



The Future of EU Development Cooperation

Report of an e-discussion by the
EU Change-Makers Group

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Summary

- The EU Change-Makers Group has 60 members from 15 countries.
- 22 members contributed to a ten-week electronic discussion of European Development Cooperation.
- There were significant areas of common ground:
 - The Millennium Development Goals are still relevant and necessary, but the international development agenda has become increasingly complex and marked by global challenges such as the financial instability, the preservation of global public goods etc.;
 - In this new world, the EU's influence hinges on its ability to play a leading role in promoting collective action;
 - This means the concerted support of Member States to a single vision of EU external action;
 - It requires a stronger, well coordinated development structure in Brussels which is well interlinked with the ones in the Member States;
 - There is a need for much better performance in coordination, and flexible division of labour between European aid agencies, including partner's needs and views regarding the complementarity of support (both multilateral and bilateral);
 - There needs to be a strong focus on Policy Coherence for Development.
- On the following topics there was an active debate and there is more work to do:
 - Getting the vision and narrative right: should EU development cooperation be simply about poverty reduction, or is a new narrative possible around the idea of global and shared interests between Europe, its neighbourhood and the wider world?
 - What should 'Europe' aim to do? Should European development cooperation be a centralising project or a forum for cooperation and coordination?
 - How can EU aid instruments be made more effective? In particular, how should loans be better integrated into the variety of EU's aid instruments, like blending with grants?
 - How should partnerships be managed? Does the Cotonou Partnership Agreement have a future?

1. The Background

From September to December 2009, ODI facilitated an e-debate on the future of European Development Cooperation by a group of 'EU Change-Makers'. The EU Change-Makers comprises around 60 people from 15 different European countries (Austria, Belgium, Bulgaria, Finland, France, Germany, Hungary, Ireland, Italy, Latvia, the Netherlands, Spain, Sweden, and the UK) and one member from the United States, from policy-making and research communities, in the public and the not-for-profit sectors. Hosted by ODI, DFID, AFD and KfW and with financial contributions from DFID and GTZ, the shared online forum provided: details of the discussions; the members of the group; announcements; research papers and reports; and a monthly newsletter produced by ODI, giving information on the latest EU policy and institutional developments.

The Process

The e-discussion was run as a series of ten one-week topic debates. It was agreed that participation on any theme would be (a) voluntary and (b) open-ended. The Change-Makers were invited to write as much or as little as they liked and to post longer papers or reports on the website. The chosen topics addressed the main debates and fault lines that have appeared in discussions on European development cooperation. With a new European Commission (EC) and new structures as a result of the Lisbon Treaty, the EU institutional architecture and the outline of a new EU development script were central themes in the discussion. Twenty-two members of the Change-Makers group contributed to the debate on the following topics:

1. The changing development agenda and the future of EU development cooperation;
2. The EU's external actions architecture;
3. The added value of EC aid;
4. The new EC delivering a better 'division of labour';
5. The poverty targeting of EU development cooperation;
6. The EU's regional partnerships;
7. The EU's external actions budget;
8. The EC's aid instruments;
9. The new EC delivering 'policy coherence for development'; and
10. Re-interpreting the European Consensus on Development.

2. The Debates

(a) The changing development agenda and the future of EU development cooperation

Contributors noted the changing development agenda as a result of the financial, food and fuel crises and the prevalence of global issues like climate change and insecurity. The development landscape has become increasingly complex. Development challenges have become multidimensional (globally, nationally and locally interdependent) and multifaceted (e.g. the climate change debate is led by economic considerations rather than environmental ones); global production patterns have changed; and the provision of Regional as well as Global Public Goods is coming to the forefront of the international agenda. The EU should specifically take into account Africa's development challenges, which are also critical for its own stability and prosperity.

Contributors agreed that the Millennium Development Goals (MDGs) are still relevant and necessary as they provide a basic measure of human progress and are the political face of development work. The new development 'narrative' could be based on tackling global issues to achieve the MDGs. However, the MDGs only make sense if they are backed up by strategies of economic growth. Reaching the MDGs implies considerable social expenditure for long periods of time. Sustainable financing is needed, and therefore a growing fiscal basis.

