EU development cooperation. Where have we got to? What's next?

Report on a conference for EU Change-makers held at ODI, London, on 24 & 25 June 2013

Raphaëlle Faure, Mikaela Gavas, Elize Hefer, Mira Markova, Simon Maxwell

July 2013

July 2013

EU development cooperation. Where have we got to? What's next?

Report on a conference for EU Change-makers held at ODI, London, on 24 & 25 June 2013

Raphaëlle Faure, Mikaela Gavas, Elize Hefer, Mira Markova, Simon Maxwell

Key messages

The EU Change-makers agree:

- Post-2015, the development agenda will change, with poverty reduction still a priority, but accompanied by a greater emphasis on tackling global problems.
- EU development cooperation will need to be transformed to remain relevant.
- Relevance in the future will require high-level skills in brokering global deals, better use of financial instruments, improved partnerships, and effective joining up across policy domains.
- EU Member States have work to do in fixing the role of EU institutions: a classic challenge of collective action.
- The EU Change-makers and the European Think-Tanks Group can help to construct EU-wide consensus.

Acknowledgements

We would like to thank all our EU Change-makers for their participation and contributions to the conference and their support over the years for ODI's EU project, the European Development Cooperation Strengthening Programme (EDCSP). We would also like to thank DFID's Europe Department for its generous financial support and guidance. The authors of this report remain solely responsible for its content.

Table of contents

Figures

Abbreviations

Abbreviation	Description
ACP	African, Caribbean and Pacific group of states
AU	African Union
BRICS	Brazil, Russia, India, China and South Africa
DAC	Development Assistance Committee
DFID	Department for International Development
DG DEVCO	Directorate-General for Development and Cooperation
ECOWAS	Economic Community of West African States
EEAS	European External Action Service
EU	European Union
FDI	Foreign Direct Investment
LDC	Least developed country
LIC	Lower-income country
MDGs	Millennium Development Goals
MFF	Multiannual Financial Framework
MIC	Middle-income country
NATO	North Atlantic Treatment Organisation
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Cooperation and Development
SDGs	Sustainable Development Goals
SMEs	Small and medium enterprises

SNEs	Seconded National Experts
UN	United Nations
UNHLP	United Nations High Level Panel
USA	United States of America

Executive summary

1. **The 'EU Change-makers' group, consisting of senior policy-makers, researchers and civil society representatives from European Union (EU) Member States, met in London to address the future challenges of EU development cooperation** – and especially to help shape the agenda prior to the European Parliament elections in 2014, and the installation of a new European Commission later in the same year.

2. **Re-shaping EU development cooperation can be understood as a collective action problem, in a world characterised by many examples of poor quality collective action, or even inaction.** The EU currently has exclusive competence in some areas relevant to development, and shared competence in others, including development aid and climate change. Member States have choices to make about how to manage collective action within current arrangements; and, in the longer term, about the distribution of competences.

3. The key conclusion is that post-2015, the development agenda will change, with poverty reduction still a priority, but accompanied by a greater emphasis on tackling global problems, including security and climate change. **EU development cooperation will need to be transformed to remain relevant**. Relevance in the future will require high-level skills in brokering global deals, better use of financial instruments, improved partnerships, and effective joining up across policy domains.

4. **Aid will remain an important instrument post-2015, but the number of recipients of traditional official development assistance (ODA) is likely to shrink**, as more countries reach middle-income status. There may well be a concentration of aid in fragile states. In these and other countries, there will be multiple sources of finance, including a rising share from domestic taxation, but also from new donors, philanthropic organisations and the private sector: recipient countries will often have a choice of partners. They will also seek new forms of finance, including loan guarantees, equity stakes and risk capital. While these trends are largely positive, there are also risks. The volatility of financial flows remains high. It is important that there be a strong financial architecture to manage economic shocks.

5. The emergence of new donors is not the only reason for traditional donors, like the EU, to think long and hard about partnerships with emerging economies. **Partnerships are required to achieve shared goals in a wide range of policy spheres**, from management of the global economy, through climate change, to the mitigation of risks like disease. Some partnerships will be based on shared values; others will be more instrumental. Some will be comprehensive; others will not. In all cases, however, they will need investment in trust-building, institutions and substance – all key requirements of successful collective action.

6. In this context, development administrations will need to change substantially. There will need to be a wide range of skills available, on a wide range of topics, including those related to brokering global deals and managing partnerships with different kinds

of countries. **The ability to manage relationships and delivery mechanisms across Government will be essential.** This will certainly not be an 'aid' ministry, and it might not even be a separate ministry at all. It is interesting that some countries have already created, or are thinking of creating, new ministries of 'globalisation' or 'global issues', incorporating aid, trade, and climate, alongside foreign policy. Links to macro-economic policy are also essential.

7. **The EU brings many strengths to the new development agenda**. The basic building blocks are in place, including the creation of the European External Action Service (EEAS), with the mandate to ensure policy coherence across thematic areas. The partnership with the African, Caribbean and Pacific (ACP) group of states may also provide a model of how to engage with developing countries.

8. **However, the silos are strong and well-cemented**, both in the Commission and the Parliament. Examples of successful networking and joined-up action can be found: Somali piracy is often cited, and the joint work on development and environment for the post-2015 policy is an example of successful collaboration within the EU. However, these examples are rare. Capacity is also limited, especially in the area of professional specialisms.

9. **A possible outcome from next year's elections and Commission process is a new vision and new capacity to implement, with strong political leadership, greatly increased capacity to deliver across sectors, and improved parliamentary accountability**, all backed up by high levels of public support. More likely is continued but probably slow evolution, marked by a messy debate about the limits of EU competence and the internal arrangements of EU development cooperation.

10. Of course, **it is not axiomatic that the EU will always be the optimal solution**. It would be a mistake to assume the Mt Everest option: always to turn to the EU simply 'because it is there'.

11. **Thus, an important question will be how to identify the EU's role, and then incentivise change**. Statements of purpose might help, especially if articulated by those with the capacity to set agendas. It will be important to articulate a positive, rights-based vision, which emphasises the universality of an agenda that is as relevant to citizens of the EU as it is to those in emerging economies and developing countries. Greater engagement of citizens is a priority.

12. **Collective action theory suggests that other elements will be needed, including trust-building measures and the deployment of incentives**. Finance is probably a key incentive. Having a seven-year perspective for the budget and the European Development Fund (EDF) provides predictability for EU planners, but it may reduce their responsiveness to signals from stakeholders. There is also a case for building on areas where the EU has legal competence, for example trade. Another option is to choose one high profile topic, like building a green economy.

13. Finally, **there is an important role for consensus-building and policy engagement across national boundaries – by policy-makers, but also by parliamentarians and non-governmental organisations** (NGOs). This is exactly the purpose for which the EU Change-makers group was established. The European Think-Tanks Group[1] will be a key actor in developing new narratives, but also in supporting disparate policy processes in the EU Member States.

[1] The European Think-Tanks Group is a network of leading European think-tanks working in development cooperation and international relations. The members of the network are the Deutsche Institut für Entwicklungspolitik (DIE), the European Centre for Development Policy Management (ECDPM), La Fundación para las Relaciones Internacionales y el Diálogo Exterior (FRIDE) and the Overseas Development Institute (ODI).

Introduction

1. The ‘EU Change-makers’ group consists of senior policy-makers, researchers and civil society representatives from European Union (EU) Member States, who collaborate to help shape European development cooperation. They have met on various occasions, in France, Germany and the United Kingdom (UK). On this occasion, they were convened in London to address the future challenges of EU development cooperation – and especially to help shape the agenda prior to the European Parliament elections in 2014, and the installation of a new European Commission later in the same year. The programme of the meeting is in Appendix 1 and the list of participants, including invited speakers, in Appendix 2. All participants were encouraged to speak in their personal capacities. The meeting was held under the Chatham House Rule[2].

2. The starting point is that the basic building blocks of future EU development cooperation are now in place or shortly would be:

   - A new policy framework, Agenda for Change, was launched by the Commission in October 2011, and endorsed by the Council in May 2012;
   - A number of other policy reviews have been completed or were underway: budget support, social protection, trade and development, resilience, and the post-2015 framework;
   - The Multiannual Financial Framework (MFF) covering the period 2014-2020 is expected to be agreed shortly;
   - New financial regulations are in the final stages of negotiation, including the Development Cooperation Instrument (DCI), the European Development Fund (EDF), the Neighbourhood Instrument, Humanitarian Aid, and the implementation modalities;
   - Programming of development aid is underway.

3. This is therefore an appropriate moment to review progress. At the same time, an urgent conversation is beginning about the longer-term perspectives. The recent Commission Communication on post-2015 global goals made clear that the development context is changing, and that in future, a premium will be placed on careful coordination of initiatives across traditional spheres of responsibility – linking development to environment, humanitarian, climate change, trade and foreign policy concerns. This has implications for the work of all EU institutions and for Member States.

4. These immediate and longer-term issues intersect with a third set of concerns, about the capacities and competences of development agencies. Should they focus on aid

[2] The Chatham House Rule is invoked at meetings to encourage openness and frank discussion. It states that ‘when a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed’.

alone, or on wider issues as well? What kind of legislative framing is appropriate? What kind of accountability should be in place? And what kind of staffing is needed?

5. The conference tackled all these questions. It began, however, with a reflection on the collective action challenge facing the EU.

