

## TOOL #34. DEVELOPING COUNTRIES

### 1. INTRODUCTION

Assessing systematically the likely effects of different policy initiatives on developing countries is a requirement based on Article 208(1) TFEU, which stipulates that the EU “shall take account of the objectives of development co-operation in the policies that it implements which are likely to affect developing countries”. This constitutes the legal basis of a concept generally known as “Policy Coherence for Development” (PCD). Practically, the application of the PCD principle means recognizing that some EU policy measures can have a significant impact outside of the EU which may contribute to or undermine the Union's policy objectives concerning development. Through PCD, the EU seeks to take account of development objectives in all of its policies that are likely to affect developing countries, by minimising contradictions and building synergies between different EU policies to benefit developing countries and by increasing the effectiveness of development cooperation. PCD is therefore a fundamental element of the EU's development cooperation objectives, i.e. the reduction and eradication of poverty in the world in the long term. Are impacts on Developing countries potentially significant?

Developing countries are very heterogeneous in their social, political and economic structure. While impacts on the most relevant countries will have to be established on a case-by-case basis, as a general rule, the focus should be put primarily on the impacts on Least Developed Countries and other countries most in need.<sup>397</sup>

The EU defined five global PCD challenges where policy impacts should be given particular attention.<sup>398</sup> These are: trade and finance; ensuring global food security; addressing climate change; making migration work for development; strengthening the links between security and development. Potential impacts on human rights in developing countries may also need to be addressed.<sup>399</sup>

While it can sometimes be cumbersome to identify potentially significant impacts and to distinguish between direct or indirect impacts, many of the EU measures that are likely to have an impact on developing countries are already well-known (see Box 1 for a non-exhaustive list of these compiled by OECD<sup>400</sup>).

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<sup>397</sup> An updated list of Developing Countries and Least Developed Countries can be found, respectively, at the World Bank's and IMF's official websites.

<sup>398</sup> The Council Conclusions on PCD of 18/11/2009 endorsed these five priority areas in view of having a more targeted, effective and strategic approach to PCD in the EU. The five priority areas are not carved in stone. The Council itself in the above conclusions underlined that they may evolve over the years, even though they have remained stable since 2009. See <http://consilium.europa.eu/uedocs/cmsUpload/st16079.en09.pdf>

<sup>399</sup> See Tool #28 on *Fundamental rights and human rights*.

<sup>400</sup> This list is based to a large extent on an OECD publication (2012). See OECD, Policy framework for policy coherence for development, WP n°1, 2012.

### ***Box 1. Measures known to have impacts on developing countries***

#### *Trade and finance:*

- Regulatory measures in the management of EU production (e.g. fisheries) can affect exports and prices of products in developing countries, thereby distorting trade and undermining the local production, food security and livelihoods in these countries;
- Tariff barriers or export subsidies for EU products (e.g. agriculture) can affect the exports, commodity prices, and prices of processed products exported from developing countries to the EU and thereby undermine local production (for domestic or export markets), food security and livelihoods in developing countries;
- Measures regulating the behaviour of private actors such as multinational enterprises also active in developing countries; or measures impacting on the (re)distribution of value added along international integrated production chains (e.g. fair trade initiatives);
- Measures affecting movement of capital such as investment or remittances and the conditions of investment in developing countries, both in positive and negative ways (e.g. measures fighting tax evasion and dealing with tax havens);

#### *Ensuring global food security:*

- Regulatory measures regarding food safety and quality, animal welfare and environmental protection in the EU, which may present unintended non-tariff trade barriers to direct/indirect food exports into the EU from developing countries;

#### *Making migration work for development:*

- Initiatives affecting movement of people (e.g. migration policy) and conditions for travel of developing countries' citizens to and from the EU;

#### *Strengthening the links between security and development:*

- Measures affecting the attribution of development aid, investment or domestic resource mobilisation in developing countries;
- Measures and initiatives affecting fragile states or the EU intervention in international security issues;

#### *Addressing climate change:*

- Measures regarding climate change mitigation and achieving the international agreed warming limit level; measures affecting adaptation needs of developing countries.

