



European Economic and Social Committee

REX/441
Financing development –
the position of civil society

Brussels, 2 July 2015

OPINION

of the

European Economic and Social Committee

on

Financing development – the position of civil society

(own-initiative opinion)

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On 18 February 2015, the European Economic and Social Committee, acting under Rule 29(2) of its Rules of Procedure, decided to draw up an own-initiative opinion on:

Financing development – the position of civil society.

The Section for External Relations, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 11 June 2015.

At its 509th plenary session, held on 1 and 2 July 2015 (meeting of 2 July 2015), the European Economic and Social Committee adopted the following opinion by 142 votes to 0 with 3 abstentions.

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1. Conclusions and recommendations

- 1.1 The EESC requests that the new development agenda have a global dimension and aim to improve people's quality of life. It must be based on respect for human rights, prevention and peaceful resolution of conflicts, good governance, reducing social inequalities, strengthening the role of women and the involvement of all those who feel responsible for the development of this world and maintaining it for future generations.
- 1.2 The EESC supports adoption of the proposed sustainable development goals and requests that all available financial resources be drawn on and used transparently and effectively to achieve a balanced integration of the economic, social and environmental dimensions of sustainable development. A battle must be waged to prevent the squandering of resources on hostilities and their illegal transfer and flight into the grey economy.
- 1.3 The EESC asks that support for social dialogue be included among the development priorities, since it is an important instrument for taking account even-handedly of the interests of the social partners that enables social stability to be maintained, which is essential for achieving sustainable development goals (SDGs).
- 1.4 Official Development Assistance (ODA) must be directed to the least developed countries and countries in vulnerable situations. The EU should reaffirm its commitment to providing total ODA of 0.7% of GNP and 0.15-0.20% to the least developed countries. This commitment must be linked to the requirement for the proper and effective use of all funding sources for development assistance in line with the principles agreed in Monterrey, Doha and Busan.

- 1.5 ODA should be assessed not just in terms of financial volume, but also in terms of its quality and its contribution to achieving sustainable development goals. New indicators to assess its effectiveness need to be developed.
- 1.6 To make budget support to developing countries more efficient, the EESC recommends building on experience in implementing the EU's cohesion policy and its instruments, such as Structural and Cohesion Funds, so that development resources would be used directly for achieving SDGs.
- 1.7 Making better use of domestic resources, both public and private, which will increase in importance, will require major fiscal reforms, establishment of tax governance, integration of the informal sector into the legal economy and a resolute fight to tackle and prevent corruption. Concluding an international agreement on the fight against tax evasion, tax havens and illegal financial flows and improving cooperation with the OECD and the UN Tax Committee would help in this aim.
- 1.8 The EESC supports the involvement of the private sector in implementing projects that are – at least in part – commercially unviable through public-private partnerships (PPPs) and funding these through "blending". The prerequisite for successful implementation is an ex ante assessment of the sustainability of compliance with the principles of transparency, including reporting, mutual accountability and enforceability of commitments.
- 1.9 The EESC recognises the potential benefit of foreign direct investment for development, as long as it is directed towards SDGs. Earnings on foreign direct investment should primarily be reinvested in the developing countries where they have been generated. Beneficiary countries should have a clear investment strategy. New investor countries – such as China, Brazil and India – should take the principles of sustainable development into account when investing in developing countries.
- 1.10 The EESC supports innovative and complementary sources of financing for development, such as crowdfunding, the work of international charities and remittances to countries from their diasporas. The Committee welcomes proposals for new sources of financing submitted by the Leading Group on Innovative Financing for Development. These could become a significant source on the condition that they are applied globally and are not too much of a burden for the sector.
- 1.11 Civil society, including social partners and non-governmental organisations, must be involved far more actively and in a far more structured way in shaping development programmes, monitoring their implementation and evaluating their outcomes and impact. Both developing and developed countries therefore need to systematically put together and improve the system for monitoring development aid processes and involve the relevant civil society organisations in it. Here the EESC is willing to make available its considerable experience of cooperation

with partners in, for example, the ACP countries, Latin America, Asia, Eastern Partnership, and EuroMed.

- 1.12 If civil society is to be able to carry out this task, it must be backed up by programmes for building the capacity of civil society institutions in partner countries.

2. Core EESC positions on the post-2015 development agenda

- 2.1 2015 is a key year in terms of establishing a new global approach to development. The main mission of the Millennium Development Goals, reducing poverty, has only partially been achieved. The new sustainable development goals (SDG)¹ should bring about the fundamental changes that the EESC has long been calling for. The Committee welcomes the fact that many of its recommendations have been incorporated into the SDGs.

