that states of hunger could be recorded very quickly by use of texts from mobile phones with the data geo-referenced so that maps of the changing incidence of hunger could be compiled rapidly.⁷ Information transmitted could respond to questions about local food consumption, in particular on diversity of diet – that correlates reasonably well with food intake – and the extent of reduced portions or skipping meals.

If this information were made available to the public, then the media and civil society could use it to hold political leaders and government officers to account. Hunger commitment indices that include policies, spending and legislation could act as scorecards. Linked to legislation that enshrines the right to food in law, such information could give civil society powerful means to hold government to account.

Now, if that constitutes an agenda for food and nutrition security, what may be the main issues of policy coherence? Two points arise.

First of all, there is a well-established agenda of concerns over coherence that largely relate to trade and Northern protection of agriculture. These include:

- Barriers to trade that prevent developing world exports from reaching lucrative OECD markets. A particular issue here is the use of non-tariff barriers, above all stringent sanitary and phytosanitary standards (SPS) that are impossible to meet for many small producers in low income countries; and,
- Dumping of exports from OECD countries that either benefit directly from an export subsidy, or from such generous support to Northern farmers that they can sell output below the full cost of production. Dumped produce either then enters developing countries in direct competition with local farmers, or else competes on the markets of third countries against exports from the developing world.

The Common Agricultural Policy is being reformed. While its impacts on developing country may be less harmful than before, it could be improved by eliminating export subsidies, see Box below.

More contentiously, some would add that trade agreements that prevent developing countries from protecting their farmers against imports, whether dumped or not, are incoherent with development objectives – on the grounds that protection may be necessary to nurture infant industries, such as dairying, or simply to allow developing countries to pursue policies of food self-sufficiency.

Second, if the concerns that have become prominent since 2007 have complicated some understandings, they have also thrown up a

new set of concerns over coherence. Two stand out: the increasing production of biofuels, and land deals in developing countries.

BIOFUELS

There could hardly be a starker contradiction between development policy and Northern interests than the promotion of biofuels in OECD countries through mandated production targets and subsidies. By 2011, the US farmers sent an estimated 133M tonnes of maize to ethanol distilleries: more than twice as much maize as they typically exported as the single largest supplier to the world market. Had a small fraction of the maize for distillation been exported, the current high world price for maize would be substantially lower. In the European Union, production of biodiesel depends either on imported feedstock or else leads to land being switched from food crops to rapeseed and other feedstocks. In either case, this competes with food production and puts upward pressure on international food prices.

If production of biofuels were kept at the level of the mandates that apply in the EU and the USA, the effect, although undesirable, may not be strong: pushing cereals prices up by 5% to 20% (Wiggins et al. 2008). But there is the danger that once biofuels industries are in place, with installed production capacity and distribution channels, the industry may expand further on commercial grounds. With oil prices at more than US\$100 a barrel, biofuels can be produced profitably from many feedstocks, especially tropical crops such as sugar cane and oil palm. Blending walls at 15% of biofuel to fossil fuel limit the expansion of the industry in the short term, but perhaps not in the medium term – and especially so if biotech companies find a commercially viable way to transform ethanol and biodiesel into alkanes, terpenes and other ‘drop-in’ fuels that are chemically identical to existing fossil hydrocarbon fuels (Economist 2010). Given the size of the world market for transport fuels, the

scope for substituting biofuels for fossil fuels is enormous: sufficient to occupy as much as 750M hectares. The impact of mass conversion of land to biofuel feedstock production on food production can hardly be imagined.

In the medium term, the commercial forces behind biofuels could be a major force. OECD countries that care about development, as well as developing countries, need to take a position on such possible outcomes and set out policies that will prevent a mass takeover of land to grow transport fuels. The current standards for sustainability that the EU is setting are unlikely to be adequate to cope with such pressures.

LAND DEALS

Higher food prices, and the fear that supplies on world markets may run short, have led foreign commercial companies, foreign state enterprises as well as domestic investors, to seek land in developing countries with abundant land to produce more food. While investment in agriculture is in principle welcome, there are many concerns over these investments. First and foremost is that poor and vulnerable people with little power and few rights may lose their land. In addition, some of the deals may not generate many jobs, may have high environmental costs, and exacerbate inequalities. In Oxfam’s words, too many schemes look like ‘development in reverse.’

To the extent that some of these deals are being struck by companies and investment funds based in OECD countries, the potential for incoherence with aid policies is considerable.

(Deininger & Byerlee 2011, Oxfam 2011)

PRIORITIES IN FOOD AND NUTRITION SECURITY FOR THE EU

What should the EU do to promote FNS? Three areas need attention, as follows.

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First, there were more than 800M hungry before the price spike, the longstanding agenda of efforts set out above to reduce that remains paramount. There may be additional complications, but that does not invalidate the actions previously necessary: it makes them all the more important.

Second, while there are reasons to press for a CAP reform that eliminates the biases against developing countries, the two issues of biofuels and land deals that have emerged so prominently since 2007/08 need to be addressed. That said, it is less clear what the EU should be doing.

For *biofuels*, it would be good if mandated production levels were removed, or at very least made flexible when price spikes threaten. But the greater danger here lies in commercial forces, not subsidies and mandates. To make matters more difficult, there is uncertainty here: much depends on the crude oil price, how much major countries may be prepared to make the investments in flexfuel vehicles and ethanol distribution networks that Brazil has, and the expected breakthrough in biotechnology that would make drop-in fuels commercially possible. The EU needs to be prepared for a scenario where massive conversions of land to production of biofuel feedstock are planned. The sustainability criteria for imported biofuels or feedstock, if they can be applied, may prevent some of the worst from happening, but will not prevent a scenario in which, for example, the forests of Southeast Asia are converted in large part to produce biodiesel for Asian transport markets.

At very least, the development of biofuels needs to be monitored closely to check what happens on the three critical variables of oil price, investment in biofuel distribution, and technical breakthroughs on drop-in fuels.

For *land deals*, the EU has limited means to influence these. Most of what needs to be done rests with governments in developing countries. Civil society can play a role by insisting that companies with European bases sign up to the codes of responsible agricultural investment developed by the FAO and the World Bank, as well as joining round tables that exist for particular commodities.

Third, policy coherence for food and nutrition security has usually focused on avoiding particular policies, such as export subsidies. But coherence may mean embracing additional policies. It is increasingly clear that in the medium term there will only be FSN if agriculture can become environmentally sustainable, adapted to climate, and with low net emissions of greenhouse gases. There is thus the challenge of working with farmers, governments, civil society and private firms to develop the technical options, the economic incentives, and the governance that will allow farming the world over to meet these objectives. Donors such as the EU need to work with partner governments to make progress on this.

Those who fear that there may be a trade-off between increased agricultural production – and by small farmers – with an environmentally sustainable agriculture have a point; although there is evidence that there are technical ways to meet both objectives, see Wright 2010, Wiggins et al. 2011.

PCD objectives in the light of global starvation and food insecurity

Steve Wiggins' analysis documents that policies to reduce the proportion of people in the world suffering from hunger and malnutrition have stalled in the last 15 years. There was very substantial progress between the 1960s and the mid-1990s, but since then there has been very little progress and increased food prices have again thrown millions of people more into food insecurity. Hunger and malnutrition is today a reality for one billion of the world's population.

A number of new and serious challenges have made it more difficult to reach global food and nutrition security. The problem is not overall lack of food, but poverty combined with a new type of competition for land resources. There is a new complexity and the new debate on food and nutrition security includes a number of both new and more traditional elements:

- The old and long-standing agenda of reducing poverty and hunger and improving the health conditions of infants as described in the millennium Development Goals is still valid.
- But the world is facing new challenges of volatility on cereal markets with serious sudden price shocks. This is for a number of reasons expected to continue in the future.
- It is at the same time becoming increasingly clear that many types of farming are unsustainable. There is a need for a transition to make farming environmentally sustainable, and it includes making agriculture resilient to climate change and reducing net emissions from farming.

