

The new EU development cooperation and Latin America
- APRODEV, CIDSE and CIFCA contribution to the report of MEP Ricardo Cortés

1. Key recommendations of the networks for the Development Cooperation Instrument:

- Revise the differentiation criteria, by including analysis of poverty, human development and inequality, as well as the actual amount of the EC aid. This analysis would lead to maintain regular bilateral cooperation at least with Colombia, Ecuador and Peru.
- Elaborate and implement phase-out strategies with the remaining countries (Argentina, Brazil, Chile, Costa Rica, Mexico, Panama, Uruguay, Venezuela) progressively over the next MFF period. Base them on political dialogue with the partner country, taking the reduction of inequality as a point of departure. This “partnership for social cohesion” would include:
 - Well targeted bilateral development assistance in one or two key sectors during 2014-2020, focusing on social cohesion
 - Complementary cooperation through thematic and region-wide funds as well as partnership instrument, focusing on social cohesion (means including civil society to regional priorities, clearer focus towards SMEs and redesign of the partnership instrument)
 - Improved policy coherence for development, including effective and transparent political dialogue on social cohesion with the partner country
- Maintain differentiated policies on country-by-country basis. At country level, decisions relating to the total envelope of ODA and its spreading between priority sectors and aid modalities should be based on: 1. political dialogue 2. democratic ownership and 3. good understanding and analysis of the country that goes beyond GNI
- Maintain the following universal criteria in all development cooperation with Latin America:
 - uphold the 20% social sector target for basic health and education.
 - enhance women’s social/economic/political empowerment.
 - complement sectoral support with support to local CSO that are doing budget tracking and monitoring national parliaments, the media and audit institutions.
- Base the strategic partnership between the EU and Latin America on policy coherence for development. An action plan on policy coherence and its monitoring would allow permanent dialogue on the coherence of different policy areas in poverty reduction between the regions and support the emerging economies to adopt same coherent policies towards their neighbours.

2. Comments for questions posed by MEP Cortés:

- **Possible impact of the reduction of the new DCI in LAC, and levels of ODA, in particular in MICs**

The image of poverty has changed from extremely poor countries with extremely poor people to wealthier countries with huge levels of inequality within the countries. As a result, now $\frac{3}{4}$ of the poorest people live in Middle Income Countries (MIC).

Latin America is a leading example of this. According to the UN, the income per capita of the richest 20 per cent of the population in Latin America and the Caribbean is on average 20 times higher than that of the poorest 20 per cent. As put by ECLAC in its report “[Time for Equality](#)” (2010):

“The region has a record of inequality five centuries long, with a roll-call of racial, ethnic and gender discrimination, a division of citizens into first- and second-class categories and the worst income distribution in the world. In the past few decades inequality has exacerbated the unevenness of productive opportunities in society, worsened employment conditions and segmented access to social protection. Inequality is rampant in the asymmetries of globalization.”

The DCI proposal fails to recognise this historical reality and, based on arbitrary macro-economic data, proposes cutting bilateral aid from 11 Latin American countries, of which many still face high levels of poverty and all of them unacceptable levels of inequality.

According to ECLAC "[Social Panorama 2011](#)" the Latin American region has advanced significantly in reducing poverty. However, no increase of income is witnessed with the most vulnerable groups, especially the poorest women. The social protection schemes of the Latin American countries fail to be inclusive and thus do not guarantee access to social security. As a result, still 177 million people live in poverty.

High levels of inequality and lack of effective social protection mechanisms are key drivers of poverty. Inequality and lack of fair redistribution mechanisms reduces the impact of economic growth on poverty and makes the politics of development and poverty reduction more elitist.

Thus, if the EU remains committed to MDGs and poverty reduction, it is necessary to continue fighting inequality in these countries. In this context, it is concerning that the EC does not have clear complementary cooperation through regional or thematic cooperation or partnership instrument for the 11 countries in these fields.