The collective action challenge facing the EU

6. The current global order is characterised by: (1) the (re-)emergence of new global economic powers, (2) an evolving multilateral architecture with new and stronger voices from the developing world, and (3) a eurozone crisis which is crippling Europe. Changing patterns of growth have changed the nature of poverty with an increasing concentration of poverty in middle-income and/or fragile states, and an increasing number of poor countries seeking to reduce dependency on aid. The development discourse is also changing, to one that places more emphasis on mutual interest, global risks, global commons, and 'beyond aid' approaches. This agenda seem to require a high degree of collective action, and by implication, a multilateral approach.

7. However, 'multilateralism is struggling in almost all spheres of global cooperation'[3]. David Rothkopf recently commented that: 'we have gone in a matter of not too many months from a moment of optimism about multilateralism, to grappling with the dark frustrations of aimless muddelateralism. Hope is now the thing we are trying to scrape off the bottoms of our shoes while Europe, the Middle East, our entire global ecosystem is shuddering from the after-effects of a world that seems to be lacking effective global institutions'[4].

8. What are the reasons for failing multilateralism? In his recent book, *Divided Nations*, Ian Goldin cites: misaligned incentives, short-termism, free-riding, enforcement problems, and coordination failures[5].

9. Various authors have identified conditions or principles to guide collective action. These include:

    1. Subsidiarity, i.e. not all issues require global collective action;
    2. Selective inclusion, i.e. only those most directly affected should be involved in decision-making on particular issues;
    3. Variable geometry, i.e. different combinations of countries will be needed round the table for different issues;
    4. Trust needs to be built amongst the partners;
    5. Legitimacy, i.e. institutions need to be representative and accountable;
    6. Enforceability through peer or public pressure;
    7. Positive incentives to encourage compliance and negative incentives to punish defection.

10. The EU itself is an exercise in collective action, displaying some strengths with respect to the list above, and some weaknesses. The EU has proven it has the ability to lead on long-term issues like the environment and development. As a world leader on the environment, it has set the agenda for the rest of the world. On development, it is the world's largest contributor of development aid.

[3] Lamy, P. (2012) 'Multilateralism is struggling', a speech delivered at the World Trade Organisation, 24 September 2012 (available at: http://www.wto.org/english/news_e/sppl_e/sppl244_e.htm)
[4] Rothkopf, D. (2012) 'For multilateralism, is this the dark moment before the dawn?' in *Foreign Policy*, 18 June 2012
[5] Goldin, I. (2013) *Divided Nations: Why global governance is failing, and what we can do about it,* Oxford: Oxford University Press

11. On the other hand, there is clearly a collective action problem at the EU level. European leaders are currently spending all their political capital on Europe's internal problems, and there is no will to coordinate on ambitious global agendas. Global challenges are so huge and complex that many are retreating into national systems. The EU 'risks being eaten for lunch by the Chinese and other increasingly powerful countries'. With respect to aid, and despite its oft-mentioned contribution of more than 60% of ODA, the EU is less visible as an aid provider than the United States of America (USA). This has been obvious with regard to the global discussion around the post-2015 global development framework – although most of the points from the recent EU Communication were included in the United Nations High Level Panel (UNHLP) report, the EU has not tried to drive the agenda, especially on areas where Europe has comparative advantage, such as socio-economic inequality.

12. The EU system is part of the reason for this. It is easier for the EU to exercise global leadership in policy areas where there is a single authority that can speak on behalf of Europe, like trade, competition or monetary policy. Development is a shared competence.

13. Leadership is also important. It needs to be remembered that development is about politics rather than money, about wrong versus right political decisions, political will and political leadership. The debate on EU development cooperation therefore needs to be grounded in mobilising political will and the structures necessary for the EU to take a global lead.

14. All this said, it is not axiomatic that the EU is the right vehicle in all circumstances for nations to engage in collective action. The formal Treaty-based competence of the EU differs across policy areas, with some being exclusive (for example, trade and fisheries) and others being shared (development aid and climate change). For areas of shared competence, the EU may undertake activities and conduct common policy, but not prevent Member States from exercising competence of their own. However, there is enough flexibility and ambiguity in practice for the balance to shift either towards greater consolidation or mere cooperation. Member States have choices to make about how to manage collective action within current arrangements; and, in the longer term, about the distribution of competences.

1 The challenge of a new development agenda

15. The conference discussed future challenges, with presentations on new ways of thinking about development, on natural resource scarcity, and on the post-2015 agenda. The overall proposition, tested in discussion, was that the balance of development work would change, with a shift of emphasis away from traditional service delivery towards greater engagement with regional and global issues. A background note prepared for this session is in Appendix 3.

1.1 Shifting realities of the future development landscape

Shifting poverty trends

16. The south is catching up with the north. There is a shift in poverty from lower-income countries (LICs) to middle-income countries (MICs), with a contested debate about the future trends. A large amount of poverty is also concentrated in fragile states, a trend that is likely to intensify in the future. Two significant challenges remain in terms of persistent poverty: chronic and systemic inequalities, and the question of dealing with conflict and fragility.

Shifting environmental realities and climate impacts

17. Land and water are becoming scarce, and this is leading to a transformation in tenure relations in poor countries, particularly in Africa. Furthermore, climate impacts are becoming more obvious. A recent World Bank report states that lending for adaptation has doubled between 2004 and 2012, implying that the big adaptation challenges are already present and need to be addressed.

Shifting social realities

18. Youth unemployment will continue to grow throughout the decade, while China and many countries in Europe will face the challenge of an ageing population. In the Organisation for Economic Cooperation and Development (OECD) countries, the workforce will shrink significantly over the next few decades, and there may be exponential increases in migration volumes. Social transformations have been underpinning all other developments on a global level. Since the Arab Spring, the significance of information flows has been redefined. While information does not automatically lead to accountability or change, it certainly affects it and triggers involvement.

The development agenda in a world of global challenges

19. The list of global governance challenges (climate, tax, cyber aggression, transnational criminality, financial regulations, etc.) is impressive, which implies that leadership will be a very important commodity in a multipolar world.

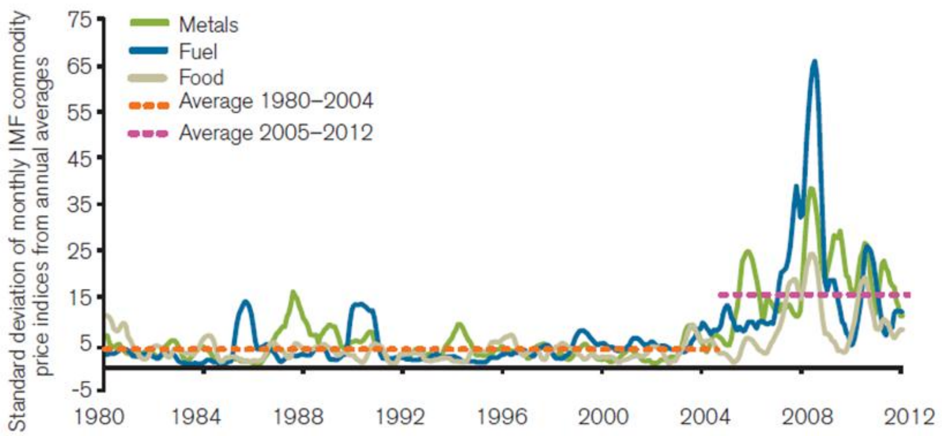
20. The relationship between development and any given global public policy challenge or global public policy good is always going to be partial and contributory. The challenge is to think strategically about how development resources fit into the broader elements of climate change or climate security.

21. Finally, it is important to focus on the determination to eradicate absolute poverty because poverty reduction is the best case that donor agencies have in global governance at the moment. It is also important to not lose sight of what has already been achieved and what can be achieved in the future.

1.2 The new political economy of resources

22. The trends previously identified come sharply into focus when considering natural resources. The world is undergoing a period of intensified resource stress, driven in part by the scale and speed of demand growth from emerging economies and a decade of tight commodity markets. This has resulted in the growing volatility in commodity markets over the last decade (Figure 1). The emerging environmental threats, such as climate change and water scarcities, the shift in consumer power from west to east, and the concentration of resource ownership, are factors that are changing the rules of the resources game. Whether or not resources are actually running out, the outlook is one of supply disruptions, volatile prices, accelerated environmental degradation and rising political tensions over resource access.

Figure 1: Volatility in commodity markets (1980-2012)



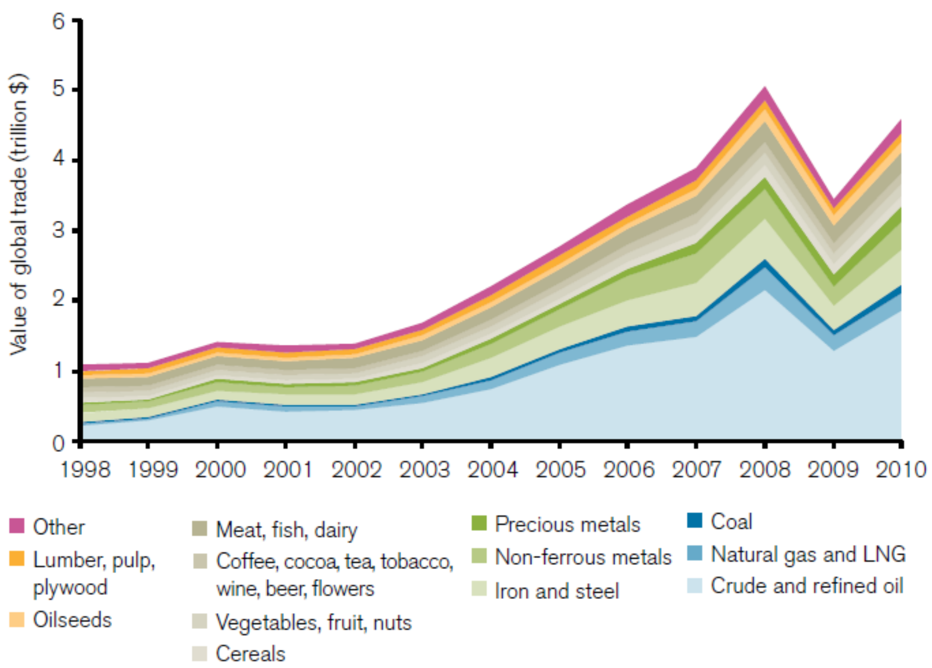
Source: Chatham House calculations based on IMF commodity price data

23. Many of the fundamental conditions that gave rise to the tight markets in the past 10 years will remain in the future. There will be a continued demand growth for most major resources, and emerging economies will be at the centre of the new evolving political economy.

