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Increasing the impact of EU Development Policy: an Agenda for Change

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1. REDUCING POVERTY IN A RAPIDLY CHANGING WORLD

At a critical juncture - facing new global challenges, close to the 2015 target for achieving the Millennium Development Goals (MDGs) and in the midst of preparations for the next Multiannual Financial Framework (MFF) - the EU must choose the right mix of policies, tools and resources to be effective and efficient in the fight against poverty in the context of sustainable development. The Commission is proposing an Agenda for Change to strengthen Europe's solidarity with the world's developing nations in this fight.

As the Lisbon Treaty states, supporting developing countries' efforts to eradicate poverty is the primary objective of development policy and a priority for EU external action in support of EU's interests for a stable and prosperous world. Development policy also helps address other global challenges and contributes to the EU-2020 Strategy.

The EU has already done much to help reduce poverty and in particular to support the achievement of the MDGs. Yet severe poverty persists in many parts of the world. A series of **global shocks** has left many developing countries vulnerable. As the world's population continues to grow, more action is needed to tackle global challenges like conflict prevention, security, environmental protection, climate change, and to deliver global public goods such as food security, access to water and sanitation, energy security and migration.

Meanwhile, people-led movements in North Africa and the Middle East have highlighted that sound progress on the MDGs is essential, but not sufficient. This leads to two conclusions: first, that the **objectives of development, democracy, human rights, good governance and security are intertwined**; second, that it is **critical for societies to offer a future to young people**.

EU development policy must take into account the increased differentiation between developing countries. Recently, **several partner countries have become donors in their own right, while others are facing increasing fragility**. The EU must now explore new ways of working with them and promote a more inclusive international development agenda.

There is also scope for the EU to work more closely with **the private sector, foundations, civil society and local and regional authorities** as their role in development grows.

At EU level, **the Lisbon Treaty has firmly anchored development policy within EU external action**. The creation of the post of High Representative/Vice-President (HR/VP), assisted by the European External Action Service (EEAS), offers new opportunities for more effective development cooperation and more joined-up policy-making.

The EU is not simply the 28th European donor. While the Commission implements 20 % of the collective EU aid effort, it also acts as coordinator, convener and policy-maker. The EU is an economic and trading partner, and its political dialogue, security policy and many other policies - from trade, agriculture and fisheries to environment, climate, energy and migration - have a strong impact on developing countries. It must **translate this multi-faceted role into different policy mixes adapted to each partner country**. To be fully effective, the EU and its Member States must speak and act as one to achieve better results and to improve EU's visibility.

Difficult economic and budgetary times make it even more critical to **ensure that aid is spent effectively, delivers the best possible results and is used to leverage further financing for development.**

With this new context in mind, in 2010 the Commission launched a consultation on EU development policy¹. This confirmed the relevance of the existing policy framework, while agreeing on the need to increase impact.

Changes on a number of fronts are called for. In particular, the EU must seek to focus its offer to partner countries where it can have the greatest impact and should concentrate its development cooperation in support of:

- **human rights, democracy and other key elements of good governance;**
- **inclusive and sustainable growth for human development.**

To ensure best value for money, this should be accompanied by:

- **differentiated development partnerships;**
- **coordinated EU action;**
- **improved coherence among EU policies.**

The Commission proposes an Agenda for Change that would lead to:

- an increased share of EU country and regional cooperation programmes dedicated to the policy priorities given in sections 2 and 3 below;
- the concentration of EU activities in each country on a maximum of three sectors;
- an increased volume and share of EU aid to the countries most in need and where the EU can have a real impact, including fragile states;
- enhanced importance of human rights, democracy and good governance trends in determining the mix of instruments and aid modalities at country level;
- continued support for social inclusion and human development through at least 20% of EU aid;
- a greater focus on investing in drivers for inclusive and sustainable economic growth, providing the backbone of efforts to reduce poverty;
- a higher share of EU aid through innovative financial instruments, including under facilities for blending grants and loans;
- a focus on helping reduce developing countries' exposure to global shocks such as climate change, ecosystem and resource degradation, and volatile and escalating energy and agricultural prices, by concentrating investment in sustainable agriculture and energy;
- tackling the challenges of security, fragility and transition;
- joint EU and Member States response strategies based on partners' own development strategies, with a sectoral division of labour;
- a common EU results reporting framework;

¹ COM(2010) 629 - http://ec.europa.eu/europeaid/how/public-consultations/5241_en.htm

- improved Policy Coherence for Development, including through new thematic programmes that build synergies between global interests and poverty eradication.