The EU's influence and capacity to promote a global vision and its approach toward a multilateral world economy hinges on its ability to play a leading role in promoting collective action. Development aid is one of the rare tools available to actually cement that collective action on global public goods. A sustained dialogue between the North and the South on those issues can help orient growth strategies and patterns, transfer green technologies, compensate for the additional costs of protecting global public goods and so on. Designing mechanisms of EU collective action in development implies looking into actors' incentives at working together, but also at the way to create common narratives on the challenges that need to be tackled. At the same time, contributors felt that collective action at EU level does not necessarily imply centralisation, but rather creating a vibrant system of development cooperation that includes both the EC and the Member States, based on networks and platforms.

A strong European development policy needs: (1) the concerted support of the Member States, their implementing agencies, the EC and the European Investment Bank (EIB); (2) a single vision of EU external action based on partnerships and ensuring coherence of security, development, trade issues and other external and internal policies; (3) a revision of the EU's current geographical presence; (4) investment in development education and access to information; (5) greater coordination between the Member States and together with the EU institutions; and (6) greater support from civil society and local authorities.

(b) The EU's external actions architecture

Contributors highlighted the risks for development in a new EU institutional structure as: (1) the instrumentalisation of development programmes in support of EU foreign policy objectives; (2) giving authority to bodies for which development is not a central priority; and (3) dividing those who want to work in EU development policy, and thus, over time, reducing the effective development voice.

Proposals put forward for a new structure for EU development cooperation included:

- A competent development service responsible for development policy, programming and implementation in developing countries, covering more than just the African, Caribbean and Pacific (ACP) countries;
- A structure that ensures independent thinking about development and humanitarian aid, ;
- Regular convening of all external relations Commissioners by the High Representative to ensure greater policy coherence;
- Collaboration between the development service and the European External Action Service (EEAS) on programming;
- Enhanced capacity for research and evaluation within the EC, to improve the strategic steering of development policies and raise the international profile of European development cooperation;
- New mechanisms for operational and intellectual coordination as well as dialogue between the EC, the bilateral donor agencies and their complementary functions, financial institutions and the EIB, through for example, regular meetings between directors and between chief economists and mechanisms for joint delivery of EU aid (i. e. financing platforms like EU-Infrastructure Trust Fund (ITF), the Neighbourhood Investment Facility (NIF) etc.);
- An implementation agency with strong technical competence, strengthened and complemented by bilateral member's implementation capacities, the involvement of NGOs etc. (subsidiarity);
- Scope for a credible 'development career path', either within the development service or the agency;
- An engaged European Parliament Development Committee;
- Enhanced contribution by the EIB to international development as part of a common and coherent European effort. Some contributors discussed the option of the potential creation of a European development bank, which would offer a wide range of instruments and consolidated volumes of financing. Others opted for a stronger development orientation within its present mandate and structure, complementary to existing European aid actors and making better use of synergies with the EC.

(c) The added value of EC aid

Contributors discussed the EU's comparative advantage and what role the EC could play in development. The process of exploring comparative advantages should be a joint undertaking with distinct dialogues among different actors, including donor agencies and partner countries.

According to the European Consensus on Development, the EC's added value lies in its global presence, size and critical mass, in the range of policies it is responsible for and their coherence, in promoting development best practice, in facilitating coordination and harmonization, in promoting democracy and good governance, and in promoting the participation of civil society. Global presence, size and the range of policies are about spending money through the EC whereas the other areas are about the EC's facilitating role and principles that should guide its own spending.

EC aid could constitute a minimum basis for Member States' contributions: for those that are too small, do not make or do not wish to make bilateral contributions and those that wish to see common action, notably to finance major projects that are less accessible for modest bilateral contributions.