24. Resource trade has grown by nearly 50% in terms of weight in the previous decade, due to the expanding trade in oil, iron, steel, coal, and cereals, and by five times in

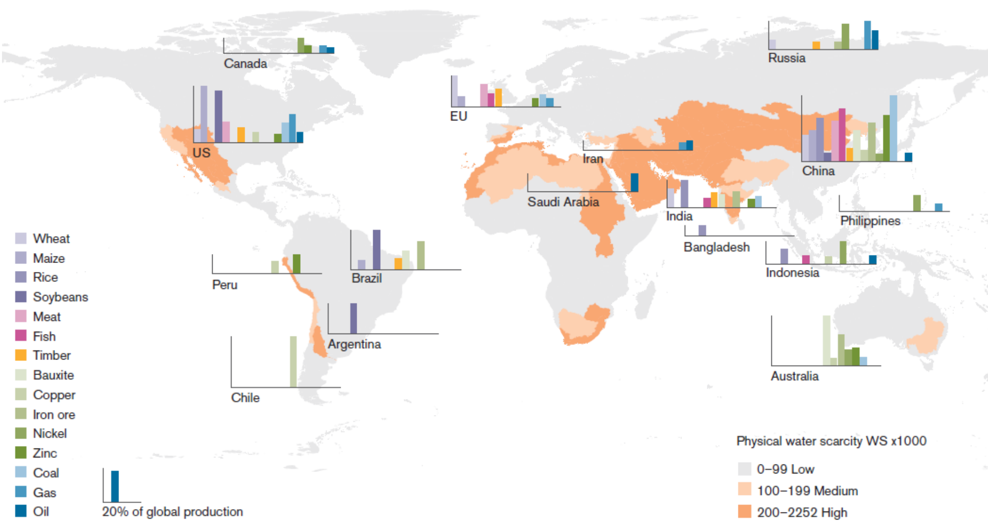
terms of value (Figure 2). While most of this can be attributed to China, OECD countries and emerging economies, a wave of developing countries will become important resource consumers in the next decade. They are likely to include Iran, Thailand, Turkey and Vietnam. Large-scale resource extraction remains concentrated in a handful of countries, while a new wave of increasingly important producers has emerged in the wake of the resource boom (such as Angola and Peru). Despite the so-called 'new scramble for Africa', African countries are absent from the list of major producers (Figure 3). Many agricultural or resource-seeking investments in the continent remain speculative.

Figure 2: Value of the global resource trade (1998-2010)



Source: Chatham House Resource Trade Database, BACI and COMTRADE (2012)

Figure 3: Share of global production (>5%) of key commodities and water scarcity



Source: Chatham House analysis based on FAO, EIA, IFA and USGS data

25. The dynamics of resource production and consumption are interlinked through markets, trade and the global environment. At a time when the global economy is becoming increasingly dependent on resource trade, trade is becoming a frontline for conflicts over resources. However, it is resource politics, and not environmental preservation or sound economics, which dominates the global agenda. This trend is already manifesting through trade disputes, climate negotiations, market manipulation strategies, aggressive industrial policies and the scramble to control frontier areas. The quest for resources will put ecologically sensitive areas under continuous pressure unless a cooperative approach is taken.

26. Developing collaborative governance structures will be critical for dealing with future resource challenges. Furthermore, investing in the environmental and social resilience of developing economies and in the emerging players such as Iran and Vietnam will be critical to fostering long-term resource security. It will be critical to engage the next wave of new resource producers and consumers in constructive dialogues and initiatives.

1.3 Implications for the post-2015 development agenda

27. It is important that the future challenges be reflected in the post-2015 development framework. The UNHLP report on the post-2015 development agenda has just been published, and provides an opportunity to test whether or not this is likely.

28. The report provides recommendations for a global development framework, suggesting five transformative shifts.

29. The first principle of '*leave no one behind'* sets out a poverty-eradication agenda with the ambition to reach all excluded groups. This emphasises that the new development agenda would continue to contain a significant contribution to poverty reduction. Furthermore, in order to address inequality, the report recommends disaggregating the data for the achievement of each recommended target by income quintile and by social group (sex, age, race). No target should be considered met unless it is met for each social group.

30. In addition, the report recommends four other shifts: (a) focusing on sustainable development, (b) peace and good governance, (c) pushing for economic transformation, and (d) forging a new global partnership. These shifts all signal a changing agenda, albeit in different ways.

31. The report has been cautious, however, on elements of the wider agenda, such as trade or climate change. This is because the authors are of the opinion that the Millennium Development Goals (MDGs) have been weak where there were no measurable targets and where international agreements are required to meet targets. These constraints apply to both trade and climate.

32. Furthermore, not all social and economic problems have goal-shaped solutions – a set of goals is not a substitute for a treaty or detailed regulations.

33. The most compelling part of the future development agenda is its universalism, the unequivocal commitment that no citizen in the world would be left behind. The Panel sought to create a set of universal goals that apply to all countries, tackle excessive consumption and production on the one hand, and extreme poverty on the other. Its universal appeal, combined with its focus on the most disadvantaged, makes the report relevant for the future rather than the past. If universal goals are to be taken seriously, however, they have to extend beyond the normal agendas of development agencies.

1.4 Discussion and key conclusions

34. Points raised included the following:

- The 2030 timeframe as a horizon is out of sync with the political cycle, which raises the question of how to connect the political cycle with the universal ambition.
- Tackling inequality is one of the greatest challenges that lie ahead and a specific target ought to have been included in the UNHLP report. This would have allowed for the provision of a clear definition of the different aspects and types of inequality that needs to be tackled. This comprises a long list, including reducing wealth gaps, improving child survival, and improving antenatal care. The equity-based component is in fact implicit: in pursuit of the universal goal of 'no child dying', we would halve the death rate between the richest and poorest in the next five years; in pursuit of the universal ambition in education, we would half the gap between the best performing part of a country and the worst performing part of the country.
- Discussions on gender equality have been particularly contentious within the preparation of the UNHLP report. The report features an illustrative goal about ending child marriage, while various other concrete suggestions have been dismissed. There nevertheless seems to be a consensus among the development community that there ought to be a stand-alone goal on gender equality.
- In order to meet the 0.7% target by 2015, an 80% increase in aid levels is necessary, which makes reaching the promised aid levels practically impossible. There is a real condemnation on the part of LDCs and LICs of countries that have not reached that target.
- There is a general lack of faith that development agencies and actors will deliver their goals and promises in the future. This is a rather political issue on which Europe does not seem to be assuming a very strategic position. The focus is predominantly on internal politics, while many G77 discussions are necessary to achieve an agreement. On the other hand, no targets can be forced and it is important to aim for aid levels to be increased even if the target year for reaching the 0.7% goal must shift beyond 2015.
- Partnerships are necessary in order to engage in innovative action with those who are willing to commit funds. The distinction between national and global interests is becoming blurred and it is currently not clear whether we have gone beyond these extremes and can promote a better understanding. Universal goals are best interpreted through national targets: a goal targeting hunger, for example, would mean both increasing agricultural productivity in Africa, but also reducing food waste and changing consumer patterns in Europe.
- In terms of the content of their work and the quality of their aid delivery programmes, institutions such as the UK's Department for International Development (DFID), the EU and the World Bank, present a disjuncture between clear working agendas and disappointing levels of achievement. It is unclear whether any of these institutions are strong on their policy areas. Furthermore, there seems to be a tremendous path dependency and momentum in development, whereas tackling future challenges would require different instruments, institutions and competencies.

35. In conclusion, there is overall agreement and recognition that the development agenda is changing. The recommended goals and targets for a post-2015 development agenda

ought to apply to all countries, while recognising that the most intense problems in the world are those of the poorest people. There is a need for a universal appeal, which will tackle excessive consumption and production, but will also focus on tackling the problems of the poorest and most disadvantaged. Furthermore, the need for universality implies a growing need for global collective action.

36. The UNHLP report has the potential to be a report for the future rather than the past, due to its universality clause and the focus on sustainable development. However, the way the report has been operationalised does little to distinguish it from a continuation of the conventional north-south relations, causing its innovative ideas to be easily overlooked. If universal goals are to make a serious impact, they have to be truly innovative. Furthermore, if sustainable development is put at the core, then it is necessary to address the issue of common but differentiated responsibilities, for example for low carbon in urbanisation. There have been no discussions about the extent to which global powers will engage in the agenda for global collective action. Such issues are also on emerging economies' agendas (and the biggest emitters, such as India and China) and it is widely recognised as a matter for cooperation. An opportunity has therefore been missed to use the report as an instrument to push for global cooperation.