The proposed **Agenda for Change** does not seek to re-write basic policy principles. There will be **no weakening of the EU's overarching objective of poverty elimination in the context of sustainable development**, as set out in the European Consensus on Development². EU commitments on financing for development, MDG achievement and aid effectiveness remain firm, as do its ambitions as a political leader and key donor.

Development strategies led by the partner country will continue to frame EU development cooperation in line with the principles of **ownership and partnership**. The EU is seeking **greater reciprocal engagement** with its partner countries, including mutual accountability for results. **Dialogue at country level within a coordinated donor framework** should determine exactly where and how the EU intervenes. More effective collaboration within the multilateral system will also be pursued.

2. HUMAN RIGHTS, DEMOCRACY AND OTHER KEY ELEMENTS OF GOOD GOVERNANCE

Good governance, in its political, economic, social and environmental terms, is vital for inclusive and sustainable development. EU support to governance should feature more prominently in all partnerships, notably through incentives for results-oriented reform and a focus on partners' commitments to **human rights, democracy and the rule of law** and to meeting their peoples' demands and needs.

As long-term progress can only be driven by internal forces, an approach centred on political and policy dialogue with all stakeholders will be pursued. **The mix and level of aid will depend on the country's situation, including its ability to conduct reforms.**

Support for governance may take the form of programmes or project-based interventions to support actors and processes at local, national and sectoral level. **EU general budget support should be linked to the governance situation and political dialogue with the partner country**, in coordination with the Member States³.

Should a country loosen its commitment to human rights and democracy, the EU should strengthen its cooperation with **non-state actors and local authorities** and use forms of aid that provide the poor with the support they need. At the same time, the EU should maintain dialogue with governments and non-state actors. In some cases, **stricter conditionality** will be warranted.

The focus on results and mutual responsibility does not mean that the EU will neglect **fragile situations** where impact is slower or more difficult to measure. The EU should strive to help countries in situations of fragility to establish functioning and accountable institutions that deliver basic services and support poverty reduction. Decisions to provide budget support to such countries will be taken on a case-by-case basis, weighing up the benefits, costs and risks.

EU action should centre on:

² 2006/C 46/01.

³ COM(2011) 638.

- **Democracy, human rights and the rule of law.** The EU should continue to support democratisation, free and fair elections, the functioning of institutions, media freedom and access to internet, protection of minorities, the rule of law and judicial systems in partner countries.
- **Gender equality and the empowerment of women** as development actors and peace-builders⁴ will be mainstreamed in all EU development policies and programmes through its 2010 Gender Action Plan.
- **Public-sector management** for better service delivery. The EU should support national programmes to improve policy formulation, public financial management, including the setting up and reinforcement of audit, control and anti-fraud bodies and measures, and institutional development, including human resource management. Domestic reform and pro-poor fiscal policies are vital.
- **Tax policy and administration.** The EU will continue to promote fair and transparent domestic tax systems in its country programmes, in line with the EU principles of good governance in the tax area, alongside international initiatives and country by country reporting to enhance financial transparency.
- **Corruption.** The EU should help its partner countries tackle corruption through governance programmes that support advocacy, awareness-raising and reporting and increase the capacity of control and oversight bodies and the judiciary.
- **Civil society and local authorities.** Building on the ‘Structured Dialogue’⁵, the EU should strengthen its links with civil society organisations, social partners and local authorities, through regular dialogue and use of best practices. It should support the emergence of an organised **local civil society** able to act as a watchdog and partner in dialogue with national governments. The EU should consider ways of **mobilising local authorities’ expertise**, e.g. through networks of excellence or twinning exercises.
- **Natural resources.** The EU should scale up its support for oversight processes and bodies and continue to back governance reforms that promote the sustainable and transparent management of natural resources, including raw materials and maritime resources, and ecosystem services, with particular attention to the dependence of the poor on them, especially smallholder farms.
- **Development-security nexus.** The EU should ensure that its objectives in the fields of development policy, peace-building, conflict prevention and international security (including cyber security) are mutually reinforcing. It should finalise and implement the requested Action Plan on security, fragility and development⁶.