While the long standing agenda of reducing poverty and hunger through a number of well known means is still important there is

also a need to look into the areas where incoherent policies are increasing the problems of hunger in stead of reducing them. This includes a great number of policy areas such as the EU trade policies and the Common Agricultural Policy (CAP).

PCD requires a number of EU measures such as the removal of all trade distortion subsidies and the phasing out all export refunds in the Common Agricultural Policy (CAP).

Trade agreements need to be revised, EU's dependence on unsustainable import of feedstuffs has to be eased, and more sustainable and climate-smart models of production should be promoted. The vision is a much more sustainable global agricultural system.

While biofuels and land use are primarily dealt with in chapter 3, Steve Wiggins documents that problems and challenges are closely interlinked. It is therefore also essential that the EU does not establish policies that will place further pressure on the access to land and

food and thus food security and nutrition in developing countries. And while the EU has limited means to influence land deals in developing countries it can play a more positive role in controlling policies driving land grabs for biofuel production. It needs in this respect to work in partnership with governments in developing countries, who also need to ensure that their citizens are benefitting from land deals.

Some of the already clearly observed trends towards higher and more volatile food prices are very likely to be even stronger in the future unless the present development is changed and sustainable food production leading to improved food and nutrition security is given much higher priority as a fundamental condition for sustainable development.

The Vision for Agriculture and food security and its political and operational objectives should be seen together with the Vision and the political and operational objectives for Bioenergy.

Concord Denmark proposes the following vision and objectives in the policy area of agriculture and food security:

Vision: Agriculture and Food Security

The Danish Government envisages a global agricultural system that incentives increased production in developing countries; minimizes trade distorting policies and harness a global shift towards more sustainable and climate-smart models of production. The Danish Government will work to advance the Right to Food and Rights-based Food policies.

Political Objectives:

- 1) A more development friendly CAP and EU agricultural trade policy
- 2) A more climate-smart global agricultural and trade system supporting developing countries efforts to adapt and mitigates climate change
- 3) Advancing rights-based food security policies at international and local level

Operational objectives:

- 1) Remove all trade distorting subsidies in CAP subsidies including direct payments that do not deliver tangible global public goods.
- 2) Phase out all CAP export refunds unconditionally by 2014 and if not politically feasible at very least exempt the use of export refunds to vulnerable developing countries
- 3) Insert a formal reference to the principle of Policy Coherence for Development in the new CAP legislative texts and establish

obligations to monitor the CAP's external impact on developing countries and receive and process complaints lodged by individuals and groups affected by harmful deployment of CAP measures

- 4) Take measures to ease EU's dependence of unsustainable feedstuff imports, i.e. by increasing certified organic production and through compulsorily crop diversification and crop rotation systems
- 5) Ensure that that the EU comply with the developing countries' demands trade agreements to define, protect and promote their own agricultural policies in accordance with the food rights of their people
- 6) Implement preferential trade rules that enhance green agricultural technology transfers in the WTO and bilateral trade agreements with developing countries
- 7) Ensure binding commitments to sustainable and climate-smart agriculture at Rio 20+ and in post 2015-MDG agenda
- 8) Implement strong regulatory measures including in the Markets in Financial Instruments Directive (MiFID) by increasing transparency of financial transactions and limiting excessive speculation through aggregated position limits of traders;
- 9) Support local CSO advocacy efforts in developing partner countries for increased investment and rights-based Food policies targeted sustainable smallholder agriculture in developing partner countries
- 10) Enhance global civil society cooperation on rural development between sustainable smallholders in Europe and developing countries both in terms knowledge exchange and advocacy experiences



An ACP view on Agriculture, Food Security and Land grabbing

By P.I. Gomes

The United Nations Special Rapporteur on the **Right to Food**, Olivier De Schutter is known to have said that **“hunger is a political issue rather than an agricultural issue”**. This timely reminder is of course pertinent and most significant since the “political” dimension underlying agriculture, food and nutrition security, ownership and control of land and other productive resources of society has a direct bearing on policy formulation, debate, implementation, monitoring and evaluation of policy effects.

In this regard, and particularly from the perspective of the systemic and structural factors associated with hunger, food and nutrition security, the attention to Policy Coherence for Development (PCD) is of paramount importance.

The complex factors and their interdependence that determine why more than 75% of persons in the Global South face a condition of “extreme hunger” while growing numbers in “advanced industrial societies” are suffering from obesity and various life-style diseases

due to over-consumption of “fast-foods”, for example, reveal contradictions in policies on agricultural and food production, distribution and consumption. The thematic paper for EU’s 2012 Council Conclusions approaches this issue in quite a systemic manner.

Both in terms of defining Food and Nutrition Security (FNS) and acknowledging the slow progress on MDG1, it is said that “there has been little or no progress in reducing the share of people in the world estimated to be hungry”.

The approach adopted to explain that lack of progress implies a political economy perspective. In this way, it is shown that the pervasive, embedded poverty in developing countries, as distinct from positive rates of economic growth, influence access, availability and consumption of food. The additional causal factor is the political policy choices made by governments that ought not to be reduced merely to “political will”. This requires much more to be said about political power, in terms of ownership and control of land, alloca-

tion of resources for research and appropriate technology as well as institutional and organization mechanisms.

Governments in developing countries are in the main subject to the macro policy framework determined by the International Financial Institutions (IFIs).

Moreover, without a historical analysis of dominant approaches advocated by International Financial Institutions (IFIs) on the role of agriculture in achieving development in underdeveloped economies it is difficult to understand the extent to which the spectrum of interconnected factors explains levels of rural poverty. The traditional dual structure of the agrarian economy between a plantation, export commodity oriented sector and the food subsistence, small holding operations invariably meant government policies privileged exports with explicit or inexplicit subsidies and various services at the expense of food production and the necessary policy environment.

Neglected for several decades in terms of low levels of investment to agriculture, as the FAO has demonstrated, the 2007 spike in food prices accompanied by fuel and financial crises culminating in today's Great Recession from 2008, provided a tremendous impetus for strong economies in Asia (China, India, Korea), hedge fund operators and financially well-endowed multinational enterprises (Samsung, Unilever, Monsanto) to pursue extensive speculation in land deals for food staples, agri-products and agricultural technologies.

But this process was not primarily a contribution to reducing extreme hunger as in MDG1. Rather it ought to be understood as a logical "investment strategy" of an all-embracing neo-liberal "free-market policy package" providing policy pre-eminence to "greater mobility for financial capital" and puts into practice promotion of deregulated flows of capital where highest returns are to be secured. This follows a bubble "boom and bust" pattern of technology

to sub-prime mortgage housing to "grabbing" land as has been well documented by many researchers (cf Oakland Institute, Cal., USA).

With reference to the agricultural sector, widespread speculation has given rise to increasing volatility and uncertainty about commodity prices with implications of instability and fluctuating returns for revenue of developing countries, where agriculture remains heavily reliant on primary commodity exports or non-traditionals like cut flowers.

The effective long term planning required for economic transformation thereby becomes chaotic, if not seriously disrupted, in such sectors as sugar cane, when the principles and premises of unregulated trade liberalization are carried to logical conclusions. This is an example of policy incoherence by the EU where agriculture policies whether by improving competitiveness, enhancing productivity or promoting diversification, are undermined by trade policy that liberalises a market previously managed by policy tools providing stability and predictability through negotiated quotas, for reasonable periods to allow benefits of development assistance.