37. The most striking and compelling part of the future development agenda is its universality. However, there can be many potential definitions of universality – from the concept of leaving no one behind, to the idea that rich countries have to change their patterns of consumption. There does not seem to be a common agreement on this. In addition, many least development countries (LDCs) are worried that a universal agenda may divert attention away from poverty reduction, especially since European countries are failing to reach their 0.7% targets.

38. Traditional development agencies are starting to recognise the need for self-reinvention, which can be a big challenge, requiring professional skills and instruments that are not currently available. However, many organisations are also alarmed by the amount they will have to change their missions, instruments and competencies in order to be able to deliver on the new development agenda. They are worried about the need to reengineer themselves in a world where multilateral agreement is difficult to reach and solutions to collective action problems are hard to find.

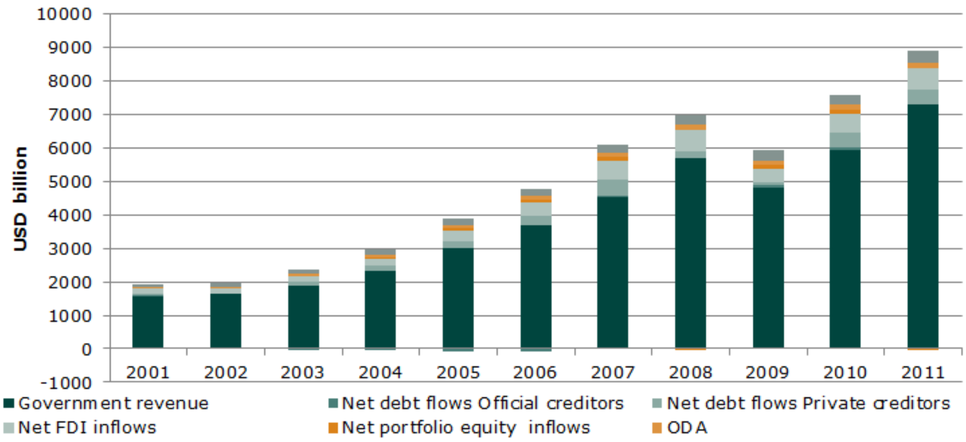
2 Reengineering development finance in the 21st Century

39. The changes underway are likely to affect all development agencies and are largely driven by an understanding that the nature of development finance is changing. The mixture of financial resources available to developing countries is in flux. Countries now have a wider range of options for financing their development – a trend that is likely to accelerate in the future and jeopardise the role of traditional aid agencies. A background note prepared for the session is in Appendix 4.

2.1 The development assistance landscape in an ‘Age of Choice’

40. The total envelope of resources to and in developing countries has expanded in the last 10 years (Figure 4). Both domestic resource mobilisation (taxation) and cross-border flows have expanded fivefold in the last five years. However, domestic resource mobilisation was, is and will continue to be the largest source of development finance.

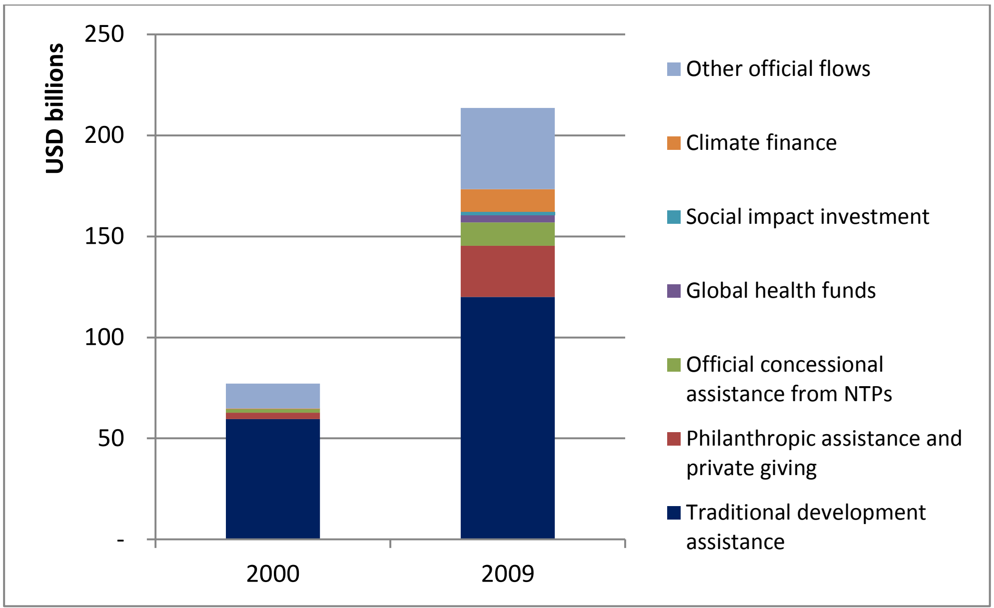
Figure 4: Domestic revenue, capital flows and ODA in developing countries 2001-2011



Source: International debt statistics and World Development Indicators 2013 refer to LICs and MICs – General government revenue refers to emerging and developing economies – World Economic Outlook (April 2013)

41. Apart from expanding in volume, the development finance envelope has also changed in composition. The share of traditional development assistance is falling. Although ODA was roughly three quarters of the total envelope of external assistance in 2000, this share has been dramatically reduced. On the other hand, the share of non-traditional development assistance (not managed within the circles of bilateral Development Assistance Committee (DAC) donors and multilateral aid agencies) has grown dramatically. Total development assistance has increased from $77.1 billion to $213.5 billion between 2000 and 2009. In 2000, the 'non-traditional' component of these flows was only $5.3 billion, or 8.1% of the total. By 2009, non-traditional flows had increased tenfold to $53.3 billion, making up 30.7% of total development assistance (Figure 5). Examples of non-traditional flows include: assistance form non-DAC countries, philanthropic assistance, climate finance and vertical health funds.

Figure 5: Trends in development assistance flows for 2000 and 2009 (in billions)



Source: Greenhill et al. (2013)[6]

42. The variety of flows that countries can currently access and choose from to finance their development strategies presents a wide range of choice, carrying both risks and opportunities. It is important to take the partner country perspective when analysing the implications of these changes in terms of new actors, new instruments and new modalities. ODI country studies on Cambodia, Ethiopia and Zambia (as part of the *Age of Choice* research project) have refuted the common assumption that extended choice would bring hurdles associated with fragmentation and the management of multiple partners. Instead, the growing choice was welcomed by countries and considered as an opportunity to increase their negotiating power.

43. The falling share of ODA raises questions about the role of bilateral and multilateral agencies in a context where ODA is becoming less popular (and policy conditionality may be less effective). The role of traditional donors is changing and their focus is likely to shift as well.

[6] Greenhill, R., Prizzon, A. & Rogerson, A. (2013) *The age of choice: developing countries in the new aid landscape*. London: Overseas Development Institute

44. As far as the challenges to the aid effectiveness agenda are concerned, ownership and alignment are still the main priority, while fragmentation does not seem to pose problems. This makes non-DAC donors quite popular given their focus on infrastructure development (which is the backbone of partner countries' strategies). Speed of delivery is a common objective and priority is often given to donors (often non-DAC donors) that can disburse funds relatively quicker, even if this is at a higher price.

45. As far as climate finance is concerned, the presence of a concrete strategy is the main condition for countries intending to access climate funds. Climate finance is one of the areas with the greatest opportunity for economic transformation in developing countries. The private sector is well positioned to make a considerable contribution through direct investment and public private partnerships. There is a considerable amount of private resources available, a vast investment capacity and a strong business case for low carbon investment. However, this is also an area of huge challenges, unfulfilled promises and disappointment.

2.2 Rethinking the architecture of development finance

46. The trends identified have implications for the architecture of development finance, which appears anachronistic.

47. First, the divide between public and private financing is no longer robust. Contemporary development finance institutions need to provide credit lines to financial institutions, take equity stakes in public and private equity, provide finance to small and medium enterprises (SMEs), sponsor entrepreneurship and provide venture capital. The European Bank for Reconstruction and Development is one institution that does this in an EU context.

48. Second, frequent shocks have made growth levels and development progress quite fragile. Financial and climate volatility is very high, which makes capital flows extremely unpredictable. So, despite the benefits of private flows, their reversibility can cause economic volatility and market fluctuations. Even foreign direct investment (FDI), which now comprises a larger share of capital flows, is very volatile. Therefore, reliance on countries' own resources and on public funds from abroad (including development banks) is as important as ever.

49. In addition, good shock architecture is necessary to tackle a range of external shocks – financial, environmental and climate change. The EU, for example, has good response and shock-absorbing mechanisms (the Fluctuations in Export Earnings (FLEX) and the Vulnerability FLEX (V-FLEX) mechanisms).

50. Third, and as far as financing the green economy is concerned, there must be clarity about how much different actors will be doing and where the gaps are. Donor governments rely increasingly on leveraging private funds, while the private sector seems to be complicit and reluctant to get involved without requiring very high guarantees. Where guarantees are given, the public sector takes all the risk if things go badly, but it should also take additional profits if things go very well.

51. Fourth, while aiming to fill funding gaps, development finance is also often aimed to deal with public policy and the quality thereof. The model is old-fashioned and while it aims to provide technically competent advice, it is not always taken into account. This is due to the fact that it often fails to consider political issues and the political economy.

52. Finally, in this context, the new agenda will depend as much on ideas as it does on funding, which would make China and India the biggest contributors. Having recently emerged from their own development experiences, these countries are able to share their own development example, policy recommendations and interventions. Therefore, the BRICS'[7] advent on the development finance stage would not be solely focused on the volumes of money provided, but also on the ideas they supply in terms of different growth models and different weights attached to the public sector.