A European development policy that is more integrated into other components of the EU's external action could contribute to renewed growth in Europe, driven among other things by substantial investments in its neighbourhood. It could contribute to the emergence of structured and developed partner economies, notably at the EU's southern and eastern borders.

The EC itself should develop functions that no other actor can deliver, such as:

- Organising the dialogue with and between Member States – as well as EU institutions like the EIB - in order to formulate joint sector or geographic policies;
- Setting up devices and standards for common action among European actors, on the basis of successful experience such as in the Neighbourhood Investment Facility and the EU-Africa Infrastructure Trust Fund, and providing the necessary incentives;
- Creating a European hub for reflection on development by providing independent evaluation expertise, coordinating development research and organising inter-European knowledge management.

(d) The new EC delivering a better 'division of labour'

Rather than doing all the same and more of the same in ever greater homogeneity, development partners should examine their respective comparative advantages to reach common development goals.

Certain contributors felt that the best way to achieve simplification and quality of EU aid is by channelling a greater proportion of funds through the EC. Others felt that given the choice of most Member States to maintain a significant level of bilateral aid, the focus should be on organising bilateral and EC aid in a coordinated manner, with coordination ideally decentralised to the country-level. To be effective, division of labour must be led in a pragmatic manner following the principles of complementarity and subsidiarity on the basis of respective comparative advantages.

Division of labour is not only technical, but highly political. The focus thus far has been on in-country division of labour, (i.e. sectoral specialisation) and therefore the partner country should be the driving force behind it. Even more political is cross-country division of labour which moves into the realms of foreign policy. However, division of labour is a means of making the EU into a more coherent, punchy, effective and meaningful partner. There are dilemmas about the current and future roles of the EC. These revolve around the following issues:

1. 'European integration versus partnership': striking a balance between the desire on the one hand to become an internally consistent global actor focused on building internal structures, and on the other, interacting and building partnerships with other donors;
2. 'European codes versus global decision-making': with the EU Code of Conduct focused on EU donor sectoral specialisation and the Accra Agenda for Action focused on global aid effectiveness, involving partner countries in the discussions on division of labour;
3. 'European versus country-led comparative advantages': with the EU Code of Conduct defining the EC's comparative advantage based on "amount of money", "experience", "staff/expertise", "history of engagement", etc., whereas most of the country-led criteria relate to alignment and harmonisation, as well as dialogue skills, risk-taking, innovation and credibility;
4. 'Brussels' flagship versus stagnation on the ground': with the EU Code of Conduct lacking leadership both at HQ and country levels and the need for clarity as to the mandate of the EC in promoting division of labour;
5. 'Clashing complementarities': with today's donors concentrating on fewer partner countries, and with inadequate knowledge of exit strategies. There is an urgent need for donors to improve coordination and communication amongst themselves about countries they intend to concentrate in and those they intend to exit.

It was felt that despite its massive resources, the EC does not have the capacity and skills/expertise to coordinate joint responses or to take over where other European donors have exited. In going forward, the EC needs to learn lessons from its partners, focusing in particular on how EC delegations actually work and how their work is perceived by national stakeholders and other European donors.

(e) The poverty targeting of EU development cooperation

According to the OECD Development Assistance Committee (DAC), in 2007 the share of aid to LICs (including Least Developed Countries - LDCs) was 63% for all DAC donors. For the EU as a whole, however, this figure is 65% (with significant variation amongst Member States). For the EC, it was 44%. According to the 2009 EU Annual Report, 42% of EC aid was allocated to LICs in 2008 (the EC claims the 2% decrease is largely due to a reclassification of ODA recipients by the DAC).

However, the new global challenges (such as protecting global public goods: health, climate, biodiversity etc.) directly impact the poverty challenges of developing countries, in particular for Low Income Countries (LICs). Therefore, some argue that effective action in Middle Income Countries (MICs) and emerging economies is consistent with poverty reduction targets. Likewise, fostering economic growth (for instance through infrastructure projects and support to the private sector, which is generally not measured in ODA calculation) is one of the means to reach the MDGs. For some, cooperation with emerging economies is also vital due to their increased role in south-south cooperation as well as their partnerships "on equal footing". For example, in Africa, this is partly based on their own experience in economic growth and poverty reduction. All EU Member States should be more aware of this changing landscape of actors and new partnerships.