These systemic factors need to be understood in their impact if policy coherence at macro and micro-levels, applied to such complex sectors as "agriculture", is to be achieved for development that is sustainable and equitable.

Council Conclusions on Policy Coherence for Development by the EU in 2012 can make a significant step forward by debating proposal from CONCORD Denmark that treat this issue in historical, structural and systemic terms.

Indeed, one can readily agree with Ha-Joon Chang that: "The daunting task ahead of us is to completely rebuild the world economy" (cf 23 things they don't tell you about capitalism, Penguin, 2011)



5.

Bioenergy and PCD

Biofuel can harm development and have a negative impact on climate as well as food security, land rights and biodiversity.

THE SUSTAINABLE ENERGY CHALLENGE

The ever increasing burning of fossil fuels to satisfy the growing global need for energy is the most important factor behind climate change and has led to increasing efforts both to save energy and to develop alternative, more sustainable and renewable sources of energy which can reduce greenhouse gas (GHG) emissions.

Sustainability and sustainable sources of energy involve more than environment, but in relation to climate and environment sustainable energy can be defined as

Carbon neutral energy based on renewable sources which can be utilised without any important direct or indirect negative consequences or impact on land, environment and climate or other basic factors which are essential for a sustainable global development.

The increasing use of solar and wind energy and the development towards making these energy sources more efficient and cost effective, is, in spite of the use of some rare earth minerals, generally considered sustainable. At the same time these technologies offer new development and employment opportunities both in developed and developing countries.

While the use of hydro power is also based on renewable sources (water), it is generally acknowledged that the further development of hydro power can also, unless very carefully planned, be unsustainable and lead to negative consequences e. g. for agricultural development because of competition over scarce water resources. Hydro power has the key advantage that it allows storage of energy and it can under the right conditions be sustainable. A further development of sustainable hydro power may be possible in some parts of the world, but hydro power can not automatically be considered sustainable energy.

While the development of more sustainable energy sources is important, it is also necessary to reduce energy consumption. Greenhousegas (GHG) emissions in road transport may be reduced by reducing the need to travel, shifting to more sustainable modes of transportation, and improving the efficiency of transportation modes. Improved energy efficiency in both freight and passenger road transport is imperative, as is the reduction of transport demand by improved spatial planning.

THE EU POLICIES ON BIOFUEL

Efforts to reduce greenhouse gas emission have also resulted in the increasing use of plant biomass as energy based on the premise that combustion of biomass does not result in carbon accumulation in the atmosphere, because biomass is considered "carbon neutral".

Several European Union energy directives encourage though indirectly a partial switch from fossil fuels to fuels derived from plant biomass.

The most important of the directives is The Renewable Energy directive (RED) from 2009 which requires “a mandatory target of a 20 % share of energy from renewable sources in the overall Community energy consumption by 2020” including a 10 % minimum target of renewable energy in transport to be achieved by all Member States.¹ But other directives such as The European Union’s Emissions Trading Systems Directive² and The Fuel Quality Directive³ do also directly and indirectly promote an increased use of biomass because CO₂ emissions from combustion of biomass are set to zero.

The demand for 10 % renewable energy transport in the RED will – if current national plans are retained – be reached essentially through the production of first generation biofuels. Reports from IEEP (Bowyer 2011)⁴ and IFPRI (Laborde 2011)⁵ conclude that this mandate would involve considerable imports of biomass from countries outside Europe, and primarily from developing countries. In some cases it will also lead to EU’s imports of ready biofuels.

The RED does include environmental sustainability criteria in an attempt to avoid negative impacts on the environment from the production of biofuels. However, a major flaw is that such criteria only apply to biofuels directly. Therefore although the RED attempts not to encourage a landowner clearing high biodiversity value land to grow bio fuels, it does not stop him clearing the land for another crop that he already grows and then growing biofuel on the vacated land. A further issue is that there are no social sustainability criteria that look at the social impact of the RED.

POLICY PREMISES CHALLENGED BY RESEARCH

The basic premises behind the political efforts to increase the use of biofuel are being challenged by research findings that point at two fundamental problems:

- The burning of biomass does not necessarily result in reduced emission of green housegases. Legislation that encourages substitution of fossil fuels by bioenergy, irrespective of the biomass source, may even result in increased carbon emissions and thereby accelerate climate change and global warming.
- The increased cultivation of biomass for bioenergy can lead to increased competition for land and water, increases the pressure on the Earth’s land based ecosystems, and competes with efforts

to provide sufficient food for the world’s growing population. It has a negative impact on food security and it leads to rising food prices. Besides it can lead to irreversible impacts on biodiversity.

These worries come both from researchers, civil society representatives and some of the global food and beverage companies, such as e.g. Nestle and Unilever.

Increasingly worries among academia and practitioners arise that efforts to increase consumption of biofuel not least for transport may lead to false security in efforts towards reducing climate change. There is also the risk of encouraging an industry which may not be long term sustainable, may negatively affect the sustainable development of poorer regions in the world, and may first create, but eventually destroy employment.

In that regard the EU faces the danger of losing credibility in international climate promises, especially if the EU’s efforts lead to climate degradation outside of the EU and disadvantages for the poor and vulnerable.

WARNING FROM THE SCIENTIFIC COMMITTEE OF EEA

The most authoritative warning on the use of biofuels came 15 September 2011 from the Scientific Committee of the European Environment Agency (EEA)⁶, which in relation to the European Union and the above mentioned Directives claims that mistaken assumptions about biomass cultivation and combustion result also in a serious accounting error.

The Scientific Committee cites as evidence the following:

“It is widely assumed that biomass combustion would be inherently” carbon neutral because it only releases carbon taken from the atmosphere during plant growth. However, this assumption is not correct and results in a form of double-counting, as it ignores the fact that using land to produce plants for energy typically means that this land is not producing plants for other purposes, including carbon otherwise sequestered. If bio energy production replaces forests, reduces forest stocks or reduces forest growth, which would otherwise sequester more carbon, it can increase the atmospheric carbon concentration. If bioenergy crops displace food crops, this may lead to more hunger if crops are not replaced and lead to emissions from land-use change if they are. To reduce carbon in

1) DIRECTIVE 2009/28/ec of the European Parliament and of the Council of 23 April 2009 on the promotion of the use of energy from renewable sources.

2) DIRECTIVE 2003/87/ec OF 13 October 2003 establishing a system for greenhouse gas emission allowance trading within the Community

3) DIRECTIVE 2009/30/EC of 23. april 2009.

4) Bowyer, Catherine, Anticipated Indirect Land Use Change Associated with Expanded Use of Biofuels and Bioliquids in the EU – an Analysis of the National Renewable Energy Action Plans, March 2011, IEEP

5) Laborde David: Assessing the Land Use Change Consequences of European Biofuel Policies. IFPRI. Washington

6) Opinion of the EEA Scientific Committee on Greenhouse Gas Accounting in Relation to Bioenergy. 15 September 2011.

the air without sacrificing other human needs, bioenergy production must increase the total amount of plant growth, making more plants available for energy use while preserving other benefits, or it must be derived from biomass wastes that would decompose and neither be used by people nor contribute to carbon sequestration.

The potential consequences of this bio energy accounting error are immense. Based on the assumption that all burning of biomass would not add carbon to the air, several reports have suggested that bio energy could or should provide 20% to 50% of the world's energy needs in coming decades. Doing so would require doubling or tripling the total amount of plant material currently harvested from the planet's land. Such an increase in harvested material would compete with other needs, such as providing food for a growing population, and would place enormous pressures on the Earth's land-based ecosystems. Indeed, current harvests, while immensely valuable for human well-being, have already caused enormous loss of habitat by affecting perhaps 75% of the world's ice- and desert-free land, depleting water supplies, and releasing large quantities of carbon into the air."