2.3 Discussion and key conclusions

53. Points raised during the discussion included the following:

- There are diverging opinions on the need to provide aid to countries with large foreign exchange reserves. The argument in favour focuses on the presence of high poverty rates in these countries, despite their large foreign exchange reserves. Hence, aid could be justified on the grounds that countries might not be able to reduce poverty significantly using their own resources.
- Private financial flows are easily reversible, hence they are commonly considered to carry a high level of risk for the receiving countries. However, the reversibility of flows is not always a sufficient reason to conclude that private flows are unreliable. While investors are fickle and may change their minds, the private sector seeks security and diversity, which makes its contributions beneficial. This can encourage long-term commitment to support local capital markets, provided that it is underpinned by global policy developments.
- However, high levels of risks are associated with high volatility, as was the case with FDI flows to Africa over recent years. Their massive volumes dropped very quickly by the end of the decade and this trend has proven very difficult to reverse. There are two further reasons for the volatility of private flows, namely the post-crisis fall in investment and the risk of financial crises associated with high volumes of external flows. There is a difficult trade-off between encouraging private flows and provoking new crises. Therefore, long-term investment should be encouraged while being cautious of private finance. While guarantees are necessary means of reducing risk, returns should also be limited, leaving the public sector in charge.
- Pooling public resources to leverage private investment has the potential to create exciting prospects for the future. But, of course, there are complications (as mentioned above), such as the anachronistic nature of current public-private finance structures, the debt risks associated with lending to developing countries, the volatility of private flows etc.. While there have already been considerable efforts on blending and leveraging, further work is needed in order to make real progress. It will be important to avoid directing resources to where they are not necessary, or where they can be replaced with loans (in accordance with the differentiation agenda). There will continue to be countries and issues which should be a addressed with a mix of instruments and in order to do this successfully, bureaucratic hurdles should be overcome (a challenging area for the EU).
- Instruments, ideas and technologies available for the new development finance agenda include: risk sharing facilities, using ODA for a greater

[7] Brazil, Russia, India, China and South Africa

leverage (e.g. the Investment Facility as part of the EDF instrument to ACP[8] countries), crowd financing, social economy funds, regional financing for infrastructure projects, advanced market commitment, output-based aid, improved public-private partnerships, challenge funds, impact investment, high carbon tax on air-travel, and improved outcome measures.

54. In conclusion, the trends identified make it urgent to rethink the case for aid. It will be especially important to focus on the issue of disappearing public-private boundaries and the need to leverage private sector money. While this is referred to as blending in Europe, it is in fact a much bigger issue with a broad definitional and methodological scope. Despite the multitude of ways to leverage private flows, the European system seems to be making use of only a limited number of such instruments.

55. Meanwhile, developing countries are no longer as interested as before in discussing ODA and are increasingly focusing their efforts on improving domestic resource mobilisation and leveraging private sector flows.

[8] The African, Caribbean and Pacific group of states

3 Managing strategic partnerships in a multi-polar world

56. The dynamics of international relations have been changing as the world becomes increasingly multipolar. Many of the major challenges faced by countries require action at a supranational level and therefore rely on some degree of consensus among international actors. The geometry of partnerships and the coalitions required to address these challenges vary according to the issues at stake. A background note prepared for the session is in Appendix 5.

3.1 The need for partnerships in international affairs

57. We are living in a new era of global challenges, global commons and global goods, and the only way to manage such challenges is to interact more with one another and with new emerging powers. The world is characterised by a movement away from a post-western world after 250 years of western domination and industrialised power; and by the driving role of mankind in the changes to the environment and the Earth system. These shifts point to the need to 'reinvent a civilisation', which will take time.

58. However, there are huge challenges:

- The current political process has been marked by power shifts and struggles between old and new powers, but also between western countries themselves. Recent literature describes a world where no one pushes the agenda forward; Kupchan calls this 'a no one's world'[9], while Bremmer talks of 'a G0 world'[10].
- A comparison of the enabling factors to organise cooperation processes indicates that they are more or less the same at the local and global levels, and across disciplines. These factors include reciprocity, trust, communication, joint narratives and reputation. In today's world though, all are either eroding or inexistent. It is therefore necessary to invest in these enablers and reflect on strategies and initiatives toward the management of the global commons.

[9] Kupchan, C.A. (2012) *No One's World: The West, the Rising Rest, and the Coming Global Turn*, Oxford: Oxford University Press.
[10] Bremmer, I (2012) *Every Nation for Itself: Winners and Losers in a G-Zero World*, London: Penguin Books Ltd.

3.2 Strategic partnerships for improved global governance

59. Strategic partnerships are emerging features of international politics which present two challenges for the EU:

    1. Europe is expected to fit in a world of more diverse and more assertive powers. How should it adapt to a new era in international relations?
    2. Does the EU have the credentials to qualify as a strategic partner among larger actors like China or India?

60. Strategic partnerships can be defined as those relationships that help to accompany power shifts toward a positive-sum world as opposed to a zero-sum world. They should lead to a more cooperative way of interacting. In this sense, the debate over whether one should only partner with like-minded actors, and whether the emphasis should be on interests rather than values, is somewhat misleading. The lack of suitable engagement with these partners will over time threaten not only European economic interests, free trade and mutual investments, but also European values.

61. However, if the world is heading towards an aggressive multipolar environment, strategic partnerships are not guaranteed to work as they are only part of the solution and do not offer a 'quick fix'. On the other hand, strategic partnerships can contribute to establishing a cooperative multipolar world as they encourage dialogue and engagement, and the creation of shared meaning, knowledge and narratives. It is therefore important to reflect on the costs of non-engagement with strategic partners.

62. There is a distinction to be made between 'partnerships of choice' – Canada, the USA, Japan – and 'partnerships of necessity' that are critical to long-term interests and values. A key feature of strategic partnerships is that they are supposed to be long-term investments, and thus should be seen as confidence-building instruments. Trust is a fundamental enabler of cooperation, but it is a very scarce political resource. Some partners are particularly interesting as potential bridge builders, or countries that interface between different communities of countries.

63. Some critics are of the opinion that strategic partnerships are detracting from the traditional focus on multilateralism. Others suggest that from the EU perspective, it is important to look at these partnerships as a stepping-stone to enabling cooperation in multilateral fora. Multilateral structures work if there is a certain understanding and workable relationship between the biggest stakeholders. Up until 10 or 20 years ago, the main stakeholders were the USA and the EU. The bilateral dimension of multilateral cooperation was taken for granted and embedded in the way things were done. Today, we are moving towards a world where multilateral cooperation is based on the convergence or the divergence of a much wider and more diverse range of players. Hence, bilateral engagement is potentially a stepping-stone toward multilateral cooperation.

3.3 The right partnerships for the EU used in the right way?

64. The EU is an unusual actor on the international stage given it is neither a state nor an international organisation; it is also an emerging player in the field, and as such has been gradually expanding its foreign policy instruments. Recently, this has taken the form of strategic partnerships with 10 countries. While long established relationships with Canada, Japan and the USA have existed for some time, the EU only set up strategic partnerships with Brazil, China, India, Mexico, Russia, South Africa and South Korea over the past decade.

65. The EU's 10 strategic partners comprise big and small countries, western and non-western countries, the BRICS, countries with whom the EU is close to in terms of values and others with whom it is not. Having strategic partnerships with such diverse actors raises the question of how strategic and how partnership-focused the relationship really is. What is the EU trying to do with those partnerships and is it achieving it?

66. To be specific, the concept of partnership raises critical questions for the EU:

- Is the strategic partnership the input or the output; is it the ambition or the starting point?
- What defines a partnership as strategic? The EU creates labels that it has difficulty getting rid of. As soon as an actor has a strategic partnership with Europe, there is no chance of it ending in the future as the diplomatic damage would be too great.
- How many strategic partnerships does the EU need to be effective in foreign policy? Should it have a strategic partnership with all of the G20 countries? What is the right number, bearing in mind that it is impossible to be taken off the strategic partners' list?
- The EU has strategic partnerships with organisations such as NATO or the African Union (AU), but why not other groups like the Economic Community of West African States (ECOWAS) or the UN? Does having strategic relations with organisations reduce the value of bilateral strategic partnerships?

67. Many of the EU's strategic partnerships are not strategic *per se*, but very much focused on economics. With the BRICS, the emphasis is on the EU as a trade bloc and an economic partner. However, if a strategic partnership is one-dimensional for the counterpart, how strategic can it really be? Ideally, the EU should have a multi-dimensional dialogue with its partners, crossing over into questions of development, human rights, security, governance etc. But partners do not necessarily want to talk about these issues with Europeans and therefore the EU should continuously ask itself whether it is talking to the right actors about the right issues. If the EU wants to strengthen its strategic partnerships, it needs to move beyond trade and put issues that are important from a European perspective high on the agenda.

68. Handling these partnerships at the EU level may make more sense than through other fora, such as NATO or the UN, because it has the appropriate toolbox across policy areas. However, the EU's partnerships lack both input and output legitimacy: the partnerships are often credited with modest outputs, and lack 'input legitimacy' because most of the EU's strategic partners are not like-minded. The range of 10 countries is very diverse, not only from a normative standpoint, but also in terms of sheer importance and direct impact on EU interests. To ensure successful engagement with these actors, the EU needs to approach them with adequate resources and focus, as these strategic partnerships will only succeed if the EU is the driving force behind them.