It is difficult to assess the impact of the reduction of bilateral ODA to Latin American countries as the EU has not used country-specific impact assessments of its present development cooperation for its proposal to cut the bilateral support to UMICs.

However, the impact for many countries would be important, considering that the EU has, through its bilateral programmes focused on encouraging social spending in key sectors such as health and education, strengthening of governance and social inclusion. The EC has in some countries also supported sub-national programmes for social development, targeting the areas with most poverty.

The impact of the new DCI would also affect political dialogue as less space would be left for EU delegations' dialogue on human rights, tax reforms etc. Furthermore, the EC wants to give prominent role in regional cooperation for blended investments, namely via the Latin American Investment Facility. As this will most probably be managed by the EIB and other financial intermediaries, the role of EU delegations will be mainly to represent the EU and defend its interests in the partner countries.

Whether in such circumstances, the 11 delegations in the countries without bilateral development cooperation, will still be interested and have the competences to engage with the partner governments and other development actors like civil society, the UN, the MS or other donors on social and human development policies and programmes is uncertain. According to the prominent *value for money* doctrine of today, maintaining a management and financial team in these delegations to only administer the in-country aspects of thematic programmes and horizontal instruments, worth a few million euros, might also soon become questionable.

- **How to develop a phasing out strategy towards MICs?**

The countries in the region differ enormously in their economic, political and social realities, which makes it necessary to do a sophisticated analysis on specific needs for development cooperation in each country, instead of relying on categorisation based on purely macro-economical data. These differences are also huge within countries, further complicating the analysis exercise.

The countries with highest poverty levels and lowest human development of the UMICs in the region still need regular development aid. According to ECLAC which uses methodology based on household surveys, the Upper Middle Income Countries (UMIC) Colombia, Ecuador, Mexico and Peru face poverty levels of more than 30 percent. At the same time the Human Development Index in these countries ranks the lowest in the region after the four Central American countries, Bolivia and Paraguay. Furthermore, the EC development cooperation with Colombia, Ecuador and Peru has been significant (132-160 million EUR). At least in these three countries development cooperation should be continued.

Continuing aid in Colombia, Ecuador and Peru may be more effective in poverty reduction and have greater value for money than in Low Income Countries (LIC), taken that their institutional environment is in better shape (better governance structures, institutions and oversight mechanisms). Aid can be more effective also because it is relatively smaller as a percentage of GDP and government expenditure. The traditional problems of ownership and conditionality, dependency culture and absorption capacity (in terms of

macroeconomic effects), are substantially absent when aid is limited in size.

If phase-out strategies will be planned in other eight countries of the region (Argentina, Brazil, Chile, Costa Rica, Mexico, Panama, Uruguay, Venezuela), these should be carried out progressively over the next MFF period. The door should be left open for possible bilateral support in the future as the decision on aid is based on arbitrary and constantly changing income categories.

These phase-out strategies should be planned as **“partnerships for social cohesion”**. The strategies should be built on political dialogue with the partner country, taking the reduction of inequality within the country as a point of departure. This partnership could consist of three fundamental elements which all aim at reduction of inequalities and thus eradication of poverty in these countries:

1. **Well targeted bilateral development assistance** in one or two key sectors during 2014-2020, focusing on social cohesion
2. **Complementary cooperation** through thematic and region-wide funds as well as partnership instrument, focusing on social cohesion
3. **Improved policy coherence for development**, including effective and transparent political dialogue on social cohesion with the partner country

Underneath we address these elements shortly one by one:

Bilateral development assistance

Well targeted, external aid in one or two key sectors would continue have a catalytic effect on reducing both poverty and inequalities as well as on the mobilisation of domestic resources and their fair redistribution in favour of social protection and social sectors. When these initiatives have a strong ownership within the country, the EC development assistance may have huge value for money, through the leverage it can provide in reforming key sectors.