The statement from the scientific committee has been followed by a statement letter to the European Commission expressing similar worries. It is signed by over 200 scientist from all over the world.⁷

CONSEQUENCES OF DIRECT AND INDIRECT LAND USE CHANGES

Several recent official studies have confirmed that one of the major problems in the present political calculations which favour biofuels relate to an underestimation of the GHG related with land use changes (LUC), i.e. when land is converted from one use (e.g. forest, grassland or food/feed crop cultivation) to another use (e.g. energy crop cultivation). This is further divided into two subcategories: direct and indirect LUC (dLUC and iLUC).

irect and indirect land use change can be explained citingth Denmark as an example:

In Denmark, 68% of the total land is used for cropland and policies have been adopted in order to double the forested area. This means that almost no conversion from forest or other types of nature to cultivation are occurring. A decision e. g. to grow more silage maize for biogas in Denmark will therefore most likely mean that the land needed to grow the energy crops will be taken from actual cropland, involving that one crop cultivated today, like barley, will be displaced. This land use change, i.e. cultivating silage maize instead of barley, is referred to as direct land use change dLUC. On the other hand, this resulting drop in supply of Danish barley will cause a rela-

tive increase in agricultural prices, which then provide incentives to increase the production elsewhere and outside Denmark. The replacement of the Danish barley with barley cultivated elsewhere is, in this example, what is referred to as indirect land use change iLUC.

It is important to remember that dLUC and iLUC occur because biomass, to grow, needs arable land, which is a constrained good. When land is converted to arable land, the paramount quantities of Carbon contained in the soil and vegetation are transferred to the atmosphere. The richer the ecosystem converted to agriculture is in Carbon (e.g. peatland, tropical forest), the greater is the amount of GHG released into the atmosphere. The magnitude of the dLUC/iLUC effect thus depends on how much of the existing Carbon stocks are released to the atmosphere.

Bioenergy may result in less CO₂ being emitted to the atmosphere, but this is presently primarily the case if the bioenergy is produced from residues (e.g. forest wood residues or other types of waste) that would otherwise have been left to decompose if not used for bioenergy.

Indirect land use changes and their consequences are not included in the calculation on which the EC directives are based though the Commission is trying to develop a methodology accounting for the GHG emissions caused by iLUC.

Land use changes are not a theoretical worry. The demand for food and forage as well as for biofuel is growing, which increases the competition for arable land and water. Research has indicated that the majority of new farmland, possibly as much as 80 percent, is created by cutting down forests.

Competition over arable land has led to what is often described as land-grabbing, which is large-scale purchase or long term leasing of farmland for the cultivation of food or the production of biomass. According to the International Land Coalition (ILC)⁸ Report 53 % of the 71 million hectares cross-referenced in the report are used for biofuel. The share for Africa is even bigger. The World Bank's most conservative estimate is that biofuel plantations account for 20 % of land grabs globally.

The International Food Policy Research Institute (IFPRI) (Laborde 2011) has, at a request from the European Commission re-assessed the land use change consequences of European Biofuel Policies⁹. This study does also confirm that indirect land use changes are so important, that most biofuels would not meet the 35 % GHG reduction (as compared to fossil fuels) set in the directive.

7) International Scientists and Economists statement on Biofuels and Land Use.

8) http://www.theecologist.org/News/news_analysis/1169447/biofuels_not_food_the_biggest_driver_of_land_grabbing_deals_says_report.html

Researchers agree that it is probably impossible to make very exact assessments and there is an ongoing scientific discussion and disagreement on different models for calculating carbon emission savings based on life cycle analyses of different crops producing different types of biofuel. There is however also growing agreement that problems are much bigger than it was anticipated earlier.

As also shown in the study from Laborde, different types of biomass cultivated for bio energy do not have the same potential for carbon emission saving. When consequences of indirect land use change are included some reports conclude that e. g. biodiesel from Asian palm oil, South American soy beans and EU rapeseed all have a bigger overall climate impact than conventional diesel¹⁰.

Studies by the EU's Joint Research Centre, the UK Government's advisory Committee on Climate Change and the independent Institute for European Environmental Policy¹¹ have indicated that biofuel can result in a significant rise in GHG emissions compared to using normal petrol and diesel. The IEEP study suggests that meeting EU bio fuel targets could generate as much as between 31 and 65 million tonnes (Mt) of extra CO₂ per year by 2020. That is equivalent to putting between 14 and 29 million extra cars on Europe's roads.

Another unintended side effect is that increased cultivation of biofuel in contradiction with political commitments will result in reduced biodiversity¹².

RECOMMENDATIONS FROM THE SCIENTIFIC COMMITTEE OF EEA

The EEA Scientific Committee came with 4 recommendations in September 2011:

- *European Union regulations and policy targets should be revised to encourage bio energy use only from additional biomass that reduces greenhouse gas emissions, without displacing other ecosystems services such as the provision of food and the production of fibre.*
- *Accounting standards for GHGs should fully reflect all changes in the amount of carbon stored by ecosystems and in the uptake and loss of carbon from them that result from the production and use of bio energy.*
- *Bioenergy policies should encourage energy production from biomass by-products, wastes and residues (except if those are needed to sustain soil fertility). Bioenergy policies should also*

promote the integrated production of biomass that adds to, rather than displaces, food production.

- *Decision makers and stakeholders worldwide should adjust global expectations of bioenergy use to levels based on the planets capacity to generate additional biomass, without jeopardizing natural ecosystems.*

BIOENERGY AS A CORE ISSUE IN POLICY COHERENCE FOR DEVELOPMENT

Energy is a core issue in Policy Coherence for Development (PCD). Access to energy has contributed to economic growth, employment and ultimately welfare. But unsustainable levels of energy creation and consumption are also responsible for global climate change and for more drought, more flooding and reduced development opportunities in many parts of the world.

The historical development is that rapidly growing unsustainable consumption of fossil energy in rich developed countries has caused climate problems, which today primarily affects poor people in poor countries negatively. Furthermore obtaining access to fossil fuels and extraction of fossil fuels has also had negative consequences for environment and people in developing countries.

- *Sustainable energy consumption is a necessary condition for production, job creation and growth*
- *But unsustainable energy consumption is changing and threatening the global climate and is already today reducing development opportunities and the potential for economic growth in some of the poorest and least developed countries of the world.*

The EU's renewable energy policies seek to increase energy security and contribute to the fight against climate change caused by previous energy policies. While doing this the EU has to ensure that negative effects are not experienced by people in developing countries and that this does not create obstacles for sustainability and the achievement of the development objectives to eradicate poverty.

In respect of Policy Coherence for Development both immediate and long term impacts have to be assured:

- *The policy should fulfil its original objective of fighting climate change and under no circumstance contribute to climate change or create negative environmental consequences for developing countries*

9) Laborde David: Assessing the Land Use Change Consequences of European Biofuel Policies. IFPRI. Washington

10) <http://www.euractiv.com/climate-environment/biodiesels-pollute-crude-oil-leaked-data-show-news-510437>

11) Bowyer, Catherine, Anticipated Indirect Land Use Change Associated with Expanded Use of Biofuels and Bioliquids in the EU – an Analysis of the National Renewable Energy Action Plans, March 2011, IEEP

12) Newsletter Vol. 25. Institute of European Environmental Policy

- Meeting the objectives of the policy cannot be through activities that negatively impact people in developing countries and create obstacles for achieving sustainable development objectives neither in the short term such as by reducing food security levels or by threatening local livelihoods nor in the longer term by negatively affecting conditions for future development.
- Ultimately the policies by the EU which directly or indirectly impact on developing countries should present additional opportunities to progress towards sustainable development objectives. Furthermore, energy policies should be in line with the EU's resource management policies and fulfil sustainable and environmental criteria.