⁴ SEC(2010) 265 final.

⁵ http://ec.europa.eu/europeaid/who/partners/civil-society/structured-dialogue_en.htm

⁶ Council Conclusions 14919/07 and 15118/07.

3. INCLUSIVE AND SUSTAINABLE GROWTH FOR HUMAN DEVELOPMENT

Inclusive and sustainable economic growth is crucial to long-term poverty reduction and growth *patterns* are as important as growth *rates*. To this end, the EU should encourage more inclusive growth, characterised by **people's ability to participate in, and benefit from, wealth and job creation**. The promotion of decent work covering job creation, guarantee of rights at work, social protection and social dialogue is vital.

Development is not sustainable if it **damages the environment, biodiversity and natural resources and increases the exposure/vulnerability to natural disasters**. EU development policy should promote a 'green economy' that can generate growth, create jobs and help reduce poverty by valuing and investing in natural capital⁷, including through supporting market opportunities for cleaner technologies, energy and resource efficiency, low-carbon development while stimulating innovation, the use of ICT, and reducing unsustainable use of natural resources. It should also contribute to improving the resilience of developing countries to the consequences of climate change.

Public actors should forge partnerships with private companies, local communities and civil society. **Corporate social responsibility** at international and national level can help avoid a 'race to the bottom' on human rights, international social and environmental standards and promote responsible business conduct consistent with internationally recognised instruments.

The EU should focus its support for inclusive and sustainable growth on:

- those sectors which build the foundations for growth and help ensure that it is inclusive, notably **social protection, health and education**;
- the enabling vectors for inclusive and sustainable growth, notably **a stronger business environment and deeper regional integration**;
- those sectors that have a strong multiplier impact on developing countries' economies and contribute to environmental protection, climate change prevention and adaptation, notably **sustainable agriculture and energy**.

3.1. Social protection, health, education and jobs

The EU should take a **more comprehensive approach to human development**. This involves supporting a healthy and educated population, giving the workforce skills that respond to labour market needs, developing social protection, and reducing inequality of opportunity.

The EU should support sector reforms that increase access to quality health and education services and strengthen local capacities to respond to global challenges. The EU should use its range of aid instruments, notably '**sector reform contracts**' with intensified policy dialogue.

The EU should take action to develop and strengthen health systems, reduce inequalities in access to health services, promote policy coherence and increase protection against global health threats so as to **improve health outcomes** for all.

⁷ COM(2011) 363 final.

The EU should enhance its support for **quality education** to give young people the knowledge and skills to be active members of an evolving society. Through capacity-building and exchange of knowledge, the EU should support vocational training for **employability** and capacity to carry out and use the results of research.

The EU should support the **decent work agenda, social protection schemes and floors** and encourage policies to facilitate **regional labour mobility**. The EU will support targeted efforts to fully exploit the interrelationship between migration, mobility and employment.

3.2. Business environment, regional integration and world markets

Economic growth needs a favourable business environment. The EU should support the development of **competitive local private sectors** including by building local institutional and business capacity, promoting SMEs and cooperatives, supporting legislative and regulatory framework reforms and their enforcement (including for the use of electronic communications as a tool to support growth across all sectors), facilitating access to business and financial services and promoting agricultural, industrial and innovation policies. This will also allow developing countries, especially the poorest, to harness the opportunities offered by **globally integrated markets**. Better and more targeted Aid for Trade and trade facilitation must accompany these efforts.

In the same vein, crucial to developing countries' success is attracting and retaining substantial **private domestic and foreign investment and improving infrastructure**. The EU should develop **new ways of engaging with the private sector**, notably with a view to leveraging private sector activity and resources for delivering public goods. It should explore up-front grant funding and risk-sharing mechanisms to catalyse public-private partnerships and private investment. The EU should only invest in infrastructure, where the private sector cannot do so on commercial terms.