(f) The EU's regional partnerships

The relationship between "donors" and "recipients" has been changing throughout the last decade. Many partner countries today are asking for informed choices and prefer to select their development partners under more "relational" perspectives such as trust, risk-taking, dialogue skills and credibility. Emerging "new" donors such as China, India and Brazil have already contributed to a different understanding of partnerships, which are more and more characterized as "on an equal footing", expressing the will to look for mutual interests and to pursue win-win outcomes.

Does the ACP group of countries still have continued relevance? At the EU level, a set of sometimes overlapping regional and sub-regional partnerships has been developed with the ACP, Africa, Asia, the Mediterranean and other regions, with different levels of legal underpinning. There is a new partnership with Africa as a whole and a new jointly-owned EU-Africa strategy which is generating its own institutions. The EU has initiated the negotiation of Economic Partnership Agreements (EPA), which could have made a decisive contribution to the processes of regional integration, had it not been carried out on sometimes wrong bases.

Due to its experience, the EU is probably best placed to support regional unions. But for the time being a clear coherent strategy in this regard is missing.

The Cotonou Partnership Agreement, signed by European and the ACP, will remain in force until 2020. It is unique in that it provides for joint planning, political dialogue, recourse mechanisms, joint institutions, and co-management between South and North. There is a five-yearly review of the agreement which will take place in 2010. There will most likely be a number of 'technical' modifications and, on a more political level, proposals will be put forward to accommodate (sub)regional integration and the African Union, i.e. treating 'Africa as one'. Within the ACP group, there are different opinions regarding the group's dynamism and future beyond 2020. But there is no discussion about disbanding the group or abandoning the Cotonou Agreement before its time. The EDF 10 runs to 2013 and beyond that, its future will be tied up with the Fundamental Review of the EU budget (2010) and the future Financial Perspectives.

The following options for the future of the Cotonou Agreement were identified:

1. No change.
2. Close it down by 2013 when the EDF runs out: Incorporate the EDF into the budget; handle both trade and development through EPAs and the WTO; abandon the political dialogue, the joint institutions and the arbitration procedures.
3. Open it up a bit: Grant non-ACP developing countries access to the political aspects and allow certain countries like India at least observer status at the joint Council of Ministers and joint Parliamentary Assembly.
4. Open it up a lot: Negotiate a Cotonou-style treaty with all developing countries or with other regions or groups of countries.

Opinions varied on the above options. Contributors highlighted the following:

- Stop unilateral discussions about closing down the Cotonou Agreement: they are a waste of time and tend to de-legitimise an innovative partnership instrument;
- Extend the Cotonou Agreement to other developing countries, building a contractual framework for development partnerships, with joint institutions and thus, mutual accountability and equality;
- Establish effective dialogue mechanisms between EU and ACP 'change makers' to enter into a joint debate on the merits, pitfalls and future of ACP-EU relations. And, sooner rather than later, start the debate on what comes after Cotonou;
- Continue to use the Cotonou Agreement to fully take advantage of sub-regional integration movements within the ACP group and further intensify discussions on the actual implementation of the Agreement;
- Learn the lessons from the implementation of the Cotonou Partnership Agreement to inform the design of improved contractual partnerships with other regions or groups of countries;

- Revise the EU's geographical presence: Partnership with Asia and Latin America could be based on the principle of subsidiarity, with joint activities concentrated in strategic zones.

(g) The EU's external actions budget

Contributors discussed how the EU's external actions budget needed to change in order to meet the current challenges – climate change, the erosion of biodiversity, global pandemics, food insecurity, war and human insecurity and global financial instability.