69. In December, the European Council will consider the effectiveness of the Common Security and Defence Policy. A revision of the European Security Strategy has also been called for. As part of these reviews, the EU should clarify and prioritise its relations with partners.

3.4 Discussion and key conclusions

70. Points raised during the conference included:

- Western like-mindedness is taken for granted, but it has been constructed over centuries.
- Why do we need to base things on shared values instead of focusing on why we need to cooperate in order to reach certain outputs?
- What is the role of the state in strategic partnerships? For example, more than half of trade and investment is conducted by transnational corporations.
- Has the ACP-EU partnership become obsolete? Is it of value to Europeans? Although the partnership is perceived as rather hollow, it has some particularly important principles and elements, including the legally binding mechanism, the joint institutions and parliamentary assemblies, which could serve as a model for other partnerships.
- The OECD and EU form of cooperation is about joint learning, joint results and peer review. For the BRICS, it is about mutual respect and non-interference. The challenge is how to use different instruments to build joint knowledge and joint narratives on what the changes are and what cooperation can do about them.

71. In conclusion, participants agreed that the EU needs to have a clearer understanding of what it aims to achieve with its bilateral strategic partnerships and how to ensure it produces the desired results. While some see in these partnerships a movement away from multilateralism, others view it as a means to build relationships that will generate a collaborative environment in multilateral fora.

72. Designing an overarching framework for strategic partnerships could be helpful in addressing the lack of clarity. The following three themes were put forward as possible focus areas for such a framework: security, sustainability, and minimum social cohesion.

73. In addition, it seems that the EU is powerful when it speaks with one voice. In development policy, joint programming makes Europe a bigger donor in the face of other large donors. Trade and climate change are other examples.

74. The EU's strategic partnerships with non-state actors also have potential. For instance, the EU is unique in its partnerships with regional organisations, as no other state, in or out of the EU, is capable of leveraging relations with such actors. These regional partnerships tend to be more multidimensional in scope and therefore offer opportunities for enhanced cooperation in a variety of sectors, such as development.

75. There was broad agreement among the conference participants on the need for enabling factors such as reciprocity, trust, communication or joint narratives to be enhanced in order to prevent tensions and promote cooperation among international actors.

4 Capability and capacity in future EU development cooperation

76. The need for development agencies to re-invent or re-engineer themselves was a recurrent theme at the conference. A stress test indicates that the EU is close to the red zone, so that this agenda is highly relevant to European institutions. A background note prepared for the session is in Appendix 6.

4.1 How prepared are development agencies for the changing world?

77. A recent study, *Horizon 2025*,[11] uses a stress test to assess how exposed and how resilient development agencies are in a changing world. The study suggests that there are three motivations or purposes for development action. Each of these motivations is affected by a disruptor that is causing change.

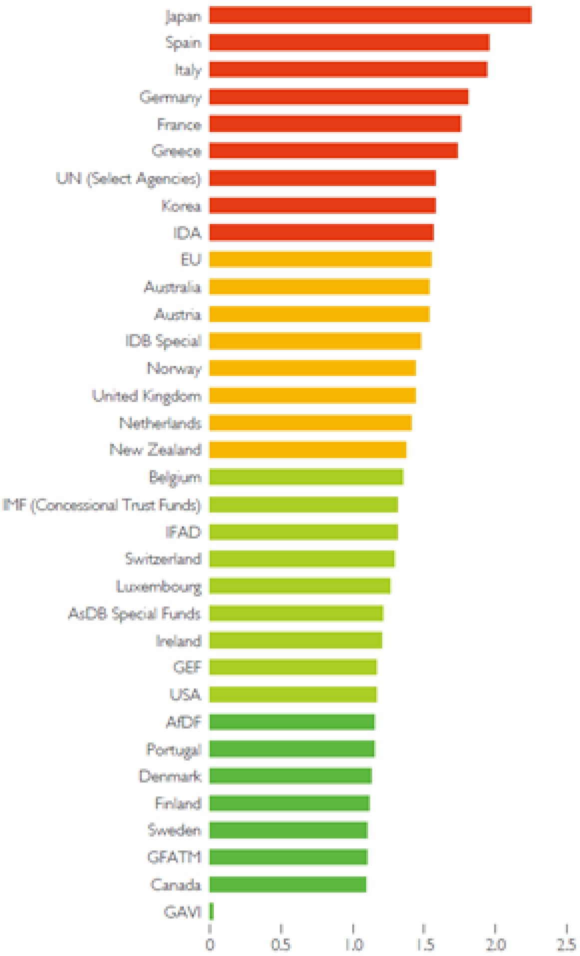
- *Altruism:* improved social welfare.
  - *Disruptor:* new models coming from the private sector, technology and philanthropy to improve social welfare.
- *Bilateralism:* mutual interest in growth, trade and investment.
  - *Disruptor:* South-South cooperation which could potentially shift the focus of OECD countries.
- *Multilateralism:* collective interest (shared global commons).
  - *Disruptor:* In climate change finance, for instance, if an agency is resolute that mitigating climate change is a top priority, it will invest in different countries than if it focused on poverty eradication.

78. A traffic light index ranks the exposure of development agencies in terms of the declining need, by country or sector, for their operations, measured by the current level of net disbursements (Figure 6). The index shows that if a development agency's portfolio is focused on MICs, it may have a problem in the future as citizens and political forces are likely to question the legitimacy of continuing to give large amounts of aid to those countries. If a development agency is geared towards delivering social services, it may be exposed for not undertaking other activities, as well as competing with other actors that are better at social service delivery. Agencies

[11] Kharas, H. & Rogerson, A. (2012) *Horizon 2025: Creative destruction in the aid industry*, London: Overseas Development Institute

are ‘protected’, to some extent, if they finance infrastructure packages, global public goods and climate change mitigation and adaptation.

Figure 6: A traffic light approach to risk of irrelevance



Source: Kharas & Rogerson (2012)

79. The index assesses *what* agencies do and not *how* they do it – it is not a judgement of the quality of aid. The least exposed agencies (in the green zone) are those that are engaged most heavily in the provision of global public goods and activities focused on the high poverty gap and fragile countries. Highly exposed agencies are those focusing heavily on social welfare programmes, as opposed to growth or global goods, and MICs. Bilateral donors in the red zone could become more relevant by shifting their funds through higher ranking multilateral organisations. Note that the EU does not fare well in the stress test, coming 10th from the bottom out of 34.

4.2 What capabilities and capacity will the EU need in the future?

80. The previous discussion suggests that the EU will need to be skilled at:

- using development assistance strategically;
- working across sectors e.g. MDGs/Sustainable Development Goals (SDGs);
- promoting policy coherence for development internally (transversal and overview skills, ability to work across specialist areas and understanding

how different policy areas inter-relate, diplomatic and negotiating skills, and political and communication skills);speaking with one voice externally (political will/internal consensus-building capacities and international dialogue processes to build and maintain coalitions).

81. With regard to the existing capacity within the European Commission, the following features can be highlighted: the process of devolution to delegations has improved aid spending, and the evaluation system is thought to be solid.

82. Official figures from the EEAS show that few staff work in development, but it also has extensive foreign policy skills which are key in development cooperation. Also, there are a much larger number of seconded national experts in the EEAS, compared to the Directorate-General for Development and Cooperation (DG DEVCO).

83. On the other hand, the lack of specific expertise in certain sectors, especially policy dialogue, public management and health and education, remains; the Member States do not regard development specific knowledge as a comparative advantage of the EU institutions; and, there is a high vacancy rate and turnover of contract staff. Official figures from the DG DEVCO show that nearly half of the staff is contractual agents.

84. Given that staff numbers will decrease in the imminent future, what is needed is a more far-reaching consensus on a division of labour that is practical and has a clear strategic approach across the board. Joint EU action will inevitably reduce national visibility, but Member States may have little choice if they want to compete effectively. If they do choose to work more closely, this will require strong leadership so that staff know what is expected of them. Stronger promotional and managements systems will be needed, as well as more and better data on how different ministries, agencies and staff work.

85. In the past 12 years, the Commission has gone through two substantive reorganisations and we should therefore not underestimate the European institutions' ability to change. The proportion of contractual staff also allows for flexibility. The use of Seconded National Experts (SNEs) is another area where Member States could do more and constitutes an instrument to transfer expertise from the national to the EU level.

4.3 Discussion and key conclusions

86. Points raised during the conference included:

- The new challenges of aid administration are very difficult to face and respond to, while the need for organisations to improve is growing. More investment should be made in aid management, while expanding expertise to new areas. Given that the pool of resources and personnel will be limited in the future, important political choices will have to be made. Facing all these challenges on a global scale, more public governance and state involvement will be necessary.
- There will be a case for aid agencies administering ODA to LICs, at least in the medium term. This implies that although development agencies should invest more on skills relevant to address global challenge still need specialist skills in traditional fields.
- As a result of the financial crisis, some Member States have made cuts in their development administrations; while in others, like the Netherlands, the administration has become more bilateral-focused, prioritising national interests over altruism.