Energy policies introduced by the European Union, as a frontrunner for sustainable development and the fight against climate change, are essential for development and development opportunities. But policy makers should bear in mind that policies of rich countries in the North have consequences for poor countries in the South and that if not tested on their effect to the EU's overall PCD-targets, might create negative effects for developing economies.

THE RESPONSIBILITY OF THE EUROPEAN UNION

The member states of the European Union are among the highest emitters of carbon dioxide per capita in the world. The European Union is both a major consumer and importer of energy, and energy policies of the EU thus have global consequences when they are dealing with Europe's own access and import of sufficient energy, with energy savings and more energy efficient technologies as well as with the promotion of cleaner, renewable and more sustainable energy sources.

Bioenergy policies in the EU have an impact on development opportunities in developing countries for a great number of reasons and Policy Coherence for development (PCD) makes it mandatory that these impacts are dealt with in EU policies with the aim of promoting sustainable development and avoiding actions and policies that are harmful for development outside of Europe.

Before the G20 Agricultural Summit June 2011 ten international organisations including the World Bank, OECD and FAO published a report on "Price Volatility in Food and Agricultural Markets"¹³, which dealt with the possible negative impact of bioenergy policies on developing countries: The report recommended the removal of targets and financial incentives for the production of biofuels.

The major unintended yet serious negative impacts which need to be tackled for the EU's renewable energy policies to not conflict with PCD are the following:

NEGATIVE IMPACT ON FOOD SECURITY AND LAND RIGHTS

- The promotion of bioenergy based on import and consequently the cultivation of biomass outside of Europe is leading to direct and indirect land use change in developing countries. This is likely to accelerate the conversion of both forests and arable land used for food and forage production to the use of land for the cultivation and harvesting of energy crops for the production of biofuel. Serious concerns are expressed by indigenous groups of people and civil society organisations about the impact of monocultural cropping and water use for biofuels. EC directives have a direct impact.
- The use of food for fuel is rapidly increasing the competition for arable land and water. More and more farmland in developing countries is being used for non-food purposes and land grabbing is an increasing problem not least created by the demand for biofuel. The rapidly expanding pressure on the agricultural sector and the surge for productive land have had negative impacts on people where land rights are not assured and slowed progress to ensure land rights and sustainable land tenure systems to take effect.
- Biofuel policies – particularly targets and financial incentives – are contributing to increased and more volatile food prices, which have already increased the number of hungry and malnourished with millions and which have a negative impact on food security policies. The promotion of bio energy may make it extremely difficult to avert another serious food price crisis, which again may result in a major food crisis and more hunger. The EU has a major global responsibility.
- Second generation biofuels are not expected to play a major role before 2018 at the earliest. This means that the target of 10 % renewable energy in transport fuel in 2020 can only be reached by using first generation biofuels. This will potentially lead to a tripling of biofuels consumption across the EU with dramatic and negative consequences for land use and land rights.
- The cultivation of biomass and the dominant investment patterns in the production benefit owners of plantations and bigger farmers, while peasants and small farmers are at risk of being further marginalised. Small farmers are, however, in many countries important for the overall food security. Increased bioenergy production may contradict what the EU is trying to promote through assistance to the promotion of agricultural development and policies for food and nutrition security.
- Many biofuels plantations fail to deliver on their promises of economic opportunities for local communities and leave them

13) 'Price Volatility in Food and Agricultural Markets': Policy Responses. Policy Report including contributions by FAO, IFAD, OECD, UNCTAD, WFP, The World Bank, The WTO, IFPRI and The UN HLTF. 2. June 2011

struggling to secure food for their families. The work conditions at biofuel plantations are often sub-standard and in some cases fail to deliver adequate protection from exposure to pesticides¹⁴.

POTENTIALLY NEGATIVE IMPACT ON CLIMATE CHANGE

- Incomplete models for the calculation of the greenhouse consequences of combustion of bioenergy lead to the mistaken belief that the use of bioenergy is an important step towards more renewable and sustainable energy sources while the reality may be that GHG-emissions will with some biofuel increase even more than with using fossil fuels. Further, whereas the consequences of fossil fuels burning are today well known this is not the case of biofuels. This may result in a further development of the wrong policies and insufficient regulation and accounting standards. EC directives seem to be based on insufficient premises. And policies guaranteeing that only sustainable biofuels are being imported to the EU are also insufficient.
- A consequence of large scale demand for energy crops is the promotion of monocultures, which is having a further negative impact on the biodiversity in many countries. A reduction in biodiversity is also limiting and reducing the potential for future sustainable development. EU member states have signed the UN's biodiversity convention and the EU has an obligation to work for the protection of biodiversity.
- The promotion of bioenergy branded as a reliable and renewable sustainable energy source may reduce the political and individual emphasis on energy saving and thereby also indirectly contribute to a continuation of the present unsustainable high consumption of energy in Europe and other industrialised countries. Energy efficiency and saving of energy is in itself a good and viable alternative to simply producing more energy.
- Policies which promote bioenergy based on cultivation of food for fuel may delay or divert investments in more sustainable "second and third generation" bioenergy possibilities where energy production, including energy for transport, is based on biomass from by-products, wastes and possibly residues from food production, and could possibly in a long term perspective be based on algae to convert solar energy directly to bio fuel.

THE POSITIVE POTENTIAL FOR BIOENERGY

The further development of second and third generation bio energy technologies has a potential for making it possible to utilise resour-

ces which are today considered waste or are left unutilised because of insufficient technologies. There is therefore general agreement that there is a potential for further development of bioenergy and biofuels which are not based on growing food for energy.

In some countries, land-abundant regions might be able to cultivate bio fuel without competing with other valuable land use or affecting biodiversity in a negative way. It is, however, extremely difficult to define marginal land, not better used for other purposes. And production should still be able to live up to clear definitions of sustainable energy, should primarily be for local use and should guarantee a positive or neutral impact on climate change. The impact on development opportunities and people's lives should be positive.

THE PERSPECTIVE IF POLICY COHERENCE FOR DEVELOPMENT IS NOT RESPECTED

The EC directive for renewable energy (RED) is being criticised for encouraging an industry that is not sustainable and for having a potential negative impact on climate as well as on food security, food price volatility and land rights in poor countries.

Unless these problems are tackled the potential negative impact in the future may be much more dramatic with production set to triple over the next 8 years to meet current EU targets.

Fossil fuel prices are expected to rise further (the era of cheap transport based on fossil fuels is over) and most indications are that food prices will already with the present known trends be more volatile with more frequent price peaks such as it has been the case over the last few years.

The increase in bioenergy production and consumption already shows negative consequences. Still higher prices for fossil fuel will increase the commercial competitiveness for bio fuel for transport. Unless this development is actively prevented fossil fuel for transport may be replaced with biofuels beyond the 10 % indicated in The Renewable Energy Directive and it may spur a very dramatic competition between consumers of food (the hungry) and consumers of fuel for transport (car owners). Such a competition will – if left unregulated – see many of the poorest people in the world as the big losers, and it will lead to the conversion of millions hectares of farmland to the production of biofuels.

14) http://ec.europa.eu/energy/renewables/studies/doc/biofuels/2011_biofuels_baseline_2008.pdf section 4.8.

PCD recommendations to the EU and to EU member states

The many flaws in energy directives and the unintended negative effects of the present development in what is considered more climate friendly and sustainable energy policies illustrate the inter linkages between different policies and the growing complexity in resource policies. Individual policies with a specific objective cannot be assessed in isolation but need to be seen in coherence with other policies and development trends.