Given these immense challenges, neither EU Member States nor the international community will be able to rely on grants alone. Other financial instruments will need to be used, including loans and guarantees. The EU will need to use the whole range of expertise and financial sources available, including from private funds mobilised from the market. It will need to use both community organisations and the network of EU bilateral organisations as a channel, making the most of the added-value of these two types of actors.

The EU could provide the mechanisms through which the different types of resources available can be blended in order to ensure the right resource-mix to finance a given project or programme or budgetary support; it could ensure the strategic and operational coherence of and synergy between European efforts targeted towards climate change; and it should ensure the coherence of EU policies (in particular, policies on development, agriculture, environment, energy, migration, trade and external security).

(h) The EC's aid instruments

Which aid instruments (loans, grants, capital, equity, guarantees, etc.) work best in a given situation? And which instruments are most needed in times of crises? For example, some argue that multilateral channels (being more stable than bilateral initiatives) are the most appropriate response to the crisis, whereas others insist more on the need for concerted action including all types of actors. Contributors referred to the large financing gap and the need for more loans and equity investments.

Separate mid-term evaluations are in hand for EIB lending programmes both in the ACP and elsewhere. It will be important to consider the potential and actual role of the EIB and of its instruments among the community of European development agencies and development finance institutions.

The EC's instruments:

- Contributors agreed that budget support could be a useful tool, depending on the specific country situation. It has brought many advantages to partner

countries and has provided a good mix with other aid instruments. However, some questioned whether budget support can be a simple panacea for all growth related spending vis-à-vis social services spending. The discussion moved to MDG Contracts. They are currently only applicable in eight partner countries. But, the scheme will be extended to other partner countries in the near future as they become eligible.

- Some contributors felt that the Vulnerability-FLEX does not address real needs. Others felt that it has proved to be an innovative approach towards helping to bridge the fiscal gaps in social sector spending in those countries affected badly by the economic crisis. Its added value lies in its conformity with the FLEX principles; in the close cooperation that it has encouraged between the EC, the IMF and the World Bank; and in its speed (the proposal was launched in April, the country application deadline was the end of July and disbursements were made in December). However, when the Congo's reserves fell to two days worth of imports, IMF support was provided as the V-FLEX was not fast enough.
- Criticism of the Food Facility rested on the fact that the EC transferred the funds to other multilateral institutions instead of primarily using existing European bilateral modalities.
- The EU-Africa Infrastructure Fund, the Neighbourhood Investment Facility and the pooling mechanism within the Energy Facility are good examples of how all Member States and the EU institutions could systematically work together, drawing on the benefits of diversity within the EU. The EC has used the NIF as a template for the proposed Central Asia and Latin America Investment Facilities. These new facilities as well as the established Neighbourhood Investment Facility, however, raised controversial debates with regards to their governance structure, selection criteria and the issue of additionality.

In conclusion, contributors felt that the EC: needs to be ready to lend (and pool) its support to other multilateral schemes that act quickly enough; focus more on its catalysing role to promote a European financing pool; and ensure coherence of its policies and between its two implementing agencies, EuropeAid and the EIB; put more emphasis on mobilising private sector engagement.

(i) The new EC delivering 'Policy Coherence for Development'

Three levels of analysis of coherence were identified:

1. Coherence between the different components of EU development cooperation (EC and Member States).
2. Coherence between the EU development policy and other EU policies.
3. Coherence between donor policies and the interests of partner countries.

The debate also focused on horizontal mechanisms for ensuring actual delivery of Policy Coherence for Development (PCD). There are three issues in particular which hamper progress on PCD in Europe:

1. The lack of results-orientation: Although it might be perceived as a technical issue, it is essentially about clarifying and making explicit one's ambition for change. Existing experiences show how being more specific on the goals to be reached may render institutional coordination and joint action on PCD more effective.
2. The lack of solid research on the impact on partner countries of EU policy incoherence: Studies invariably point at the complexities involved in studying the impact of (in)coherence and at the need for more and better evidence collected from partner countries.
3. The lack of a clear Southern Voice in debates on (in)coherence: Even where an accountability mechanism exists such as Article 12 of the Cotonou Partnership Agreement, its use is so far only sporadic. In principle, the European Ombudsman's Office or the European Court of Justice could also be used as accountability mechanisms.

