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COMECE

THE CATHOLIC CHURCH
IN THE EUROPEAN UNION

PRIVATE INVESTMENT & DEVELOPMENT

In the context of the recent 5th AU-EU Summit and the upcoming EU-ACP negotiations on the future of their relations, the Secretariat of COMECE presents this contribution to the ongoing debate on shifting from development assistance in a donor-recipient relationship towards a development cooperation based on a fair and mutually beneficial partnership.

CONTEXT

With €75.5 bn the EU and its Member States collectively are the world's biggest donors of development assistance, delivering almost 60% of global assistance. With the new international and European policy orientations[1] **traditional development assistance and cooperation is changing**. Foreign Direct Investments (FDI)[2] and other private financial flows are increasingly being seen as an important (additional) tool for developing countries to achieve inclusive, sustainable growth and job creation[3].

The European Commission (EC) has proposed **to strengthen synergies between development policy and instruments and crosscutting drivers with high job creation potential**[4], with particular attention to trade and investment. Until now, the existing investment programs in the EU development cooperation worked within the blending framework, using a limited amount of EU money (grants) to mobilise additional support. The recently launched European External Investment Plan (EIP) is to encourage investment in Africa and the EU Neighbourhood through the **integration of innovative financial instruments into the more traditional forms**. These consist of guarantees, risk sharing instruments, and the blending of grants and loans. Its formal launch in the context of the AU-EU Summit in Abidjan, started a fresh chapter in **development cooperation that focuses and relies much more on the private sector**.

The Catholic Church, as a universally networked as well as locally rooted actor, has a particular **concern for integral human development** based on the **common good** of all**,** particularly the most vulnerable members of society. The following contribution to the current debate on linking private investment with sustainable development intends to provide some principles and policy recommendations for the implementation. It particularly wishes to highlight that the **resilience of local populations**, the pursuit of **responsible, sustainable and mutually**

[1] Cf. in particular, the 2030 Agenda for Sustainable Development (2015), the Paris Climate Agreement (2015), the new EU Trade and Investment Strategy *Trade for All* (2015) the EU *Global Strategy on Foreign and Security Policy (2016),* the new European Consensus on Development (2017).

[2] According to the UNCTAD World investment report of 2015, currently, about four per cent of global foreign direct investment goes to Africa (about €50 billion per year), http://bit.ly/1IAdSEj

[3] The European Union is Africa´s major trading partner with one third of African imports coming from the EU and 35 per cent of African exports going to the EU (Source: UNCTADSTAT), http://bit.ly/2A9xVOC .

[4] European Commission, *New steps for a sustainable European future. European action for sustainability* (2016), http://bit.ly/2fr4ajn.

beneficial transnational partnerships as well as a **fair use of the capital to the benefit of the people**, especially the **young** generations, are key elements of the Social Teaching of the Church.

ASSESSMENT

Public investment alone cannot meet the critical needs, which are estimated at $210 bn per year for Africa to achieve the Sustainable Development Goals[5]. Thus, the **private sector** may be an additional resource to **contribute to the goal of sustainable and inclusive growth** with development directed investments in developing countries, while taking into account its profit-oriented nature.

For the private sector, there is a **need for attractive risk-return rates, which has to be balanced with the need for accessible and affordable services. Investment is not aid,** but it is oriented towards return on assets, providing a service as a plus. The idea of impact investments is the intention of generating a positive **social and environmental impact** alongside a **financial return**[6].

The European External Investment Plan (EIP) is supposed to mobilise new financial resources from the private sector and has formulated five investment windows, which outline its priority areas. In total, investments of up to **€44 bn are supposed to be raised until 2020**[7]. If **Member States** and other partners decided to **join the scheme**, the total amount could **even reach €88 bn**[8]. Compared to the estimated $210 bn per year needed for the achievement of the SDGs, the expected €44 bn will be far from enough, but they might set a sign as **a positive contribution** to reach this goal.