The EU will further develop blending mechanisms to boost financial resources for development, building on successful experiences such as the European investment facilities or the EU-Africa Trust Fund for infrastructure. In selected sectors and countries, **a higher percentage of EU development resources should be deployed through existing or new financial instruments, such as blending grants and loans and other risk-sharing mechanisms, in order to leverage further resources and thus increase impact**. This process should be supported by an EU platform for Cooperation and Development incorporating the Commission, Member States and European financial institutions.

Regional development and integration can spur trade and investment and foster peace and stability. The EU should support regional and continental integration efforts (including South-South initiatives) through partners' policies in areas such as markets, infrastructure and cross-border cooperation on water, energy and security. Support will be offered to tackle competitiveness gaps, as part of the EU's substantial and growing **Aid for Trade activities, Economic Partnership Agreements and other free trade agreements** with developing regions.

3.3. Sustainable agriculture and energy

The EU should use its support in agriculture and energy to help insulate developing countries from shocks (such as scarcity of resources and supply, price volatility) and thus help provide

the foundations for sustainable growth. It should tackle inequalities, in particular to give poor people better access to land, food, water and energy without harming the environment.

In **agriculture**, the EU should support sustainable practices, including the safeguarding of ecosystem services, giving priority to locally-developed practices and focusing on smallholder agriculture and rural livelihoods, formation of producer groups, the supply and marketing chain, and government efforts to facilitate responsible private investment. The EU will continue working on strengthening nutritional standards, food security governance and reducing food price volatility at international level.

In **energy**, the EU should offer technology and expertise as well as development funding, and should focus on three main challenges: price volatility and energy security; climate change, including access to low carbon technologies; and access to secure, affordable, clean and sustainable energy services⁸.

In both sectors, the EU should support capacity development and technology transfer, including in climate adaptation and mitigation strategies.

The EU is looking for long-term partnerships with developing countries, based on mutual accountability.

4. DIFFERENTIATED DEVELOPMENT PARTNERSHIPS

The EU must seek to **target its resources where they are needed most to address poverty reduction and where they could have greatest impact.**

Grant-based aid should not feature in geographic cooperation with more advanced developing countries already on sustained growth paths and/or able to generate enough own resources. Conversely, many other countries remain heavily reliant on external support to provide basic services to their people. In between, there is a spectrum of situations requiring different policy mixes and cooperation arrangements. A **differentiated EU approach to aid allocation and partnerships** is therefore key to achieving maximum impact and value for money.

The EU should continue to recognise the particular importance of supporting development in its own **neighbourhood**⁹ and in **Sub-Saharan Africa**¹⁰. It should, in all regions, allocate more funds than in the past to the countries most in need, including fragile states.

More precisely, EU development assistance should be allocated according to:

- **Country needs:** assessed using several indicators, taking into account, *inter alia*, economic and social/human development trends and the growth path as well as vulnerability and fragility indicators.
- **Capacities:** assessed according to a country's ability to generate sufficient financial resources, notably domestic resources, and its access to other sources of finance such

⁸ Taking account of ongoing initiatives such as the UN High Level Group on Sustainable Energy for all.

⁹ COM(2011) 303.

¹⁰ Including through the Joint Africa-EU Strategy.

as international markets, private investment or natural resources. Absorption capacities should also be considered.

- **Country commitments and performance:** positive account should be taken of a country's investment in education, health and social protection, its progress on the environment, democracy and good governance, and the soundness of its economic and fiscal policies, including financial management.
- **Potential EU impact:** assessed through two cross-cutting objectives:
 - (1) Increasing the extent to which EU cooperation could **promote and support political, economic, social and environmental policy reforms** in partner countries;
 - (2) Increasing the **leveraging effect** that EU aid could have on other sources of finance for development, in particular private investment.

Through **comprehensive political and policy dialogue** with all partner countries, the EU should define the most appropriate form of cooperation, leading to informed and objective decisions on the most effective policy mix, aid levels, aid arrangements and the use of new and existing financial tools, and building on the EU's own experience in managing transition.

