

Sustainable Development Policy and Guide

for

The EEA Financial Mechanism
&
The Norwegian Financial Mechanism

Adopted: 07 April 2006

1 Introduction

1.1 Policy Statement

Sustainable development is of fundamental importance to the donor states of the EEA Financial Mechanism and the Norwegian Financial Mechanism, Iceland, Liechtenstein and Norway. The donor states consider the primary goal of the EEA and Norwegian Financial Mechanisms (the EEA Grants), the reduction of social and economic disparities in the European Economic Area (EEA), as being essential part of sustainable development.

Sustainable development describes an approach to planning and decision-making that aims at achieving a real and lasting reduction of social and economic disparities, as well as protecting the environment. The donor states therefore consider sustainable development as a fundamental principle underlying the EEA Grants.

Based on this, projects supported by the EEA Grants should be regarded as sustainable and the project portfolio as a whole should contribute strongly to sustainable development.

1.2 Scope

This sustainable development policy is intended to be complementary to the strategies of other actors with similar objectives, in particular the European Union, other international organisations, the donor states, the beneficiary states and NGOs. The policy has been developed based on the legal framework of the EEA Grants, combined with input from representatives of a number of these organisations.

The purpose of this document is to provide practical guidance on how the activities under the EEA Grants shall contribute to sustainable development.

Furthermore, this document, as with the other cross-cutting policy documents, is intended to give applicants a better understanding of the cross-cutting issues. Together, these documents indicate how sustainable development considerations, and the considerations of the cross-cutting issues, will be evaluated by the FMO and by the FMC and/or the Norwegian Ministry of Foreign Affairs, in the appraisal of the project applications both in terms of their eligibility and suitability. All the cross-cutting documents will be made available on the EEA Grants website alongside other project guidelines.

2 Definition

The term “sustainable development” is defined as¹

“...development that meets the needs of the present without compromising the ability of future generations to meet their needs.”

Sustainable development aims to provide a long-term vision for the society. Activities to meet present needs may still have short-term horizons, but they must in addition always include a long term perspective.

Sustainable development is an integrated concept involving all human actions down to the local level, and:

- aims to improve the quality of life of both current and future generations, while safeguarding the earth’s capacity to support life in all its diversity;
- is based on democracy, the rule of law and respect for fundamental rights including freedom, equal opportunities and cultural diversity;
- promotes high levels of employment in an economy whose strength is based on education, innovation, social and territorial cohesion and the protection of human health and the environment.

3 The 3 dimensions of sustainable development

The many elements of sustainable development are often organised into three dimensions or pillars: environmental, economic and social. There are different approaches to how they relate to each other, whether they are pillars on the same level or three rather different but closely linked dimensions of sustainable development.

For the purposes of this policy:

- the environment is the necessary **basis** for sustainable development
- the economy is the **tool** to achieve sustainable development
- the good life for all (the social dimension) is the **target** of sustainable development

3.1 Environment - the basis

The natural environment - the ecosystem - is under strain from human activity. Fulfilling present needs while reducing the impact of human activity is a challenge requiring new ideas.

It is a fundamental part of this challenge to secure the living and physical environment, including natural resources, processes and balances. Some simple, yet fundamental, aims have to be formulated, such as:

¹ Our Common Future; The Brundtland Commission, 1987

- Limiting global warming
- Halting loss of biodiversity
- Controlling and limiting emission of persistent chemical pollutants
- Returning to natural nutrient cycles

The need to limit global warming clearly illustrates how the environment is the basis for any sustainable development. The only logical way to control global warming is to reduce the emissions of fossil carbon significantly over a relative short time. If the climate really comes out of its current balance, it may not be possible anymore to create the good life of the social dimension with all economic and other tools available.