This illustrates the need to review the energy policy on the basis of clear PCD-criteria building upon much more comprehensive analyses of inter linkages with other sectors and upon more reliable and precise definitions of sustainability and sustainable development. The following recommendations are focusing on European Union policies but are also highly relevant in relation to policies decided and being implemented by member states.

- The European Union must follow the advice of ten international organisations including the World Bank, OECD and FAO as provided to the G20 Agricultural ministerial Summit in June 2011; namely it must drop targets and financial incentives for the production of biofuels.
- The EU should, in line with the recommendation from the scientific committee of the European Environment Agency guarantee that only bioenergy from additional biomass that reduces greenhouse gas emissions is used, without displacing other ecosystem services such as the provision of food and the production of fibres.
- EU energy policies should be revised to fulfil their original objective of fighting climate change and under no circumstance contribute to climate change with negative consequences for developing countries. Ultimately EU policies with impact on developing countries should increase these countries opportunities to progress towards more sustainable agricultural development, food security and other development objectives and this should be clearly reflected in the policies.
- Accounting standards for greenhouse gas emissions used in directives and national policies need to be revised to reflect all changes in the amount of carbon stored by ecosystems and in the uptake and loss of carbon from them that directly and indirectly result from the production and use of bioenergy.
- EU energy and trade policies should set standards guaranteeing that the right to food security in developing countries is given the first priority and that EU and EU member countries are not participating directly or indirectly in unsustainable competition for the use of arable land or the transformation of food producing land or biodiversity rich areas to land used for the cultivation of bioenergy.
- EU policies should guarantee that European energy policies and their impact are in accordance with policies laid down in the UN biodiversity convention and other relevant conventions such as the Stockholm convention on organic pollutants.
- EU bioenergy policies should encourage the further development of second and third generation bioenergy from biomass by-products, wastes and residues that do not require additional land use. Global expectations of bioenergy use should be adjusted to sustainable levels and not indicate that bioenergy e. g. for transport can replace the need for energy saving and alternative and more energy efficient transport systems.
- EU should make provisions for guaranteeing that imported bioenergy is produced based on acceptable working environment and employment standards for workers and on fair living conditions for involved local communities.

Concord Denmark proposes the following vision and objectives in the policy area of bioenergy:

Vision: (Bioenergy)

The Danish Government envisages a European energy system based on renewable carbon neutral energy produced in sustainable ways with the aim of eliminating negative climate impact as a result of energy production and consumption. Production and consumption of bioenergy may not in any way, directly or indirectly, have negative impact on food production capacities or food security in developing countries.

Political Objectives:

- 1) Guarantee bioenergy use only from additional biomass, reducing greenhouse gas emissions without displacing other ecosystem services
- 2) Implement EU energy policies guaranteeing the objective of fighting climate change in the promotion bioenergy.
- 3) Guarantee that the right to food security in developing countries are not impacted negatively and that EU and member states are not involved in unsustainable competition for the use of arable land in developing countries to be used for bioenergy

Operational Objectives:

- 1) Revise EC directives (such as RED) and remove specific targets (10 %) for the use of bioenergy in transport fuel.
- 2) Revise accounting standards used in directives for emissions of greenhouse gasses in accordance with latest scientific findings.
- 3) Make provisions through country specific studies to secure that imported bioenergy and biofuels are based on sustainably produced additional biomass without having negative impact on food security or local living conditions. Studies should include direct and indirect land use change.
- 4) Encourage the further development of second and third generation bioenergy from biomass by-products, wastes and residues.
- 5) Guarantee that bioenergy policies are in accordance with principles in the UN biodiversity convention and the Stockholm convention on organic pollutants.
- 6) Make provisions for guaranteeing that imported bioenergy is produced based on acceptable working environment and employment standards and respecting local communities.

6.

Illicit financial flows

By Raymond W. Baker

The concept of “policy coherence” has been around for some years and is finally being applied to issues surrounding the distribution of official development assistance (ODA) on one hand and the global financial system’s facilitation of illicit financial flows (IFF) on the other hand. This transition signals a new day in economic development, one in which cooperation between rich and poor countries replaces the donor–recipient model and post-Millennium Development Goals are structured around global financial transparency.

Illicit money is money that is illegally earned, transferred, or utilized. If it breaks laws in its origin, movement, or use it merits the label. It comes in three forms. The corrupt component is the proceeds of bribery and theft by government officials. The criminal component comes from drug trading, racketeering, counterfeiting, terrorist financing, and more. The commercial component stems from tax evasion.

Global Financial Integrity (GFI) produces estimates of IFFs coming out of developing countries. As depicted in Figure 1 below, this has averaged about \$1 trillion annually over the last three years for which data is available.

This estimate is derived from economic models and data sources that have been used for years in making calculations of flight capital out of poorer countries, namely, the World Bank Residual Method (WBR) and International Monetary Fund Direction of Trade Statistics (DOTS). GFI did not invent these methodologies but was the first to apply them to data arising from all developing countries.

WBR is an input-output analysis drawn from balance of payments statistics. Where inputs and outputs do not match, unrecorded transfers are evident. These mismatches are usually much greater than the more limited measure of “errors and omissions” in national accounts.

DOTS data measures trading relationships between all pairs of trading countries reporting to the IMF. Thus, if one country reports exports to another country at a certain level and the other country reports imports from that country at a substantially different level, mispricing is indicated. In comparing export data of one country to import data of another country, costs of freight and insurance are eliminated. Furthermore, in order to be conservative, GFI eliminates from its calculations all countries where the discrepancy between export and adjusted import values is less than 10 percent.

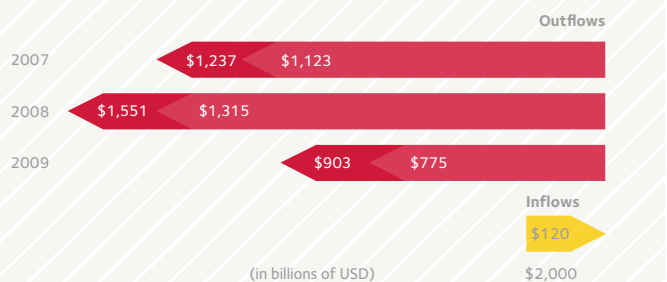
GFI regards its estimates as quite conservative. DOTS data covers only merchandise trade and indeed indicates only the mispricing of such trade that occurs through re-invoicing. It does not include mispricing that occurs within the same invoice as a result of agreement between buyers and sellers, a major means of trade price manipulation. Furthermore it does not include the mispricing of services and intangibles, which in recent decades has become a major component of the shift of tax evading money across borders. Furthermore it does not include smuggling, human trafficking, and other forms of cross-border crime where cash is the common means of exchange. If rough estimates of these elements of IFFs were included, the figures would be substantially higher. GFI chooses to be conservative, basing its data entirely on official statistics filed by governments with the World Bank and the IMF. Having said this, GFI urges others to do their own analyses of this extraordinary damaging phenomenon.

Compare official development assistance to illicit financial flows. ODA has been running about \$120 billion annually in the most recent years. So for every \$1 of foreign aid going into developing countries, it is estimated that some \$8 to \$10 comes back out of the poorer countries into western economies. There is no apparent way to do the calculations of IFFs without coming up with a level of outflows from developing countries that is a multiple of foreign aid inflows. The curtailment of such flows is clearly in the interest of both developing countries and donor nations.