Complementary cooperation

The DCI should **focus in its regional priorities more towards social cohesion**. At the moment it is foreseen that the major component of regional aid would be the blending mechanism Latin American Investment Facility (LAIF) which may lead to more development aid being spent on large infrastructure projects carried out by multinational companies, aimed at supporting private sector expansion but with no clear contribution to poverty reduction, and with possible negative impacts on human rights and the environment. LAIF thus includes a risk of diverting ODA in support of EU private sector.

Aid for trade should, instead, focus on inequality and thus exclusively support Small and Medium enterprises in the region. In Latin America the productivity levels between small and big enterprises are huge. As the employment is concentrated in sectors characterized by very low relative productivity, these sectors are key in fighting inequality.¹

At the same time, **the EU should focus on supporting intraregional markets instead of promoting inter-regional trade with aid instruments**. This is extremely important considering that the EU promotes trade agreements with all Latin American regions and is keen to utilise aid instruments in order to show the utility of these agreements. In Central America the EC already uses aid instruments to build strategies for SMEs to start exporting their exports to the EU. This ends up in distorting SMEs own strategies which mainly focus on local, national and at most, intraregional markets.

Civil society should be included in regional priorities of the DCI for Latin America as it plays key role in fighting inequality. Civil society functions as an advisor and puts pressure to the governments to design and implement pro-poor growth strategies as well as in guaranteeing the transparent usage of public resources and fighting corruption, still prominent in many Latin American UMICs. This support to civil society also has a conflict prevention dimension, considering that social tensions in many Latin American countries increase as the inequality grows due to increased incomes of the economic elites.

Furthermore, the partnership instrument should be redesigned to support emerging economies' efforts to fight inequality and improve social protection. Many Latin American governments still lack capacity in

¹ Analysis on productivity gaps

many areas of public policy and the EU can play a key role in providing expertise and technical support. It is important to guarantee this type of support for the Latin American countries, even after phasing out the bilateral development cooperation. In this sense the partnership instrument, if designed appropriately towards partnership in fighting inequality, could play key role. Unfortunately, in the EC proposal the Partnership instrument is mainly an instrument driving for economic interests of the EU, instead of providing partnership in tax reforms and administration or social protection schemes.²

Policy Coherence for development

This has a huge impact on development of partner countries and follow-up plans for guaranteeing policy coherence should be elaborated and implemented together with partner countries. Close monitoring of the impact of trade is needed and corrective measures, including revision of the trade agreements, must be encouraged when problems are identified. This requires establishing benchmarks from development perspective for these agreements, against which the impact can be measured and respect for human rights guaranteed.

At the same time, other elements of the relationship, such as human security, migration, food security and the sustainable management of national resources, must be assessed through effective and transparent political dialogue as well as promotion of reforms of the EU policies in these areas.

The political dialogue would also include the promotion of policy coherence for development of the emerging economies in their policies towards their neighbouring countries.

- How to focus this strategic relation between EU-LAC on the characteristics and specificities of the region
- necessity of the EU to be concentrated on the special characteristics of LAC (tailoring and adapting cooperation programmes as differentiated strategies are need)

The EU should maintain differentiated policies on country-by-country basis. At country level, decisions relating to aid allocation and programming, in other words decisions relating to the total envelope of ODA and its spreading between priority sectors and aid modalities should be based on:

- **political dialogue** with the recipient country that involves state and non-state actors
- **democratic ownership**: the EC should respect and align with the country's own policies, priorities and development strategies provided these are subject to democratic debate
- **good understanding and analysis of the country** economic, social and political situation that goes beyond GNI, growth and governance. The decision on key sectors to support should take into account the impact assessments of present aid in these countries.