As **public and private investments should be complementary tools of development cooperation, not substitutes**, further attention will need to be paid to the following questions, in particular:

- Will the new paradigm result in a **net reduction of EU input to development cooperation**, which will then be compensated and augmented by private investment?
- Which specific mechanisms are proposed to **ensure development additionality** in all cases?
- As the current plan is based on the experiences from the blending framework and the European Strategic Investment Fund, both recently established; will these **new tools under new circumstances** prove to be effective and what will be their added value?
- Do both investor and beneficiary countries have **regulatory frameworks** set in place strong enough to secure **compliance with fundamental rights, the environmental protection** and to ensure **decent work conditions**?

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[5] United Nations Conference on Trade and Development (UNCTAD) (2014), http://bit.ly/1Bu3MTZ .

[6] Cf. GIIN "*Achieving the sustainable development goals: The role of impact investing*" (2016), http://bit.ly/2jCQWn2 .

[7] Cf. European Commission, "*Regulation on the European Fund for Sustainable Development (EFSD) and establishing the EFSD Guarantee and the EFSD Guarantee Fund*" (2016), http://bit.ly/2gkQQuy .

[8] Cf. http://bit.ly/2zz4y7h ; it is to be hoped that the Member States will show commitment and adequately contribute to the external investment scheme.

- Will the European External Investment Plan support mainly **big infrastructure projects**, which might lead to market distortion?
- Will **investors invest in more fragile countries**, if support from the European Fund for Sustainable Development in form of guarantees will also be granted in other, less fragile and/or more developed African countries?
- Will **investments especially in the Least Developed Countries** be ensured, so that these are not left out?
- To what extend will **local MSMEs effectively have access to the benefits** of the financing tools?
- Will **investments match needs and expectations of the local stakeholders, serving the priorities of the local economy**?
- Are there mechanisms to **mitigate the danger of Foreign Direct Investment crowding out** domestic investments?
- Will **transparent, public selection criteria & conditionalities** for the funds be published?

PRINCIPLES FOR IMPLEMENTATION – DO GOOD WHILE DOING WELL

As Pope Francis formulated, « *it is imperative to promote an economy which favours productive diversity and business creativity* » where «*the goal of access to steady employment for everyone* » is prioritised[9]. In order for the investments to contribute to the Sustainable Development Goals and partner countries' and their citizens´ development, firm commitments to some principles of implementation have to be made.

a) Partnership, not Assistance

Rooted in Catholic Social Teaching, the **dignity of the human person** has to be at the very centre of every action, which is directed towards the **common good**. As the **economy should be at the service of the people**, trade and investment policies must take into account the needs of developing countries and not merely seek European self-interest. With regard to the diversity of the private sector, rather than a one-size-fits-all approach, **context-tailored solutions based on dialogue** with local stakeholders should be promoted.

A country's wealth is mainly based on a **dynamic middle class.** The socio-economic development of a country cannot be merely achieved through big investments but it also has to be based on the implementation of the principle of **subsidiarity** in economic matters. Together with **solidarity,** the principle of subsidiarity can be effective in ensuring **local engagement and participation, as well as financial inclusiveness**. As set out in the Development Effectiveness Principles[10], local co-**ownership** is central.

International development cooperation seems to be shifting **from Development Assistance to Development Partnership,** from a donor-recipient relationship to **a genuine and fair partnership.** In order for this to become a cooperation that fosters **resilience**, it has to be a

[9] Pope Francis, Laudato *Si': "On Care for Our Common Home"* (2015), http://bit.ly/1Gi1BTu
[10] The Busan Partnership for Effective Development Cooperation (2012), http://bit.ly/2caZzSg .

mutually beneficial partnership. Resilience, as the Church frames it, is an ambitious, human rights-based approach that is **people-centred**, with **long-term empowerment**, and policies based on partnership in a **mutually beneficial process**[11]**.**

b) Production, not Predation

The economic systems of many countries, especially in Africa and Latin America, are based on the exploitation of natural resources by foreign, often multinational companies. **Access to natural resources** often leads to violence fueling conflicts and negatively affects the rights of local, in many cases indigenous communities. To counter this exploitation and **safeguard local land rights**, the principle of *Free Prior Informed Consent* has to be observed and effective redress mechanisms for victims of human rights violations be developed. In the medium- and longer term, it will be important to promote the **transition from exploitation of natural resources** to an **economic system dedicated to production and transformation** by building **local capacities** and **empowering local entrepreneurs**.