3.2 Economy - the tool

Traditionally economic development has been seen as the target, and the environment as the tool through the use of resources. Economic prosperity is a very important element of sustainable development; it allows to combat poverty, to finance remediation of old burdens, to make changes in our development, etc. However, not all economic growth implies improvement for sustainable development. Only economic growth at reduced environmental impact can be defended as being part of sustainable development. In other words, economic growth and environmental impact must be decoupled through improved eco-efficiency.

Economic policy and market mechanisms must be applied in support of sustainable development, and not against it. Without denying the importance of tools such as legislation, public awareness etc., the economy is a very powerful tool for sustainable development. Used in the right way, it provides efficient incentives to make choices for sustainable development.

These incentives need to be on all levels of society, they must work in favour of sustainable development by:

- making sustainable investments both in the public and private sectors profitable,
- channelling research into knowledge and solutions for sustainable development, as well as
- influencing consumption decision on all levels.

Making the economy into such an efficient tool implies that all the costs for any activity must be taken into account when economic and business decisions are made. This includes in particular long term environmental costs as well as social costs. These true costs must be reflected directly in market prices. This can be achieved through fiscal measures and through the establishment of markets where environmental goods and services are traded at real cost. Carbon trading under the Kyoto agreement is an example of an attempt to create such a market.

The Polluter Pays Principle, which is reflected in the Rules and Procedures of the EEA Grants, is fundamental part of both establishing mechanisms reflecting a project's true costs as well as securing the financing of these costs. Project promoters must take the Polluter Pays Principle into account whenever relevant.

3.3 Social - the target

The very essence of the sustainable development idea is to shift the focus from the present needs to also include the future generations as well. A sufficiently good life for all humans, within present and future generations, is therefore the target of sustainable development.

The social dimension is also important because sustainable development can only be achieved by people who feel that they have a fair share of wealth, safety and influence. The underlying assumption is not individual gain, but the provision for, and involvement in equitable growth for all in the society.

Therefore the social dimension of sustainable development includes support of the civil society, its involvement in solving various types of issues and its participation in decision processes on different levels. The social dimension also includes the fight against poverty through employment, support to sustainable livelihoods, anti-discrimination work, and social security for all.

4 Sustainable Development and the EEA Grants

Sustainable development has been integrated in the profile of the EEA Grants on various levels and it has a dual role:

1. as a cross-cutting issue for **all projects**;
2. as the key purpose of **certain projects**

In addition care has been taken to secure the focus on sustainable development throughout the project cycle. Although each application is judged on its own merits, projects carried out within the EEA Grants as a whole should also serve to facilitate increased sustainability. This also includes sustainability aspects related to the operation and maintenance of the project after implementation as well as the potential for further replications of the project.

4.1 As a cross-cutting issue

The EEA Grants assume adherence of supported projects to four cross-cutting issues:

- Sustainable development
- [Good governance](#)
- [Gender equality](#)
- Bilateral relations

Both good governance and gender equality link into the social dimension of sustainable development. They are, however, covered in separate policy statements, and are therefore not discussed specifically here.

In order to assess the inclusion of the cross-cutting issues into all projects, a checklist has been developed to be used as part of the appraisal process. There will be an absolute requirement that no projects are contradictory to sustainable development in any way and the better they are rated on the cross-cutting issues the better the chances are that the project will be supported.

The assessment on the cross-cutting issues will be combined with other appraisal results such as suitability of the applicant, relevance of the operation, methodology, risk and economic feasibility.

Issues related to sustainable development will be covered and followed up throughout the project cycle, starting with the preparation of the application, through the appraisal and decision processes, and continuing with project implementation and its evaluation. This has been an important requirement for the creation of the following documents:

- [Application Form](#)
- [Application form user guide](#)
- [FMO - Appraisal Manual](#)
- Grant Decision Document <link to be added>
- [FMO - External project Monitoring Manual](#)

These documents lead the project promoter, the appraisal agent, the decision maker and the monitoring agent through the elements of creating, selecting and implementing quality projects with a bearing on sustainable development.