It has become common, particularly in western media, to brand the developing countries themselves as responsible for the phenomenon of illicit money disappearing across their borders. Corruption is usually the blame for this reality. Yet, in the analysis of GFI looking at cross-border illicit flows, the corrupt component is about 3 percent of the global total. The criminal component is about 30 to 35 percent of the total. And the commercially tax evading component, with many western interests deeply involved, is about 60 to 65 percent of the global total.

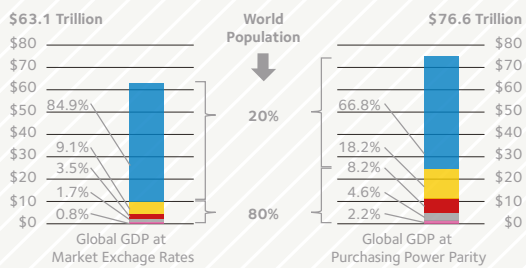
The outflow of illicit money from developing countries has accumulated to trillions of dollars shifted permanently abroad. This is the most damaging economic condition hurting the global poor. It drains hard currency reserves, heightens inflation, reduces tax collection, cancels investment, and undermines free trade. It has its most pernicious impact on the global poor.

Illicit Financial Outflows compared to Foreign Aid Inflows





Global Income Shares of GDP (20 percent population groupings)



The two bar charts above depict the two usual ways of measuring global income, one based on purchasing power parity and the other on currency exchange rates. In each bar chart each color represents 20 percent of the world's population. Thus as shown, some 70 to 90 percent of global income accrues to the top 20 percent (quintile) of the world's population, leaving only 10 to 30 percent of global income for the bottom 80 percent of the world's population. The 70 and 90 percent estimates accruing to the top 20 percent are slightly higher than the figures in the bar charts, for good reason. National income surveys, whether based on household interviews or estimated quintile breakdowns of GDP, typically do not penetrate into earnings on assets abroad. Thus, none of the available developing country income calculations include interest and dividends on trillions of dollars of cash and investments outside countries of citizenship and residence. If such earnings were to be included, the richest quintile would see its share of income rise by very roughly 3 percent from statistically evident levels. To be clear, all statistically

based estimates of global income disparity are short of the mark and will remain so until income on external assets is included.

Some analysts consider the shift of illicit money abroad to be motivated by tax evasion or a desire to avoid inflation or threat of confiscation or to avoid pressures for distribution locally. While all these are true, they miss the key motivation—the hidden accumulation of wealth. The phenomenon of illicit financial flows abroad is at its core about getting rich secretly and not having to share these riches with others. And this motivation is serviced very efficiently by western financial institutions acting with the support of western governments.

The flow of IFFs is facilitated by a global shadow financial system which was created in the West originally for the purpose of moving flight capital and tax evading money across borders. Development of this system accelerated in the 1960s for two reasons. First, this was the decade of independence. Between the late 1950s and the end of the 1960s, 48 countries gained their independence from colonial powers. Some of the economic and political elites in these countries wanted to take their wealth abroad, and former colonial powers and other western countries aided this desire for flight capital by creative and largely hidden means. Second, the 1960s was the decade when multinational corporations (MNCs) hastened their spread across the globe. There were a handful of international oil and trading companies before then, operating usually in no more than 12 or 15 foreign countries. But in the 1960s MNCs began to expand into dozens of countries, a process that continues today. Many MNCs utilize tax evading and even money laundering strategies in shifting funds across borders, thus operating at low profits in many jurisdictions where they have heavy investments

and showing high profits in jurisdictions where they often have no investments.

This global shadow financial system comprises a number of elements:

- Tax havens, rising from 4 or 5 in the 1950s to now more than 60 around the world.
- Secrecy jurisdictions, enabling commercial entities to be established behind nominees and trustees such that no one knows who the real owners of such entities are.
- Shell corporations in the millions, established not only in recognized secrecy jurisdictions but also in major western countries, probably more in the United States than in any other nation.
- Anonymous trust accounts, able to function as commercial entities.
- Fake foundations, often masquerading as charitable entities but operating for commercial purposes.
- Falsified pricing of imports and exports, by far the most frequently used element in the global shadow financial system.
- Money laundering techniques are used to shift particular forms of illicit money across borders.
- Holes left in the laws of western countries to enable the inflow of illicit money through the shadow financial system and ultimately into western coffers. For example, in the United States it remains legal to deposit proceeds generated abroad from handling stolen property, counterfeiting, contraband, credit fraud, environmental crimes, and virtually all forms of tax evasion.

The key fallacy in the global fight against illicit money is the idea that the West can hold on to its use of the shadow financial system for shifting tax evading and tax avoiding proceeds, while making others give up their use of the shadow financial system for shifting criminal and corrupt proceeds. This is not possible. We must be prepared to address all forms of illicit money if we are to succeed in minimizing any forms of illicit money. In other words, we must be prepared for policy coherence.

What practical, achievable steps can be taken on this issue toward policy coherence for development? Two basic points are important to grasp. First, the goal must be to curtail illicit financial flows, not to try to stop them altogether. Stopping such flows would require draconian measures problematic to the global free market system. Substantially curtailing such flows can be accomplished with readily available steps that enhance free-market operations. Second, the necessary process is a two-way street, encompassing both devel-

oping countries and richer nations. It is no longer acceptable simply to point to those countries over there and chide them for the conditions that stimulate their capital outflows. We must similarly look at the richer countries and their facilitation of illicitly generated capital inflows.

The overarching answer to this problem is transparency—greater transparency in the global financial system particularly for the benefit of emerging market and developing countries. Greater economic and financial transparency is the route toward a more effectively functioning free-market system and a more orderly, legal, and equitable world. And it is very much the route to policy coherence in the currently contradictory spheres of official development assistance and illicit financial flows.

The Task Force on Financial Integrity and Economic Development, a consortium of governments, civil society organizations, and foundations, of which Denmark is a member, recommends several measures aimed at achieving greater global financial transparency. Each recommendation builds off of efforts already in place. Three in particular bear upon the current discussion.

First, beneficial ownership, that is, knowing the natural persons who own and control entities existing in each country. Every nation and every financial institution should know with whom it is doing business. Knowledge of beneficial ownership, as already recommended by the Financial Action Task Force in Paris, the global anti-money laundering standard setter, is a necessary step toward transparency in the global financial system.

A Wall Street banker recently asked, “Do you have any idea how much it would cost us to determine the beneficial owners of all our accounts?” The answer is, it costs nothing. The bank sends a letter to all its non-personalized account holders requesting within six months the name or names of the natural persons owning and/or controlling the account in question. The bank advises of the penalties for making a false declaration. And the bank further advises that if it finds at any future date that the information given is incorrect it will freeze the account pending regulatory action. Immediately, some 99-plus percent of the account holders will provide the requested information. Hopefully those declining to provide the requested information are the accounts that the bank would prefer not to have anyway. For financial institutions, acquiring knowledge of beneficial ownership of accounts is a no-cost exercise.

Shell banks used to be a major feature of the global shadow financial system—banks established by nominees and trustees such that no one could know the real ownership and control of the entities. The USA Patriot Act passed in October 2001 in the wake of 9/11 effectively wiped out almost all shell banks. The act says that no U.S. financial institution can receive money from a foreign shell bank, no other financial institution in the world can send money to the United States that it has received from a foreign shell bank, and this

includes wire transfers that might touch correspondent bank accounts in New York before speeding off elsewhere. Penalties imposed for non compliance can be severe. Immediately, shell banks in the thousands were shut down across the world. There are a handful remaining today in Europe and Asia being very careful to see that their wire transfers never reach the United States. But for all practical purposes, shell banks have been removed as a significant element of the shadow financial system.

To put it simply, there is no argument for doing business with unknown parties. And there is no complexity in changing this reality. Beneficial ownership information should become readily accessible and in short order a matter of public record.