Since - as Pope Francis stresses - "*everything is interconnected*"[12], the care of Creation should also be taken into account in an **approach of integral ecology** that cherishes the environment and counters exploitation by effectively linking the economic, social and environmental dimension.

Initiatives supporting private investment as a way to foster sustainable development must therefore be integrally linked to efforts promoting **the rule of law, human rights, socio-economic justice, fair repartition of resources** as well as **environmental protection**.

Moreover, efforts on **domestic resource mobilisation**, such as promotion of fair, transparent and effective **taxation policies** as well as improving **good governance** and **fighting illicit financial flows** and **corruption** can help to **create enabling conditions for the private sector** to effectively contribute to sustainable development.

In order to **genuinely benefit the local population** and contribute to **poverty and inequality alleviation**, initiatives of private investment should help to **create decent employment opportunities**, especially for **young people**. On the side of the entrepreneurs, principles[13] of **corporate social responsibility,** as well as **local communities' cultural rights** should be respected. Finally, all projects should make sure that the **Return on Investment equals the Return on Development.**

c) Market Access

Market opening is needed, which **takes the characteristics of the partners' situation into account** and gives **effective access to all** stakeholders to the local market. At the same time, the **local market needs to be developed**. As "***trade should benefit people, not just markets and***

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[11] Cf. Joint Communication of COMECE, Pax Christi International and Justice & Peace Europe (2017)" Fostering *resilience for sustainable peace*", http://bit.ly/2j8qVZZ

[12] Cf. Pope Francis, *Laudato Si': "On Care for Our Common Home"* (2015), http://bit.ly/1Gi1BTu .

[13] Cf. the UNHR Guiding Principles on "*Business and Human Rights*", http://bit.ly/2i3W0BE ; it is furthermore to be noted that currently, the EU is participating in the negotiations on a UN binding Treaty on Business and Human Rights which – once adopted – could become a significant instrument for corporate liability at the international level, http://bit.ly/2xijfdv.

economies"[14], attention must be paid as to that trade policies and agreements are to the benefit of these developing markets and **do not harm the domestic economy**.

When fostering entrepreneurial initiative, it is necessary to ensure that the **social structure and its key actors**, are taken into account, especially the **family** as the basic actor in development and cohesion of the society. Family enterprises and small-scale farmers remain a strong organisational form in the **agricultural sector** of many African and Latin American countries and they are key in alleviating hunger. **Effective access to fair credit** should be granted to all stakeholders, including women entrepreneurs and family enterprises. The **promotion of sustainable agricultural production** and investment in the **modernisation** of other industrial sectors will need to **take into account the local realities** and potential positive as well as negative **impact** of **technologisation** and **digitalisation** on employability and small entrepreneurs.

d) <u>Accountability</u>

Governments and public authorities – through policy and rule making – ultimately need to be held **accountable to all citizens** for their country's sustainable development and with regard to the provision of vital public services.

Initiatives using **public money** to support business activities of **private actors** need to undergo **public scrutiny** in order to **ensure that European taxpayers' money** is spent by **European institutions** in an **accountable** and **adequate way** and contributes to the designated purpose.

In order to ensure that the investments are targeting the needs of the very poor and contribute to a sustainable development with inclusive economic growth and high creation of decent jobs, a **results-based approach** is needed that sets achievable targets, and monitors and evaluates the progress made.