4.2 In the priority sectors

The priority sectors of the EEA Grants are very broad, and each of them involves various aspects of sustainable development. The compliance of project applications with the principles of sustainable development will be assessed according to these special aspects.

In addition there is a specific priority sector called “promotion of sustainable development through improved resource use and management”. This priority sector cover certain aspects of sustainable development connected to resource use and management as well as projects with specific sustainability targets that do not fit into any one of the other sectors. The sustainable development aspect of the Financial Mechanisms cannot be limited to this priority area.

4.3 In projects

As described above, sustainable development requirements are implemented in the EEA Grants in different ways. Some project will have a sustainable development focus, whereas other projects will be part of sustainable development through the inclusion of sustainability aspects wherever appropriate.

In assessing the sustainable development profile of each project, a sustainable development checklist has been developed. The checklist is meant as a tool throughout the process of project development, appraisal, monitoring, and result evaluation. Due to the differences in nature of projects possible under the EEA Grants, the sustainability issues relevant to the project will vary. It must be in the interest of the project promoter to highlight these and it must be part of the professionalism of the appraiser to also identify these. Therefore the checklist must be used in a flexible way, declaring the ‘not applicable’ questions as such, and focusing on the relevant ones.

The checklist is divided into the three dimensions of the sustainable development:

Environmental

The issue regarding the environmental dimension is to determine whether or not the project has a positive environmental impact and how the key aspects of environment have been considered. The following issues should be considered:

- To what degree will the project reduce or prevent emission of persistent toxic pollutants?
- Will the project result in the recovery of natural resources?
- Is the use of fossil energy reduced by the project?
- Is the project of benefit to biodiversity?
- How have green procurement targets been included within the project?

Economic

With regards to the economic dimension, it is important to identify the sustainable economic drivers that influence the project and to determine whether or not the project in itself makes any kind of contribution for the establishment of economic tools for sustainable development. Economic sustainability regarding profit generation and financing of the maintenance of the project results is part of a project's overall economic feasibility and is covered elsewhere, e.g. in the FMO appraisal manual.

- How does the project strengthen the financial tools for ecosystem protection?
- Have the costs of all ecosystem effects been taken into consideration?
- Are all the financial drivers of the project sustainable?
- Has the polluter pays principle been followed?

Social

The social issues relating to sustainable development comprise the knowledge and conduct of the population, their health and integrated sustainable development management. Other parts of the social dimension related to the other cross-cutting issues, good governance and gender equality.

- How does the project increase the public's understanding of sustainability?
- How does the project influence citizens' positive sustainability behaviour?
- How does the project create positive effects for the public health?
- How does the project contribute to more integrated policy, planning or management, for sustainable development?

5 Implementing the sustainable development policy

The implementation of the sustainable development policy has to address the entire project cycle:

1. when projects ideas are developed by the potential project promoters
2. when the beneficiary state government makes their prioritisation of the projects

3. when the projects are appraised by the FMO
4. when the grant decision is made
5. when the project is implemented

This SD policy must therefore be implemented in all parts of the project cycle based on the following principles and activities:

- This policy is an integrated part of the grant policy adopted by the donors and they will thereby be committed to include the sustainable development assessment as an important decision criterion.
- The cross-cutting checklist is to be integrated in the *appraisal manual* in order to be used in each appraisal. This way the recommendation for grant decision will be based on sustainable development. The appraisal manual is a public document on the EEA Grants website.
- The checklist shall also be referred to in the *external project monitoring manual* in order for the implementation also to be checked for the same sustainability criteria.
- The *Sustainable Development Policy and Guide* and the associated checklist will be presented and thoroughly discussed with all the focal points in order for them also to consider the same criteria in their future assessments.
- The *Sustainable Development Policy and Guide* will be referred to in next revision of the application form and its user guide.

Other measures to make the Sustainable Development Policy public in the beneficiary states will be considered.