## **2. HOW TO ASSESS THE IMPACTS ON DEVELOPING COUNTRIES?**

The scope and depth of the analysis will be determined, on a case-by-case basis, by the likely impacts of the proposed action. In some cases (e.g. for new regulatory proposals that affect products produced primarily in developing countries) a "fully-fledged analysis", i.e. detailed, substantial and quantified analysis will have to be undertaken. In other cases, a fully-fledged quantitative assessment will not be possible (because data is not available), or not proportionate (because the cost incurred in gathering such data would not be justified in the light of the magnitude of the initiative's likely impact). In the latter case, the analysis may generally be rather broad in its problem description and objectives, and the analysis of impacts may not require detailed quantitative data. In this

context, a qualitative analysis/overview of the impact of EU policy options on developing countries is a valid approach.

It is also important to consider possible other factors potentially playing a role in the final negative/positive impact (e.g. other international actors, local legislation, etc.) and determine whether it would be transitory or permanent. Furthermore a qualitative estimate of the main political risks (possible sources include past EP and Council or civil society comments/criticism on this or similar policy/measure) should be provided.

## 2.1. Qualitative/Descriptive assessment

This kind of assessment can illustrate the magnitude of impacts listed as significant, or it can serve as a first step in the assessment followed by further quantitative analysis.

A list of potential impact areas and guiding questions that should be taken into account when carrying out a qualitative assessment (accompanied by possible further quantitative analysis) is presented in the table below.

Category of impact	Potential impact areas particularly and guiding questions concerning developing countries
Economic impacts	Who are the developing countries' producing (and exporting to the EU) the goods/services affected? Are these least developed countries?
	What is the impact on proportion (esp. in value) of the trade between these developing countries and the EU, in particular regarding the trade balance of developing countries?
	What is the likely impact on price volatility?
	What are the impacts on proportion between the purchase of raw materials and finished products from developing countries?
	What is the impact on the competitiveness of exporters in developing countries in terms of intended or unintended trade barriers?
	What are the impacts on the initiative on intellectual property rights, standards, and technology and business skills in developing countries and on their capacity to trade their goods (towards the EU or between themselves)?
	What is the impact on food security for local population (e.g. by impacting on price of commodities or food on world and regional/local markets or by limiting access to land, water or other assets)?
	What is the impact on different population groups (urban vs. rural, small vs. large scale farmers)?
	What are the impacts on international and domestic investment flows (outflows and inflows including FDI) in the developing countries?
	What are the impacts on the private sector in developing countries (including competitiveness, access to finance, access to market)?

Social impacts <sup>401</sup>	What are the impacts on labour market (e.g. creation of job or decrease in employment level, impacts on different groups of workforce – low-skilled vs. high skilled workforce, wages level, working conditions)?
	What are the impacts on main stakeholders and institutions affected by the proposal?
	What is the impact on poverty levels <sup>402</sup> and inequality in developing countries?
	What are the impacts on gender equality and on the most vulnerable groups of society?
	What is the impact on human rights <sup>403</sup> in the development countries?
	What is the impact on migration in developing countries (rural-urban or international)?
	What is the impact on food security for the local population (e.g. by impacting on price of commodities or food on world and regional/local markets or by limiting access to land, water or other assets)?
	What is the impact on different population groups (urban vs. rural, small vs. large scale farmers)?
Environmental impacts <sup>404</sup>	How does it impact ecosystem approach?
	What is the impact on emission targets in developing countries?
	What is the impact on chemicals authorisation as well as on use and waste management?
	What is the impact on green economy development, both globally and in partner countries?
	What is the impact on the low carbon technology transfer and its availability in developing countries?
	What is the impact on the biodiversity (mono-cropping, deforestation) and global or local food security?
	What is the impact on the management and use of natural resources, e.g. minerals, timber, water, land, etc.?
	Are these options consistent with our support (under development cooperation policy) to responsible approaches to natural resources management such as FLEGT <sup>405</sup> , EITI <sup>406</sup> or Kimberley agreement <sup>407</sup> ?

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<sup>401</sup> See Tool #29 on *Employment, working conditions, income distribution, social protection and inclusion*

<sup>402</sup> Those people that stay below the poverty line

<sup>403</sup> See Tool #28 on *Fundamental rights and human rights*.