The following universal criteria should be maintained in all development cooperation with Latin America:

- The Commission should **uphold the 20% social sector target for basic health and education**, according to OECD/DAC definitions, in the design of the DCI regulation, and commit to increased monitoring, evaluation and regular reporting towards this target on an annual basis, with particular attention to progress made towards achieving the Millennium Development Goals.
- The Commission should commit to enhance **women's social/economic/political empowerment** – women shall be considered as key actors to contribute to positive change in the social/public and political sphere.
- The Commission should **complement sectoral support with support to local CSO** that are doing budget tracking and monitoring national parliaments, the media and audit institutions.
- while concentrating financial resources on the poorest countries: this may entail putting more emphasis on cooperation in areas such as climate change and deforestation, higher education, science and technology.
- importance to improve the EU cooperation on capacity building, tax reforms programmes.

2 The declared objective of the Partnership Instrument is to advance and promote EU and mutual interests and give the “Europe 2020” strategy a global reach, by responding in an effective and flexible manner to cooperation objectives arising from the Union's relations with partner countries and by addressing challenges of global concern.

The UN identifies three areas in which the international cooperation can support tax reform: the design of reforms, technical and institutional strengthening of tax administration and international cooperation in areas such as double taxation and tax fraud.³ The EC could play key role in all these three areas; in the first one through the partnership instrument, second through bilateral development cooperation and third through international cooperation.

- **Reshape the EU cooperation with LAC with higher levels of development; without forgetting that the LAC with highest rates of GDP and growth, have considerable problems of inequality, poverty, social exclusion (indigenous peoples, vulnerable groups, etc)**

See the question related to phase-out strategies.

- **necessity to improve design cooperation programmes to generate low-carbon, sustainable growth, employment and better income distribution, mitigating the effects of the crisis;**
- **how to reinforce our concerns on social cohesion and policy coherence on trade component of associations agreement.**

The new partnership between some LAC countries and the EU should be based on policy coherence for development. For example, the trade agreements negotiated by the EU with Central America, Colombia and Peru may strengthen the unhealthy power relations between the economic elite and political decision makers, as they mainly favour export-oriented economic elite of the region. Also the Sustainability Impact assessments commissioned by the EC for these agreements recognise various risks which hardly lead to reduced poverty and inequality in the region. Thus the CS networks recommend the EP to withhold consent for these agreements until it can be guaranteed that the agreements are coherent with the respect for human rights and the achievement of the MDG and other development objectives that the EU has adhered to.⁴

As a whole, we are seriously concerned by the fact that, without significant improvements in the area of Policy Coherence for Development, transparency and fairness in the exploitation of raw materials, fair tax and redistribution systems, corporate social responsibility and the respect of human rights by all actors involved, there is little hope that a cooperation model based on economic growth, private investments and free trade will have any impact on reducing poverty and inequalities in Latin America.

The policy coherence should be guaranteed by a joint action plan which would be elaborated in consultation with all stakeholders, including the civil society. This plan and its monitoring would allow permanent dialogue on the coherence of different policy areas in poverty reduction between the EU and Latin America. Within trade schemes this approach would mean incorporation of systematic monitoring mechanisms on the impact of the agreements that are designed from the perspective of policy coherence for development. Whilst the EU supports private sector expansion, it simultaneously needs mechanisms to ensure that European companies investing in LA respect the full range of internationally recognised human rights standards.”

The EU also needs to focus better its policies under social cohesion. As demonstrated by a recent report of international SCO networks⁵, in Central America a broad range of programmes and projects from trade liberalization to justice and security are carried out under the objective of social cohesion. This allows too much flexibility for the EC in programming and implementation and makes any closer evaluation of it difficult. **The EU should center its support to social cohesion on programmes aimed at supporting social and fiscal policies to promote equity, access to basic services and decent work.** The EU should also recognise that social cohesion is closely linked to other policies such as trade, investment and finance.

Human rights, democracy and governance should be objectives in their own right in EU development cooperation. In EU cooperation with Central America, there has been a change in focus over the past decades, away from democracy, governance and human rights towards a stronger focus on trade and economic growth. EC priorities and specific development cooperation programmes fail to respond adequately to the widespread problems of poverty, injustice and inequality in the region. The lack of a clear poverty focus has been highlighted by civil society organisations as well as by the European Parliament.