POLICY RECOMMENDATIONS FOR THE EU

a) Partnership, not Assistance

- Create fora for inclusive **multi-stakeholder dialogue at and across different levels** (involving state and non-state actors as well as local, national, regional and international stakeholders) in order to address **cross-cutting** issues (decent work, social safety nets, environmental quality, etc…) and to foster a **people-to-people partnership**
- Ensure that all project decisions under the External Investment Plan **clearly respond to development priorities defined in dialogue with all stakeholders**
- Promote **participation and engagement** of **local stakeholders** in economic activities throughout the project implementation in order to **foster local co-ownership**

[14] Cf. Note of the Holy See, "*Ethical Guidelines for International trade*" (2003), http://bit.ly/22KLfBs .

b) Production not Predation

- Make **ethical and fairness standards** an integral part of **trade and investment schemes**, maintaining **policy coherence** without conceding on principles and human rights
- Require **firm commitments from investing enterprises**, to follow standards in terms of rule of law, decent job creation, infrastructure development, community benefits and environmental protection.
- Make **incentives and subsidies conditional on social inclusiveness** and **on fair distribution of resources**
- Balance the **need for attractive risk-return rates with the need to provide the local system with accessible and affordable goods and services** in all investment projects
- Protect **local land rights** through collective land registration of community land and through *Free Prior Informed Consent* mechanisms
- Promote the adoption and consequent implementation of **legislation** in beneficiary as well as investor countries for respect of **Human Rights**, to prevent **land grabbing**, to end **impunity** as well as to avert **exploitation of natural resources** and protect the **environment**; in this regard also promote **good governance** and **fight against illicit financial flows** by promoting **fair, transparent and effective taxation policies**
- Support the **transition** from exploitation of natural resources to an **economic system dedicated to production and transformation,** allowing employment and fair repartition of resources
- On behalf of the EU, play a **constructive role** in the ongoing negotiations on a **UN binding Treaty on Business and Human Rights**

c) Market Access

- Support **capacity-building** and **skills developmen**t in order to **empower** local entrepreneurs
- Allow **market access for all stakeholders**, especially micro, small, medium and social economy enterprises, young and women entrepreneurs as well as **family enterprises** in the **agricultural** sector, including by granting them **effective access to fair credit**
- Promote **mutually beneficial arrangements**, taking into account the diversity of local private actors as well as the specific characteristics of partner countries' economies and sectors
- Establish mechanisms ensuring that **fragile and less developed countries will also benefit** from investments supported under the External Investment Plan
- **Evaluate and reassess existing Trade and Investment Agreements** in terms of their benefits to all partners involved with specific regard to the infant industries

- Support the **creation of conditions for the private sector** to effectively contribute to sustainable development by fostering a **business environment** with clear legal, regulatory and administrative frameworks that promote **fair competition** in a **social market economy** with a view to **facilitate local entrepreneurship** and selling goods to the domestic market

d) Accountability

- Conduct **assessments** and improve **monitoring** of private investment initiatives supported under the European External Investment Plan with regard to their impact on sustainable and integral human development of people, families and communities, on fundamental rights, creating decent employment opportunities and on the environment in order to ensure a results-based approach throughout the whole process
- Develop effective **redress mechanisms** for victims of fundamental rights violations resulting from the business activities financed under the European External Investment Plan
- Provide widely accessible and **transparent information** on the selection procedures, criteria and conditionalities of investment projects and for investing enterprises
- Submit to the **democratic scrutiny of the European Parliament** an obligatory **periodic report** on the evaluation of private investment projects financed under the External Investment Plan

COMECE Secretariat, 7 December2017

The **Commission of the Bishops 'Conferences of the European Union (COMECE)** brings together the Bishop delegates from Bishops´ Conferences of the 28 Member States. For more than thirty years now, COMECE has been closely involved in the process of European integration and sharing its reflections with EU institutions. COMECE is the Catholic Church partner of EU institutions in the Dialogue foreseen by Article 17(3) of the Treaty on the Functioning of the European Union. Its permanent General Secretariat, based in Brussels, analyses EU policies on a day-by-day basis, striving to bring the specific contribution of the Catholic Church into the European debate. It maintains regular contact with Bishops' Conferences from all over the world within the structures of the Catholic Church.