- 2.2 In recent opinions the EESC has requested that the new development goals become elements of global sustainable development². It has promoted the vital role of civil society in development policy³ and pointed out the need to include social security in EU development policy⁴. The Committee has also submitted a number of proposals on involving the private sector in post-2015 development⁵, on including sustainable development goals and the role of civil society in EU investment agreements⁶, on the contribution of trade to growth and development⁷, and on the post-2015 objectives in the Euro-Mediterranean region⁸. The joint extraordinary meeting of the REX section and the EESC's Sustainable Development Observatory on 20 October 2014 adopted recommendations on the agenda for sustainable development beyond 2015 which apply to the forthcoming meetings on SDGs and financing for them.

- 2.3 Social dialogue as a tool for addressing relations between employers and employees must become a key part of the post-2015 development agenda so that the social stability essential for successful ongoing development of the society in question can be maintained through collective agreements that cater fairly to their interests.

1 The September UN Summit in New York.

2 EESC opinion on *A decent life for all: Ending poverty and giving the world a sustainable future*, [OJ C 271, 19.9.2013, pp. 144](#).

3 EESC opinion on *Civil society involvement in the EU's development policies and in development cooperation*, [OJ C 181, 21.6.2012, p. 28](#).

4 EESC opinion on the *Communication from the Commission to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions – Social protection in European Union development cooperation*, [OJ C 161, 6.6.2013, pp. 82](#).

5 EESC opinion on *The involvement of the private sector in the post-2015 development framework*, [OJ C 67, 6.3.2014, pp. 1](#).

6 Opinion on the *Role for sustainable development and civil society involvement in stand-alone EU investment agreements with third countries*, [OJ C 268, 14.8.2015, p. 19](#).

7 Opinion on *Trade, growth and development- Tailoring trade and investment policy for those countries most in need*, [OJ C 351, 15.11.2012, p. 77](#).

8 Opinion REX/438 on The post-2015 objectives in the Euro-Mediterranean region, point 6.4, See page XX of OJ.

- 2.4 The EESC insists on the need of consistency between free trade goals and sustainable development goals in on-going negotiations in the framework of WTO or currently undertaken by the EU on services, environmental goods and in the implementation of existing WTO agreements.
- 2.5 All trade and investment agreements should comply with the sustainable development criteria including their impact on employment, vulnerable people and gender equality. They should not prevent the developing countries from managing crises, regulating capital flows, enforcing fair taxation and delivering essential public services. The EU should undertake full sustainability impact assessments, of EPAs in particular, focusing especially on the rights to development, and the specific rights to food, health and a fair wage, also taking into account the impact on vulnerable groups.
- 2.6 The global consensus on sustainable development must respect fundamental human rights and focus on conflict prevention and peace building, eliminating social inequalities, good governance, support for local democratic self-government, strengthening the role of women, and private sector involvement in development. To achieve this end, the international legal instruments, conventions, agreements and regulations should be adopted, promoted and ratified by the UN members⁹. We consider the European Commission communication *A Global Partnership for Poverty Eradication and Sustainable Development after 2015*¹⁰ to be a good basis for the forthcoming negotiations and call on the EU to play a leading role.

3. General comments

- 3.1 The EESC stresses the need for a holistic approach to sustainable development. Each country takes prime responsibility for its own development, while the global community is responsible for creating an international environment enabling sustainable development in all countries and respect for global public goods, preservation of natural resources, stable financial markets, management of migration and targeted support for technological advances aimed at sustainable development.
- 3.2 Bringing all available financial resources into play is a precondition for achieving SDGs. According to UNCTAD estimates, the annual investment needed in developing countries to

⁹ The UN Convention of 18 December 1979 on the Elimination of All Forms of Discrimination against Women, the International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families, Convention C189 on the protection of domestic workers, and Convention C184 on Safety and Health in Agriculture, the International Covenant of Economic Social and Cultural Rights, and its Optional Protocol and others.

¹⁰ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions *A Global Partnership for Poverty Eradication and Sustainable Development after 2015*, COM(2015) 44 final, 5 February 2015.

meet key sustainable development objectives for the period 2015 to 2030 is USD 3.9 trillion, with USD 2.5 trillion not covered¹¹.