<sup>404</sup> For additional information see tool on Methods to assess costs and benefits and on Resource Efficiency

In some circumstances, a comprehensive literature review can provide the necessary elements for a sound assessment of the expected effects. For instance, the qualitative assessment of the likely effects of the Common Agricultural Policy (CAP) post-2013 Regulation in developing countries was based on a literature review, which covered all the transmission mechanisms between the EU and developing countries that could have been envisaged. The likely effects of the CAP post-2013 Regulation in developing countries were estimated to be negligible.<sup>408</sup>

## 2.2. Quantitative assessment

In some cases, a detailed, substantial and quantified analysis is advisable (e.g. for new regulatory proposals that substantially affect products produced in developing countries, e.g. the Regulation on the common organization of the market in bananas). Such an analysis of impacts is likely to require detailed quantitative data to establish a causal link between the policy option and its impact and analytical tools that entail modelling techniques<sup>409</sup>.

No single analytical approach is recommended given the broad range of policy options that might need to be considered and the constraints on human and financial resources that might be available for the assessment. Moreover, several analytical/methodological approaches have been used in the past for similar types of policy option and each gives satisfactory results. More of different analytical tools can be used together in order to cover various elements in stake, with possibility of combination. The various analytical approaches include:

- ***Econometric analysis:*** Gravity models have been widely used for estimating the impact of trade and non-trade barriers to trade (e.g. standards). These models can be adopted to analyse the set of affected developing countries with a so-called “control group”, allowing for a proper counterfactual analysis.<sup>410</sup>
- ***Computable General Equilibrium (CGE) models:*** There are a number of well-established CGE models that can be used to yield results in ex-ante assessments. Results obtained from such models capture relations between different macro

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<sup>405</sup> The Action Plan on Forest Law Enforcement, Governance and Trade (FLEGT) is the European Union response to illegal logging that was adopted in 2003. [http://ec.europa.eu/environment/forests/illegal\\_logging.htm](http://ec.europa.eu/environment/forests/illegal_logging.htm)

<sup>406</sup> The Extractive Industries Transparency Initiative is a global coalition of governments, companies and civil society working together to improve openness and accountable management of revenues from natural resources. <https://eiti.org/eiti>

<sup>407</sup> The Kimberley Process (KP) is a joint government, industry and civil society initiative to stem the flow of conflict diamonds – rough diamonds used by rebel movements to finance wars against legitimate governments. <http://www.kimberleyprocess.com/>

<sup>408</sup> [http://ec.europa.eu/agriculture/policy-perspectives/impact-assessment/cap-towards-2020/index\\_en.htm](http://ec.europa.eu/agriculture/policy-perspectives/impact-assessment/cap-towards-2020/index_en.htm)  
- Annex 12

<sup>409</sup> For the list of plausible models see tool on the use of analytical models

<sup>410</sup> For more details see, for instance, Joshua D. Angrist & Jörn-Steffen Pischke (2009), "Mostly Harmless Econometrics: An Empiricist's Companion", Princeton University Press.

indicators providing full scale information on given economy be it on national or regional level. Widely used GTAP8 model serves in simulating world trade and production providing for assessment of likely impacts on economic performance after introduction of certain measure (change in tax rates, price levels, investment activity, consumption patterns, production technology, etc.)<sup>409,411</sup>. For examples on how to use modelling in IA see Box 2.

***Box 2. Example of a modelling study***

The CEPR Study used to simulate the likely effects of the Transatlantic Trade and Investment Partnership (TTIP) on the EU, which is based on the so-called GTAP8 model, is a good illustration of modelling studies that can potentially be used in IA.<sup>412</sup> This is a well-established Computable General Equilibrium model to analyse tariff and non-tariff barriers to trade. If this model were to be applied to an appropriate level of aggregation (i.e. various groups of Developing Countries or, in special circumstances, individual developing countries), isolating trade diversion effects from other effects and substantiating important assumptions on other indirect effects towards the developing, it could prove to be a reliable tool for an assessment of the likely effects on developing countries. The responsible DGs could explore the opportunity of co-operating with the JRC to establish a sound application of this methodology to analyse and measure the impact their proposed policy measures on the developing countries.