3 http://www.un.org/en/development/desa/policy/publications/general_assembly/a_64_253.pdf

4 See analysis of EU trade agreements in CSO networks' briefing: [EU Trade Agreements with Central America, Colombia and Peru: Roadblocks for sustainable development](#).

5 http://www.aprodev.eu/files/Central_America/201103_eu_development_cooperation_ca_report_final.pdf

- Support for regional integration. The importance of the definition of a broader strategy that is not dictated exclusively by the development of trade commitments

The DCI is based on the assumption that trade liberalisation and investment will generate economic growth, which in turn will reduce poverty. These ideas are already clearly visible in EC development cooperation with Central America, which is increasingly focused on the implementation of the trade pillar of the EU – Central America Association Agreement and on supporting market driven growth.

However, research shows that there are no direct links between trade, investment and growth, or between growth and poverty reduction. When looking at the relation between economic growth and improvements in education and health over the past 40 years, the UNDP Human Development Report 2010 shows that “the correlation is remarkably weak and statistically insignificant”. Also, it shows a strong negative relationship between inequality and human development, and that public spending on services, especially health and education, and social protection improves income distribution.

The EC’s call for inclusive growth fails to provide concrete measures of how to ensure that economic growth will benefit the most vulnerable sectors of society. For example, as a main component of “the new EU aid”, the Latin American Investment Facility (LAIF) will become increasingly important in EU development cooperation.

Regional integration should support existing integration processes which are backed up by the region. Consequently, the EU should assess carefully its support mechanisms to regional integration for example in Central America where the integration body SICA lacks capacity but also credibility and political support. Support to integration should have broader agenda than trade and security. With regard to civil society there are many regional networks that give valuable contribution to peoples' integration but do not form part of the consultative civil society body of SICA.

- South-South cooperation by means of triangular cooperation mechanisms. The role of the more advanced LA countries (Brazil, Chile, Mexico, Argentina) in the region's integration process.
- Triangular cooperation to support: the achievements of MDGs, including eradication of poverty and hunger; promotion of employment and decent work; promotion of gender equality and empowerment of women, achievement of universal primary education, social inclusion and social cohesion; health sector; fight against HIV/AIDS, including with a view to the local generic production of essential medicines; agriculture, food and nutrition security, including small-scale and family agriculture; sustainable development, combat child and forced labour

Triangular cooperation of the EC is not included in the DCA proposal. The wealthier middle-income countries can play important role through triangular cooperation mechanisms, especially by providing knowledge transfer.

The EU should also **promote co-funding from sources available in MICs wherever and whenever possible**. Such co-financing, e.g. by MIC governments, would enhance ownership within the partner countries.

However, the EC must take into consideration the outcome document of the High Level Forum on Aid Effectiveness (HLF4) in Busan, which states that “the nature, modalities and responsibilities that apply to South-South cooperation differ from those that apply to North-South cooperation. [...] The principles, commitments and actions agreed in the outcome document in Busan shall be the reference for South-South partners on voluntary basis”.

This means that actors in South-South cooperation are in principle not tied by any of the commitments taken in Paris and Accra. Considering that the EC is a major stakeholder of the Paris Declaration (2005) and the Accra Agenda for Action (2008) it is important to guarantee that principles of aid effectiveness are implemented through triangular cooperation. In addition, it seems likely that due to the increasing role given to inclusive growth as the main driver of development and therefore to the private sector, it is increasingly important to make sure that South-South and triangular cooperation adopt mechanisms that commit to the respect of the internationally agreed human rights standards.

This further enhances the need to support coherent, rights-based policies of the emerging countries. This partnership with “wealthy” emerging economies should be based on partnership for policy coherence for development.