- The EU-12[12] countries have had similar debates on how to use development cooperation: as an instrument of foreign affairs or not; oriented towards altruism or growth and investment and the promotion of mutual interests; and whether to opt for bilateral or multilateral aid. Yet, in the EU-12, the question remains as to whether money and energy should be devoted to international development. The EU-12 have much lower capacity than France, Germany or the UK, and as such try to coordinate their views and develop common positions.
- There is a department for global issues within the EEAS that employs around 30 people. This does not reflect an ambitious agenda. In the development cooperation division, a particular effort has been made to have a high presence of SNEs. The advantage is that 'they are people who can shout and be shouted at [by] their national administration, because they are from the same system', which establishes trust and confidence that it will not create an institutional clash.
- Germany is attempting to revamp its development cooperation in response to the changing landscape and increased questioning of its legitimacy. It is considering two options: a ministry for global issues, based on cooperation rather than aid and covering issues such as food security, technology, poverty, resource efficiency/management and agriculture; or a strengthening of international departments in all the relevant sectoral ministries.

87. In conclusion, it seems clear that, as the development agenda changes, the relevance of development agencies will be increasingly challenged in the coming decades. As a result, development actors will need to adapt the type of work they do and the resources they have available to do it. Future trends suggest that development agencies should steer their engagement away from social welfare programmes and MICs toward a focus on the provision of global public goods, and to the high poverty gap and fragile countries.

88. Engaging in these new areas will require some adjustments to existing capacities. For example, there should be more investment in skills that promote collective action, or in communications tools that provide results that can be presented to the public as the legitimacy of development cooperation comes under closer scrutiny. Other areas for improvement include sharing knowledge and experience across institutions within countries, but also at the European level.

89. Some positive examples from the EEAS were discussed and showed that the ingredients of success include an ability to mobilise relevant actors and expertise rapidly across institutions (e.g. discussions held on the security situation in northern Nigeria) and a political will and commitment at the highest level (such as the Kosovo-Serbia dialogue).

90. Finally, future changes will intensify the debate on whether development is an instrument of foreign affairs, or a separate policy area. In either case, the institutional architecture will require stronger capacities to tackle future challenges that affect the development of people and countries.

[12] EU-12 Member States: Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia.

5 From ideas to practice

91. At the end of the Conference, seven conclusions were drawn.

92. First, there was something of a divide at the conference between those who might be described as starting from an *a priori* European position, and those who were more transactional in their approach. The first group tended to emphasise shared interests and common approaches as a starting point; the latter group to talk more about recognising divergent interests, institutional choices and the need to make the case. The two groups often came together. They agreed that working through the EU offered economies of scale and greater weight internationally – and there were many areas, like international trade policy, which were inevitably European as a consequence of the internal market. Nevertheless, participants were warned not to adopt the Mt Everest option: always to think first about the EU, 'because it was there'.

93. Second, it was not difficult to sketch out a vision of future EU development cooperation, different from the current version. The values would be the same, inspired by ideas of social justice. However, although there would continue to be emphasis on service delivery in poor countries, more emphasis would be placed on delivering global public goods, including sustainability and peace. A greater variety of instruments would come into play (including trade, new forms of finance, climate rules, and foreign policy); and partnerships would be needed with a greater range of countries, including of course the BRICS. In this context, two key ideas for post-2015 came into play, both advocated by the UNHLP on post-2015: first, the idea of unifying poverty and sustainable development goals into a single framework; second, a universal approach, applying to both developed and developing countries. Could a strong, positive vision, rights-based and relevant to all, not be used as a vehicle to garner support for development, and even perhaps help re-connect the EU with its citizens? Certainly, re-engagement with citizens was a high priority.

94. Third, it was also quite easy to imagine what the development cooperation agency of the future would need to look like, and what its place in Government should be – whether nationally or at EU level. There would need to be a wide range of skills available, on a wide range of topics, including those related to brokering global deals and managing partnerships with different kinds of countries. The ability to manage relationships and delivery mechanisms across Government would be essential. This would certainly not be an 'aid' ministry, and it might not even be a separate ministry at all. It was interesting to learn at the conference that some countries had already or were thinking of creating new ministries, sometimes called 'globalisation' or 'global issues', incorporating aid, trade, and sometimes climate, alongside foreign policy. Links to macro-economic policy were also essential. The main issue, though, was about competencies. As one donor representative remarked: 'we are terrified by the extent and speed of change that will be needed in our institution'. Participants noted that the EU was on the edge of the red zone in the Kharas/Rogerson stress test of aid agencies' readiness for the future.

95. Fourth, this kind of agenda was certainly non-trivial as far as the EU was concerned. The basic building blocks might be in place, including the creation of the EEAS, with the mandate to ensure policy coherence across thematic areas. However, the silos were both strong and well-cemented, both in the Commission and the Parliament. Examples of successful networking and joined-up action could be found (Somali piracy was often cited), but remained exceptional. Many proposals could be made to foster a new approach: deputies to the High Representative for External Affairs, a more explicit hierarchy among external Commissioners, led by the High Representative/Commission Vice-President, new cadres of professional specialists, perhaps a different way of organising funding, certainly a more integrated approach by the committees of the European Parliament.

96. However, fifth, and again to quote a participant, 'no-one should underestimate the depth and strength of vested interests opposing change in our institutions' – nationally and perhaps especially at EU level. A possible outcome from next year's elections and Commission process was a new vision and new capacity to implement, with strong political leadership, greatly increased capacity to deliver cross-sectorally, and improved parliamentary accountability, all backed up by high levels of public support. More likely was continued but probably slow evolution, marked by continual and messy debate about the limits of EU competence and the internal arrangements of EU development cooperation.

97. Sixth, then, an important question would be about how to incentivise and manage change. Statements of purpose might help, especially if articulated by those with the capacity to set agendas. However, collective action theory suggested that other elements would be needed, including trust-building measures and the deployment of incentives. Finance was probably key. Having a seven-year perspective for the EU budget and the EDF provided predictability for EU planners, but did it also reduce their responsiveness to signals from stakeholders? There was also a case for building on areas where the EU had legal competence, for example trade. Another option was to choose one high profile topic, like building a green economy.

98. Finally, there was an important role for consensus-building and policy engagement across national boundaries – by policy-makers, but also by parliamentarians and NGOs. This was exactly the purpose for which the EU Change-makers group had been established. New ways of working needed to be found, however. Policy-makers and politicians were busy. Attendance at meetings was costly. Participation in e-fora or discussions was unlikely. Probably, there would need to be a core steering group and then a variety of 'instruments' to reach different actors. The European Think-Tanks Group would be a key actor in developing new narratives, but also in supporting disparate policy processes in the Member States of the EU.

Appendix 1

Conference programme

Monday, 24 June		
11.15	**Welcome**	**Kevin Watkins**, Director, Overseas Development Institute
11.30 – 13.00	**Overview**	**Simon Maxwell**, Senior Research Associate, Overseas Development Institute **Mikaela Gavas**, Research Associate, Overseas Development Institute **Erik Solheim**, Chair, Development Assistance Committee, OECD
		Respondent: **Gustavo Martin Prada**, Director of the ‘EU Development Policy’ Directorate, DG DEVCO, European Commission
13.00 – 14.00	Lunch	
14.00 – 15.30	**The challenge of a new development agenda**	**Michael Anderson**, Director General, Policy and Global Issues Programmes, the UK Prime Minister’s Special Envoy on UN Development Goals **Andrew Norton**, Director of Research, Overseas Development Institute **Bernice Lee**, Research Director for Energy, Environment and Resource Governance, Chatham House
		Respondent: **Uta Böllhoff**, Director General, Europe, Middle East, Asia and Multilateral Policy, German Federal Ministry for Economic Cooperation and Development (BMZ)
15.30 – 16.00	Tea and coffee	
16.00 – 17.30	**Reengineering development finance in the 21st**	**Annalisa Prizzon**, Research Officer, Overseas Development Institute **Stephany Griffith-Jones**, Financial

	Century	Markets Program Director, Initiative for Policy Dialogue, Columbia University **Simon Commander**, Managing Partner, Altura Partners **Richard Gledhill**, Partner, PricewaterhouseCoopers
		Respondents: **Tamsyn Barton**, Director-General, European Investment Bank
19.30	**Dinner**	Guest speaker: **Charles Grant**, Director, Centre for European Reform
Tuesday, 25 June		
09.00 – 10.30	**Managing strategic partnerships in a multi-polar world**	**Dirk Messner**, Director, German Development Institute/Deutsches Institut für Entwicklungspolitik (DIE) (video broadcast) **Giovanni Grevi**, Deputy Director, Fundación para las Relaciones Internacionales y el Diálogo Exterior (FRIDE) **Rem Korteweg**, Senior Research Fellow, Centre for European Reform
		Respondent: **Felix Fernandez-Shaw**, Head of the Development Cooperation Coordination Division, European External Action Service (EEAS)
10.30 – 11.00	**Tea and coffee**	
11.00 – 12.30	**Capability and capacity in future EU development cooperation**	**Andrew Rogerson**, Senior Research Associate, Overseas Development Institute **James Mackie**, Senior Advisor, European Centre for Development Policy Management (ECDPM)
		Respondent: **Timo Olkkonen**, Director of General Development Policy and Planning, Finnish Ministry of Foreign Affairs
12.30 – 13.30	**Lunch**	
13.30 – 15.00	**Conclusions and next steps**	**Baroness Glenys Kinnock**, Member of the UK House of Lords **Louka Katseli**, Professor of Economics, University of Athens (former Greek Minister for Labour and former Head of the OECD Development Centre) **Olivier Consolo**, Director, CONCORD