**3. HOW TO MINIMISE NEGATIVE IMPACTS ON DEVELOPING COUNTRIES?**

Mitigating measures are of significant importance with regard to developing countries as being particularly vulnerable compared to economies of the developed world. From an array of mitigating measures those with minimal impacts on overall effectiveness should be chosen. For examples of such viable measures see Box 3.

***Box 3. Examples of mitigating measures***

- The Common Agricultural Policy (CAP) post-2013 Regulation is accompanied by an evaluation framework to measure ex-post the performance of the CAP with the EU development cooperation objectives. This monitoring is based on appropriate indicators and shall provide a consistent and dynamic picture of performance of the CAP vis-à-vis its stated development objectives.
- When the Economic Partnerships Agreements were negotiated, a number of mitigating measures were envisaged, including:
- At least 80 % of customs import duties would be phased out by African Caribbean Pacific (ACP) Group of States over 12 years; following negotiations, the period was extended to 15 years (in some cases to 20 or even 25 years) and in one case a lower 75 % threshold was accepted.
- All export duties/taxes should be phased out; following negotiations, it was

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<sup>411</sup> For a detailed description of the GTAP8 see, for instance, Aguiar, Angel H., McDougall, Robert A., and Narayanan, G. Badri (ed.), (2012), "Global Trade, Assistance, and Production: The GTAP 8 Data Base", Center for Global Trade Analysis, Purdue University

<sup>412</sup> See [http://trade.ec.europa.eu/doclib/docs/2013/march/tradoc\\_150737.pdf](http://trade.ec.europa.eu/doclib/docs/2013/march/tradoc_150737.pdf)

accepted that existing duties/taxes may continue and new ones introduced in specific cases for development reasons, including industrial development, infant industry protection, and food security, environmental or fiscal reasons.

- Exceptional difficulties should be dealt with traditional safeguard clauses: after negotiations, specific provisions were added to protect infant industries, food security and rural development, and bilateral safeguard clauses were provided for in cases of import surges from the EU, with lower triggers than those of multilateral safeguards under WTO rules.

#### 4. INFORMATION SOURCES AND BACKGROUND MATERIAL

Box 4 provides examples of sources on information already available and on databases than can support the analysis of the different dimension of the IA on Developing Countries.

- **Tool knowledge already available.** In order to identify and obtain existing relevant sectoral studies, the lead service should contact in priority the DGs DEVCO, RTD and JRC. Commissioning an expert study on given subject might also be an option (contact DG DEVCO for available experts and use of relevant framework contracts). In addition, relevant ex-post evaluations, previous IAs regarding similar countries/sectors as well as provision of literature review can serve as good starting point.
- **Databases to support economic and social assessments.** The most comprehensive database in terms of coverage of cross-country, cross-time information on developing countries currently publicly available is the World Development Indicator database (WDI), which contains useful information on several dimensions of poverty (economic, protective, political and human socio-cultural). As regards data on international prices, they can be found on the International Comparison Programme (ICP).<sup>413</sup>
- **Databases on Trade and FDI flows.** EUROSTAT, via the COMEXT database, has also extensive data on imports and exports of goods with developing countries. The UN COMTRADE can also be used to gather import data for the EU, as opposed to the actual export data from the developing countries (which can prove to be a great advantage as import values for developing countries are generally more reliable than export values. The UNCTAD and OECD have data bases regarding foreign direct investments and DG TRADE also developed a market access database. The DAC OECD data base reports complementary information on this. In terms of data on the measurement of standards/NTMS, the FP7 NTM project can be helpful.
- **Databases to support the environmental assessment.** As regards the environmental impacts on developing countries, relevant data can be found at the [United Nations Framework Convention on Climate Change](#) , the [Convention on](#)

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<sup>413</sup> The ICP is a worldwide statistical exercise established at the end of the 1960s. Its objective is to compare the GDP of various economies to '... determine their relative size, productivity and material well-being'. This comparison is done using purchasing power parities.

[Biological Diversity](#), [Global Climate Change Alliance](#) and the [Forest Law Enforcement, Governance and Trade](#).