For some countries this may result in less or no EU development grant aid and the pursuit of a **different development relationship** based on loans, technical cooperation or support for trilateral cooperation.

In **situations of fragility, specific forms of support should be defined** to enable recovery and resilience, notably through close coordination with the international community and proper articulation with humanitarian activities. The aim should be to maximise national ownership both at state and local levels so as to secure stability and meet basic needs in the short term, while at the same time strengthening governance, capacity and economic growth, keeping state-building as a central element.

This process of country-based decision-making would give the EU the **flexibility** to respond to unexpected events, notably natural or man-made disasters.

5. COORDINATED EU ACTION

Fragmentation and proliferation of aid is still widespread and even increasing, despite considerable recent efforts to coordinate and harmonise donor activities. The EU must take a more active leadership role, as mandated by the Lisbon Treaty, and put forward proposals to make European aid more effective.

Joint programming of EU and Member States' aid would reduce fragmentation and increase its impact proportionally to commitment levels. The aim is for a simplified and faster programming process, to be largely carried out on the ground.

Where the partner country has formulated its own strategy, the EU should support it by developing, wherever possible, **joint multi-annual programming documents** with the

Member States. Where the partner country has not done so, the EU will endeavour to develop a joint strategy with the Member States.

This process would result in a **single joint programming document** which should indicate the **sectoral division of labour** and financial allocations per sector and donor. The EU and Member States should follow the document when devising their bilateral implementation plans. Participation should be open to non-EU donors committed to the process in a given country.

To boost country ownership, joint **programming should be synchronised with the strategy cycles of partner countries** where possible.

Operationally, the EU and Member States should make use of aid modalities that facilitate **joint action such as budget support (under a ‘single EU contract’), EU trust funds and delegated cooperation.**

On cross-country division of labour, the Commission encourages all Member States to be more transparent when entering or exiting, in line with the EU Code of Conduct on Division of Labour¹¹. A **coordinated approach** is needed, including a **coordination mechanism for cross-country division of labour.**

The EU should develop a **common framework for measuring and communicating the results** of development policy, including for inclusive and sustainable growth. In line with the Operational Framework on Aid Effectiveness¹², the EU will work with partner countries and other donors on comprehensive approaches to **domestic and mutual accountability and transparency**, including through the building of statistical capacity.

Transparency is a cornerstone of effective and accountable aid. The Commission, which has adopted the International Aid Transparency Initiative standard, is already one of the most transparent donors. It should continue this effort, along with Member States.

6. IMPROVED COHERENCE AMONG EU POLICIES

The EU is at the forefront of the **Policy Coherence for Development (PCD)** agenda and will continue to evaluate the impact of its policies on development objectives. It will strengthen its country-level dialogue on PCD and continue to promote PCD in global fora to help shape an environment that supports the poorest countries’ efforts.

The future MFF should reinforce PCD. Thematic programmes are envisaged as instruments to tackle global concerns and will both project EU policies into development cooperation and help eradicate poverty.

The EU must intensify its **joined-up approach to security and poverty**, where necessary adapting its legal bases and procedures. The EU's development, foreign and security policy initiatives should be linked so as to create a more coherent approach to peace, state-building, poverty reduction and the underlying causes of conflict. The EU aims to ensure a smooth

¹¹ 9558/07.

¹² 18239/10.

transition from humanitarian aid and crisis response to long-term development cooperation.

In terms of the **development-migration nexus**, the EU should assist developing countries in strengthening their policies, capacities and activities in the area of migration and mobility, with a view to maximising the development impact of the increased regional and global mobility of people.

7. EMBRACING THE AGENDA FOR CHANGE

The Commission calls on the Council to endorse the proposed Agenda for Change which seeks to:

- equip the EU with **high-impact development policy and practice** for the coming decade and give it a leading role in setting a comprehensive international development agenda up to and beyond 2015;
- support the change needed in partner countries to bring about **faster progress towards poverty reduction and the MDGs.**

The Commission services and EEAS will ensure that the guiding principles set out in this Communication are progressively reflected during the remainder of the current programming cycle and in future programming documents, as well as in the proposals regarding the architecture, legislation and programming of future financial instruments for external action.

Member States are urged to also implement the Agenda.