- 3.3 The EESC agrees with the view that the world does in fact have enough financial resources that could be used. In addition to official resources¹², there also are hidden sources, such as the financing of hostilities and conflicts around the world. Availability of resources is also diminished by tax avoidance, the shadow economy, and illicit financial transfers, which should be systematically combated.
- 3.4 The task of finding and marshalling resources cannot be separated from the obligation to use them properly. We must continue to adhere to the principles of effectiveness and efficiency adopted in Monterrey, Doha and Busan and resolutely combat wasteful and inefficient use of all forms of financial and non-financial resources designated for development.
- 3.5 Development assistance should be judged not only in terms of amount, but also its quality and its contribution to achieving sustainable development goals and improving quality of life. New indicators that include value criteria therefore need to be created and statistics offices in developing countries reinforced, for example through transfer of know-how and shared information.
- 3.6 Broader participation of organisations from the whole spectrum of civil society in formulating national targets and development plans would help bring the interests of the private sector in line with public objectives. It is in their common interest to promote the principles of transparency, accessibility of public tenders, effectiveness and efficiency of invested funds and the responsibility of public officials for implementing the development strategy adopted.
- 3.7 To fulfil its role in development the private sector needs a favourable business environment that encompasses respect for the generally recognised democratic principles of the rule of law, facilitates company start-ups and growth, cuts down on bureaucracy, increases transparency, reduces corruption and encourages investment. The private sector must adhere to the internationally accepted principles of corporate social responsibility, respect fundamental economic and social rights and sustainable development requirements and create new jobs in accordance with the ILO Decent Work Agenda.
- 3.8 The EESC calls for better coordination and coherence of all EU policies related to sustainable development¹³ in order to avoid any duplication, overlap, fragmentation and possibly even

11 *The Global Development Financing Landscape – Who can contribute what?*, James Zhan, Director of the Investment and Enterprise Division, World Investment Report, UNCTAD, delivered at a public hearing of the European Parliament on 24 February 2015.

12 Assets held in banks are estimated at USD 121 trillion, with 34 trillion in pension funds, 28 trillion in insurance companies, 25 trillion in multinational companies, and 6.5 trillion in sovereign investment funds.

13 For example, trade, agriculture, job creation, social protection, climate change, energy, protection of the environment and biodiversity, transport, health, product and consumer policy, regional and urban development, migration, and combatting corruption and money laundering.

inconsistencies in approach and to deepen systematic bilateral coordination of Member State development assistance aimed at achieving SDGs.

4. **Specific comments**

4.1 Official Development Assistance (ODA)

4.1.1 Although ODA cannot meet all development assistance needs, it will continue to be essential for people in the least-developed countries, countries in a state of armed conflict, at risk from natural disasters or epidemics and people living on isolated islands and in countries without access to the sea.

4.1.2 ODA funds should be used as a priority to eliminate poverty in poor countries and those in vulnerable situations. The EESC points out that poverty has also increased in middle-income countries as a result of unequal distribution of wealth. ODA should be leveraged to marshal all sources of aid, including private investment, to eradicate poverty.

4.1.3 The EESC calls on the Commission and the Council to agree on a common European position on ODA in negotiations at the Addis Ababa conference. The EU should reaffirm its commitment to providing total ODA of 0.7% of GNP and 0.15-0.20% of GNP as ODA to the least developed countries. The EESC points out that the climate protection measures to be discussed at the Paris conference in December 2015 will require additional resources.

4.1.4 Data on the amount of ODA do not in themselves show the quality and results of the aid provided or its actual impact on the development of the recipient country. The EESC supports the proposal of the OECD Development Assistance Committee (DAC) to monitor aid and support for sustainable development provided not just by ODA, but also outside the ODA framework¹⁴. Non-financial aid (such as education, sharing of experience, technology and know-how, and scientific and technological cooperation) often has greater developmental benefits for the country than financial aid.

4.1.5 Budget support for developing countries should always have a specific allocated budget and donor and beneficiary should have a specified mutual accountability for seeing that this form of aid is used effectively for SDGs and in compliance with internationally recognised rules for financial management and control including robust conditional provisions and measures to tackle and prevent corruption. The EU funding itself should be credibly protected from corruption. The Committee recommends building on experience in implementing European cohesion policy in developing countries to better target development resources to SDGs and to more rigorously monitor how they are used and assess the results achieved.

¹⁴ TOSSD – *Total official support for Sustainable Development*.

4.2 Domestic resources

4.2.1 The EESC believes that the importance of both public and private domestic resources for development will increase substantially in the near future.

4.2.2 To increase the volume and effectiveness of the use of domestic resources, illicit financial flows, laundering of the money derived from illegal activities, including undeclared work, the trafficking of migrants or the export of non-recovered waste should be consistently combated, tax collection improved, corruption and criminality tackled and the extensive informal sector incorporated into the legal economy. Developing countries need to be assisted in implementing fundamental fiscal reforms and improving tax administration. The EESC calls on the EU to work more actively towards achieving international agreements on the fight against tax evasion, tax havens and illicit financial flows and towards improving cooperation with the OECD Centre for Tax Policy and Administration and the UN Tax Committee.