In conclusion, the Lisbon Treaty provides a good framework for progress on PCD. The priorities identified are the right ones. Nonetheless, they are very diverse in scale, and are in the hands of different institutions, using multiple instruments. The challenge lies in the implementation of the Treaty, and in the means and tools that the EC uses to ensure progress on policy coherence. However, PCD can only really be fostered if all the actors concerned work together, both at technical and political levels.

(j) Re-interpreting the European Consensus on Development

Given all of the debates above and in light of the changing development agenda, the final discussion focused on the question of whether it would be timely, feasible and appropriate to re-interpret or revise the European Consensus on Development.

Certain contributors felt that the Consensus does need to be re-written and that the time is right to do so, in particular with the new EU institutional setting. The Consensus is outdated, based on challenges and an institutional framework representative of early 2000. It was drafted before the food and financial crises and the climate change negotiations in Copenhagen. With the forthcoming MDG Review Summit and the Climate Summit, 2010 could be defined as a period for re-thinking and debating the Consensus in order to come up with a new policy document in 2011 (five years after the present Consensus). If that would work, Europe could come up with a pioneering "post 2015 perspective".

Others, however, felt that rewriting the Consensus at this juncture would be unwise and the emphasis should be on the EU institutions reaffirming its importance. With

diverging views in Europe and between the Member States on different points in the Consensus and particularly on the significance attached to its poverty focus, reopening the debate would bring a real danger of backsliding. Another argument against reopening the Consensus was that there was already too much navel-gazing in European debates and that the energy required for renegotiation would be better spent on effective implementation of the Consensus principles or on tackling other policies areas where the discussion is not as far advanced. Rather, we should try to safeguard the Consensus as a valuable statement of purpose which was the result of prolonged efforts to consolidate Europe's position as a global leader on development, and use it to influence forthcoming decisions, like the EU's approach to the UN MDG Summit in 2010.

In terms of the timing, the discussions on the next Financial Perspectives (2014 – 2020) are slowly beginning. At some point they will involve the renewal of the Regulation for the Development Cooperation Instrument - probably sometime in 2012. It is at this point that the Consensus needs to be a strongly supported statement which carries real political weight. So either it must be renewed and fully agreed by then or at least we need to be sure that the new leaders of the EU institutions believe in the current Consensus and strongly support it. They should not be able to dismiss it as something from the previous regime that is no longer relevant.

The choice then is either to go for a complete renewal of the Consensus (which for some, carries real dangers) or alternatively to look for some form of reaffirmation of the current Consensus' importance. The time frame to achieve either of these is short - two years at the most - if it is to be in place when it is needed before the debate on the next Financial Perspectives starts in earnest.

Finally, one contributor summed it up like this: “A decision on renewal is not just a simple matter of whether it is up to date or not. It also has to be approached strategically and the right moment chosen in terms of what it needs to achieve, the degree of actual consensus among stakeholders on any new direction to follow and the existence of the necessary political will and leadership required to drive the renewal through”.

3. Conclusion

The Change-Makers' reflections could already give way to some recommendations on: the organisation and priorities of the new EC in order for it to endorse a coordinating role within the European development system; options for redesigning, reinforcing and simplifying EU development structures; means to improve coordination amongst all development actors; and ways to ensure that all policies will contribute to EU development goals.

However, the debate clearly demonstrated a need for further discussion on: a new narrative and vision focused on the delivery of global public goods and; the role of EU development cooperation in the context of a changing and complex development landscape and with regard to the new development agenda; how to achieve more effective collaborative, complementary practices and value for money; the effectiveness and use of different instruments; and promoting contractual partnerships and supporting regional integration.

Finally, an urgent discussion needs to take place on how and when to go about recreating the vision and rewriting the narrative.