Second, country-by-country reporting should be required of all multinational corporations. This means reporting sales, profits, taxes, assets, and employees for each jurisdiction where corporations are established. This is an extension of the Extractive Industries Transparency Initiative and the Publish What You Pay movement. Widely accepted now is the notion that extractive industries should report on their financial affairs everywhere they operate, primarily because their operations are so critical to so many developing countries. The same standard should be applied to all corporations.

If country-by-country reporting were to be required right now, what we would see is many corporations reporting losses, break-even, or very low profits in many jurisdictions where they have major operations and yet large profits in jurisdictions where they have no operations. How do you lose money where you are invested and make money where you are not invested? The global shadow financial system facilitates this reality. And support is rendered by the International Accounting Standards Board which endorses this financial fiction.

Handing out foreign aid to poor countries with one hand and taking back tax-evading profits from those same countries with the other hand is not policy coherence. Country-by-country reporting can take an important step toward curtailing this reality.

Third, automatic exchange of tax information between countries should be accelerated. This is the European Union Savings Tax Directive expanded. Currently the EUSTD requires exchange of information on interest earned on personal bank accounts and some other forms of personal emoluments. Within the EU, consideration is being given to extending automatic exchange to encompass corporate, trust fund, and foundation income and tax information. Automatic exchange of tax information should become the global standard, and the EUSTD is the model for moving in this direction.

Canada and the United States have automatically exchanged tax information for decades. Since the 1970s Mexico has been requesting the same arrangement with the United States. Mexico and Canada have set up automatic tax information exchange. But Mexico, of course a member of the North American Free Trade Agreement, and the United States have not come to such an arrangement. Global Financial Integrity estimates that across the past decade some \$50 billion a year of illicit money has been streaming out of Mexico, some 60 percent of it deposited in the United States. Mexico is being destabilized by criminal activity and the easy flow of hot money across the U.S.-Mexican border. Policy coherence for these two countries would clearly require automatic exchange of tax information.

The Prime Minister of India, Dr. Manmohan Singh, in Cannes at the 2011 G20 meeting called for automatic exchange of tax information with major trading partner countries. It is within the capability of EU countries to offer such data exchange with major emerging market countries. Perhaps no more important step could be taken toward building greater transparency into the global economic and financial system.

We are moving beyond the era of the Washington Consensus. This flawed bit of analysis did not contain a single particle of introspection, not the slightest element of the richer countries looking at themselves and asking, "What can we do to create the conditions on our side that will assist developing countries in reaching the goals recommended." Across the two decades that the Washington Consensus has guided development policy, more money has flowed out of poorer countries into richer countries than at any other time in history. And the process continues unabated today.

The post-Millennium Development Goals must move beyond the one-sided prescriptions contained in the Washington Consensus and toward a new commitment to transparency and cooperation in dealings between rich and poor countries alike. Transparency should be the foundation on which the economic and financial affairs of the coming decades are built.

None of three steps recommended here is technically difficult. All build off of measures already in place. What is required to produce the needed changes is political will.

Policy coherence itself is a matter of political will.

Raymond W. Baker, author of Capitalism's Achilles Heel: Dirty Money and How to Renew the Free-Market System, is Director of the Task Force on Financial Integrity and Economic Development.

PCD-policy recommendations to fight illicit financial flows

Raymond Bakers analysis shows how Illicit financial flows from developing countries to the rich part of the world reach 8 to 10 times more than Official Development Assistance sent from the rich countries of the world to the same countries. About two third of the illicit financial flows consists of commercial tax evasion from international companies and though some figures are disputed and cannot be accurate there is general international agreement on the magnitude of the problem.

Illicit financial flows are according to Raymond Baker made possible by the world's financial institutions and assisted by Western governments including the European Union.

While it is unrealistic to stop illicit financial flows completely it is possible and quite simple to curtail the flows very considerably. Billions of dollars can be made available for development in a more equal partnership between richer and poorer countries if a few measures are taken.

The key-word is transparency and the fulfillment of 3 recommendations will have a very positive impact.

- The legislative demand in EU and all EU member states of clear information of beneficial ownership, meaning natural persons, of all account holders in all types of financial institutions.

- The demand of country-by-country reporting for all multinational corporations. This means reporting sales, profits, taxes, assets, and employees for each jurisdiction where the corporations are established.
- Acceleration of automatic exchange of tax information between countries.

The measures are not technically difficult and they are not very expensive. They will not create a perfect system and remove the problem of illicit financial flows but they will limit it considerably.

A problem which is often mentioned is that tax authorities in many developing countries only have a very limited capacity and even cannot keep track of their own domestic tax payers. Automatic exchange of tax information between countries will, however, make it possible for them to improve their capacity and from the beginning to deal with the most important data.

Policy Coherence for Development makes it mandatory that the EU and its member states take the necessary steps to change a situation in which developing countries each year are deprived of 8 to 10 times the amount they receive in official development assistance in a global system in which the EU and its member states combined are the worlds biggest donor.

Concord Denmark proposes the following vision and objectives in the policy area of illicit financial flows

Vision: Fighting illicit financial flows

The Danish Government envisages a global financial system based on transparency and a fair contribution from all types of national and international incomes to development purposes. The government will work actively and including through the European Union and UN to assist developing countries in fighting commercial tax evasion and other types of illicit financial flows and strengthen taxation systems in developing countries.

Political objectives:

- 1) Transparency and clear information about beneficial ownership of all companies and account holders in all types of financial institutions, particularly in tax havens.
- 2) Country-by-country reporting for all multinational corporations.
- 3) Multilateral automatic exchange of tax information between countries.

Operational Objectives:

- 1) Require all types of financial institutions to collect information, which can identify the natural person behind a legal structure.
- 2) Revise EC directives (such as Accounting Directive and Transparency Obligation Directive) and include requirement of country-by-country reporting for all multinational corporations and larger Small and Medium Enterprises (SME).

- 3) Secure that the EU push for country-by-country reporting as part of accounting standards set by the International Accounting Standard Board (IASB).
- 4) Require financial information beyond payments (e.g. profit before tax, external as well as internal turnover within the group, assets, production volume and number of employees) as part of every country-by-country reporting in order to address illicit capital flight arising both from corruption and tax evasion of multinational corporations.
- 5) Require project-by-project reporting (e.g. for each mine or oil platform) as part of country-by-country reporting for the extractive sector.
- 6) Develop transfer pricing rules with the capacity and interests of developing countries taken into account (e.g. in OECD)
- 7) Revise EC directives (such as European Saving Tax Directive (EUSTD)) and expand it to include requirement of information on corporate, trust fund, foundation income and tax. More over the information shall be automatic and through multilateral agreement taking into account the capacity of developing countries.
- 8) Make multilateral automatic exchange of tax information a global standard and use the EUSTD as the model for moving in this direction.
- 9) Push for a strong outcome of the OECD working groups on tax and development e.g. promotion of country-by-country reporting and automatic exchange of tax information.
- 10) Support development of progressive taxation systems and administration in developing countries, particularly aiming at capturing the rents from natural resources, both through political dialogue and aid.



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About Concord Denmark

Concord Denmark is a network of Danish development NGOs working for a more fair and effective Development Cooperation, Policy Coherence for Development (PCD) and the strengthening of civil society participation at all levels of European external policies. Concord Denmark is part of Concord Europe, which represents more than 1800 development and humanitarian organizations across Europe.

“Delivering results – How Denmark can lead the way” was published in May 2012 during Denmark’s EU-Presidency with the aim of aspiring Denmark and other EU member states to advance their PCD commitments and thereby enhancing the fight against global poverty.



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