4.2.3 Today the level of domestic private investment, direct or portfolio, is several times higher than foreign investment. It should be channelled into investment goals, for example through incentives or well-prepared and secured PPP projects, so that it could become a significant tool for achieving SDGs.

4.2.4 There is a wealth of untapped domestic resource potential in developing countries with rich mineral resources where, despite relatively high state revenue, the majority of the population lives in poverty and building of the national economy, infrastructure and social services is neglected. The methods of certain foreign investors in the extractive industry in developing countries are rightly criticised by civil society, which calls for compliance with basic standards for environmental protection, social protection of workers, transparency of tax payments and transfers of profits abroad, and reporting in accordance with the OECD regulations for multinational companies¹⁵. The EESC welcomes measures to remedy the situation, such as the Extractive Industries Transparency Initiative¹⁶.

4.3 Blending and PPPs

4.3.1 The EESC believes that where governments are not fully able to deliver the necessary investment from public sources – for infrastructure, in particular, but also for public services – and these investments are not commercially feasible, public-private partnerships must be used and PPP projects should be financed through blending in line with OECD recommendations¹⁷.

15 <http://www.oecd.org/corporate/mne/48004323.pdf>.

16 <https://eiti.org/>.

17 <http://www.oecd.org/governance/budgeting/PPP-Recommendation.pdf>.

- 4.3.2 PPP projects must be drawn up in line with the development strategy of the country in question on the basis of feasibility studies, take into account ex-ante sustainability factors, and comply with the principles of transparency, mutual accountability, and enforceability of commitments. Social partners and other civil society representatives should be involved in assessing the benefits of these projects for sustainable development and monitoring compliance with ILO conventions.
- 4.3.3 Blending should also be used for social entrepreneurship and sustainable projects for the integration of vulnerable groups into the economic environment.
- 4.4 Foreign investment
- 4.4.1 In 2013, the influx of foreign direct investment (FDI) into developing countries was as much as USD 778 billion, but its contribution to sustainable development is often unclear. Only 2% of total FDI to developing countries goes to those that are least developed. In sub-Saharan Africa it goes mainly to the extractive industry without contributing more directly to the rest of the economy. New investor countries – such as China, Brazil and India – should take the principles of sustainable development into account when investing in developing countries.
- 4.4.2 According to the study by the NGO EURODAD on the state of finances of developing countries, the amount of money leaving these countries in 2014 was twice that of financial resources entering them from abroad, including from ODA, FDI, charities, profit transfers, remittances and other sources¹⁸. Efforts must be made to ensure that these funds are reinvested as much as possible in a way that benefits sustainable development in the beneficiary countries.
- 4.4.3 National development strategies should also include support for investment. Favourable conditions such as peace, stability and good governance must be created in order for FDI to be obtained and channelled towards SDGs. Developing countries should also incorporate SDGs into investment agreements concluded and offer adequate guarantees for these investments. The EESC recommends that investment support agencies and financial institutions in sending countries and those in receiving countries enter into direct technical cooperation linked with national sustainable development strategies.
- 4.4.4 There should be support for investments that bring some profit in the short term but also provide the opportunity of long-term profitability through their social impact, such as capacity building or the environment, which would lead to sustainable development.

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<http://www.eurodad.org/Entries/view/1546315/2014/12/15/The-State-of-Finance-for-Developing-Countries-2014>.

4.5 Innovative and complementary forms of funding

- 4.5.1 Crowdfunding and investment are a potential tool for financing smaller development projects¹⁹. The EESC notes that these instruments should be defined and an appropriate regulatory framework must be drawn up quickly, as recommended in its opinion²⁰.
- 4.5.2 The EESC welcomes the growing number of international charitable funds, foundations and programmes to promote sustainable development, such as the Global Fund to Fight HIV, Tuberculosis and Malaria, the Global Partnership for Education, and the GAVI Alliance, which supports immunisation of children in the least developed countries. These funds and foundations, in which public institutions cooperate with private donors and NGOs, should improve the coordination of their work and direct it towards SDGs.
- 4.5.3 Funds designated for ODA but not currently allocated to investment projects could be put into development investment funds and secured bonds so as to generate short-term revenue and help to create further resources²¹. In the longer term this should help increase the volume of resources needed for development aid²².
- 4.5.4 The EESC welcomes some of the proposals of the Leading Group on Innovative Financing for Development²³ and backs efforts to create new sources of financing for SDGs. However, these new sources must be used in a consistent way globally, without jeopardising the competitiveness of the sector concerned, and their use to further SDGs must be transparent. The ECSC would welcome a voluntary worldwide initiative from the banking sector to help finance the gap between needs and the resources available to achieve SDGs.
- 4.5.5 Funds coming from diasporas – that is, people transferring savings to their countries of origin – are a little-used source that could also be employed to meet SDGs. The costs of these transfers should be reduced. Members of diasporas should be offered training and incentive programmes that support their interest in investing in development projects that would increase the value of their savings while contributing to SDGs.

19 infoDev, *Crowdfunding's Potential for the Developing World*, 2013, infoDev, World Bank – Department of Finance and Private Sector Development.

20 EESC opinion on *Unleashing the potential of Crowdfunding in the European Union*, Brussels, [OJ C 451, 16.12.2014, 69](#).

21 The budgetary allocation of funds for ODA on a yearly basis entirely rules out these options.

22 The Belgian Investment Organisation (BIO), established by the government to support the business sector in Africa, transferred part of its funds that were designed for loans for entrepreneurs to other investment funds and gradually recuperated them as needed.

23 <http://www.leadinggroup.org/rubrique69.html>.

- 4.6 Financing micro, small and medium-sized enterprises
- 4.6.1 Micro-enterprises and SMEs, which are the main source of potential for growth and job creation, are faced with insufficient access to funding. This problem is particularly acute in the least developed countries and tools must therefore be sought to facilitate SME access to financial resources. This must be done while respecting the differences in types of entrepreneurship in developing countries, where micro-enterprises, small-scale retailers and small family farms predominate.
- 4.6.2 There are many different microcredit systems for SMEs. The Committee thinks those using mobile phone applications are the most effective. It also welcomes using microcredit for funding green energy projects and initiatives to provide zero-interest microcredits. Loans for SMEs (USD 10-200 thousand), which are currently lacking, could be replaced by capital leasing and other instruments. This requires help for developing the financial market and local banks, including local agents.
- 4.6.3 Support from developed countries for SMEs should include transfer of experience, managerial skills and technical know-how, training in financial management and financial literacy, and support for their inclusion in value and supply chains. The EU should promote the application of the principles of its directive on combating late payment to improve funding of SMEs.
- 4.6.4 Micro, small and medium-sized enterprises operating in the agricultural sector must be protected from land-grabbing investment practices that lead to their collapse. The creation of instruments insuring against the effects of climate change would also help them. Development plans must not neglect support for social economy enterprises, which could play a key role in achieving SDGs.
- 4.6.5 Ensuring that financial tools such as basic bank accounts or financial applications for mobile phones are accessible to the broadest possible strata of the population in developing countries is key to economic and social development.
- 4.7 Involvement of civil society in development aid
- 4.7.1 Civil society in developed countries, including social partners and non-governmental organisations, is a direct protagonist in development and plays an important role in helping to steer development cooperation and monitoring its effectiveness²⁴.
- 4.7.2 Systematic support needs to be given to creating and improving a system to monitor processes and results of development aid in individual countries that directly involves relevant civil society organisations. This is a way of helping to identify and eliminate hurdles to achieving

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Development Policy Forum www.friendsofeurope.org/policy-area/global-europe/, Policy Forum on Development www.uclg.org.

SDGs. The EESC has had good experience over many years with the work of joint committees, platforms and consultative bodies, such as the ACP-EU follow-up committee, EU-Latin American and EU-Caribbean meetings with organised civil society and so on.

- 4.7.3 Social partners are also direct providers of development aid. Trade unions in developed countries carry out socially oriented development projects and support the institutional development of partner trade union organisations. Employers' organisations, chambers of commerce, SME associations and industrial federations carry out joint projects with partner business organisations in developing countries and pass on experience to them.
- 4.7.4 Non-governmental organisations play a unique role in development aid, both in developed and developing countries. They are particularly active in helping to cope with the aftermath of humanitarian and natural disasters and work in the social sphere on such matters as health, gender issues and education. They also bring in funds from the general public, organise collections, awareness-raising events and so on. One interesting example is the financing of a form of distance education which helps build people-to-people contacts between ordinary citizens.
- 4.7.5 The EESC calls on the European Commission to support the work of EU civil society organisations aimed at meeting SDGs with adequate funding of programmes to build civil society institutions in partner countries. The EESC is currently drawing up an information report to complement this opinion that will recommend models for effectively involving civil society in the implementation and monitoring of the post-2015 development agenda.

Brussels, 2 July 2015

The President
of the
European Economic and Social Committee

Henri Malosse