Appendix 2

List of participants

Name	Title	Affiliation
Speakers, panellists and respondents		
Kevin Watkins	Director	Overseas Development Institute
Erik Solheim	Chair	OECD Development Assistance Committee (DAC)
Simon Maxwell	Senior Research Associate	Overseas Development Institute
Mikaela Gavas	Research Associate	Overseas Development Institute
Gustavo Martín Prada	Director of the "EU Development Policy" Directorate	Directorate General for Development and Cooperation – EuropeAid, European Commission
Michael Anderson	Director General, Policy and Global Programmes, the UK Prime Minister's Special Envoy on UN Development Goals	UK Department for International Development (DFID)
Bernice Lee	Research Director: Energy, Environment and Resources	Chatham House
Andy Norton	Director of Research	Overseas Development Institute
Uta Böllhoff	Director General, Europe, Middle East, Asia and Multilateral Policy	German Federal Ministry for Economic Cooperation and Development
Simon Commander	Managing Partner	Altura Partners
Stephany Griffith-Jones	Financial Markets Program Director, Initiative for Policy Dialogue	Columbia University
Annalisa Prizzon	Research Officer	Overseas Development Institute
Jon Williams	Partner - Sustainability and Climate Change Practice	PwC
Tamsyn Barton	Director General Lending operations outside the EU & Candidate countries	European Investment Bank
Charles Grant	Director	Centre for European Reform
Rem Korteweg	Senior Research Fellow	Centre for European Reform
Giovanni Grevi	Deputy Director	La Fundación para las Relaciones Internacionales y el Diálogo Exterior (FRIDE)
Dirk Messner	Director	Deutsche Institut für Entwicklungspolitik (DIE)
Felix Fernandez-Shaw	Head of EEAS VI B2 - Development Cooperation Coordination Division	European External Action Service (EEAS)

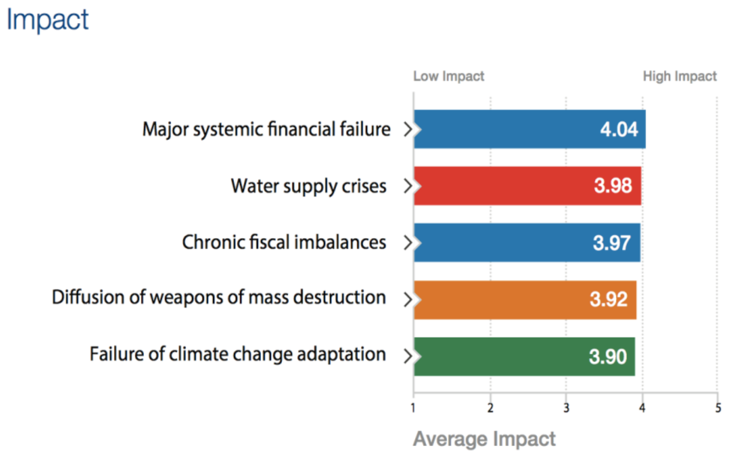
Name	Title	Affiliation
James Mackie	Senior Adviser EU Development Policy	The European Centre for Development Policy Management (ECDPM)
Timo Olkkonen	Director of General Development Policy and Planning	Finnish Ministry of Foreign Affairs
Andrew Rogerson	Senior Research Associate	Overseas Development Institute
Olivier Consolo	Director	CONCORD Europe – the European NGO Confederation for relief and development
Glenys Kinnock	Baroness	House of Lords
Louka Katseli	Professor of Economics (former Greek Minister for Labour and former Head of the OECD Development Centre)	University of Athens
Delegates		
Alexander Woollcombe	Head of UK and EU External Relations	Bill & Melinda Gates Foundation
Andrew Sheriff	Head of Programme: European External Action	The European Centre for Development Policy Management (ECDPM)
Anthony Smith	Director, International Relations	UK Department for International Development (DFID)
Ben Jackson	Chief Executive	BOND
Carol Jenkins	Head of EU Delivery & Results Team	UK Department for International Development (DFID)
Clare Castillejo	Senior Researcher	La Fundación para las Relaciones Internacionales y el Diálogo Exterior (FRIDE)
Dave Smith	Head, UK in Europe Team	UK Department for International Development (DFID)
Edward Hedger	Head of Programme: Centre for Aid and Public Expenditure (CAPE)	Overseas Development Institute
Emma Green	Head of Policy, Europe Department	UK Department for International Development (DFID)
Germana Canzi	EU Policy Adviser	BOND
Helen Morton	Head of Global Advocacy	Practical Action
Helen O'Connell	Independent Consultant	
Imme Scholz	Deputy Director	Deutsche Institut für Entwicklungspolitik (DIE)
Mark Furness	Researcher: Department Bi- and multilateral cooperation	Deutsche Institut für Entwicklungspolitik (DIE)
Melinda Simmons	Head of Europe Department	UK Department for International Development (DFID)
Melissa Julian	Communications Manager	The European Centre for Development Policy Management (ECDPM)
Mira Markova	EU Researcher	Overseas Development Institute
Raphaelle Faure	EU Researcher	Overseas Development Institute
Stephen Tindale	Associate Fellow	Centre for European Reform
Svea Koch	Researcher: Department Bi- and multilateral cooperation	Deutsche Institut für Entwicklungspolitik (DIE)
Zuzana Hlavickova	Director of Development Cooperation and Humanitarian Aid	Czech Ministry of Foreign Affairs

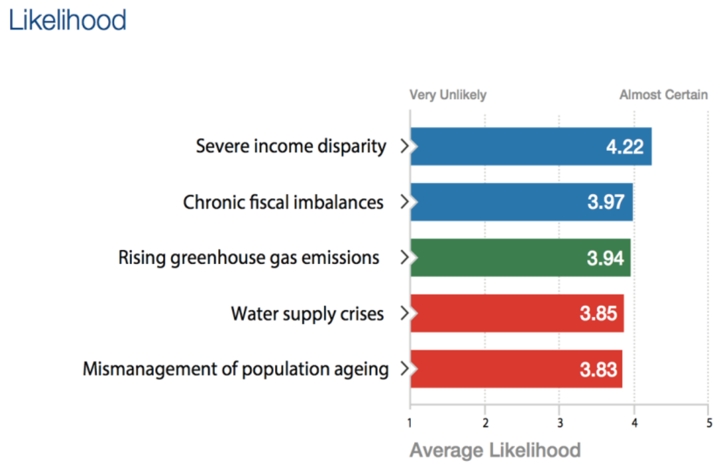
Appendix 3

Background note – Session 1: The challenges of a new development agenda (prepared by Mira Markova)

Pressure continues to mount on both global economic and environmental systems. Rising global temperatures and climate change are testing environmental resilience, while fiscal and monetary policies and the possibility of future shocks are challenging global economic resilience. Any change on one front is certain to affect the other.

Figure 1: Top 5 global risks by likelihood and impact

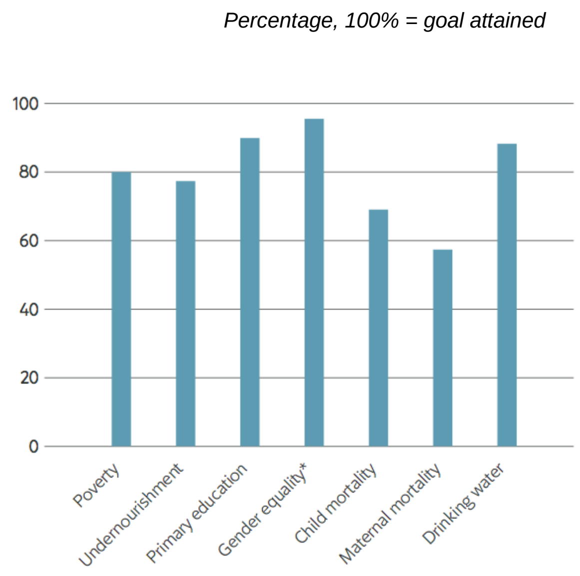




Source: World Economic Forum, Global Risks 2013

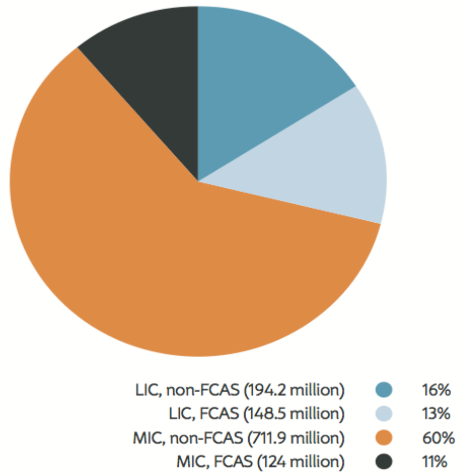
Development cooperation has been continuously evolving over the past decades and there is a constant need to adapt to new actors, contexts and issues. Poverty is increasingly becoming a middle-income and fragile state phenomenon. Poor countries are more and more seeking to reduce their aid dependency. Meanwhile, the development community is diversifying as middle-income countries become donors themselves and new private actors enter the aid scene. These changes are rearranging the structure of development cooperation and finance, suggesting that a number of challenges lay ahead.

Figure 2: MDG progress



Sources: Kenny and Sumner (2011) based on Fukuda-Parr and Greenstein (2010), Leo and Barmeir (2010), World Bank (2011b) and authors' own estimates based on World Development Indicators and Hogan et. al. (2010) data. Notes: *Represents the proportion of developing countries for which the appropriate data are available.

Figure 3: Proportion of the world's poor living in middle-income countries and fragile and conflict affected states (FCAS) has risen



Sources: Processed from World Bank PovCal Net. Notes: FCAS (Fragile and Conflict-Affected States) = 43 countries of combined three lists as per OECD (2010); LIC/MIC status is based on World Bank country classifications for World Bank financial years 1992 and 2011 (based on GNA per capita atlas data for two years).

Poverty eradication

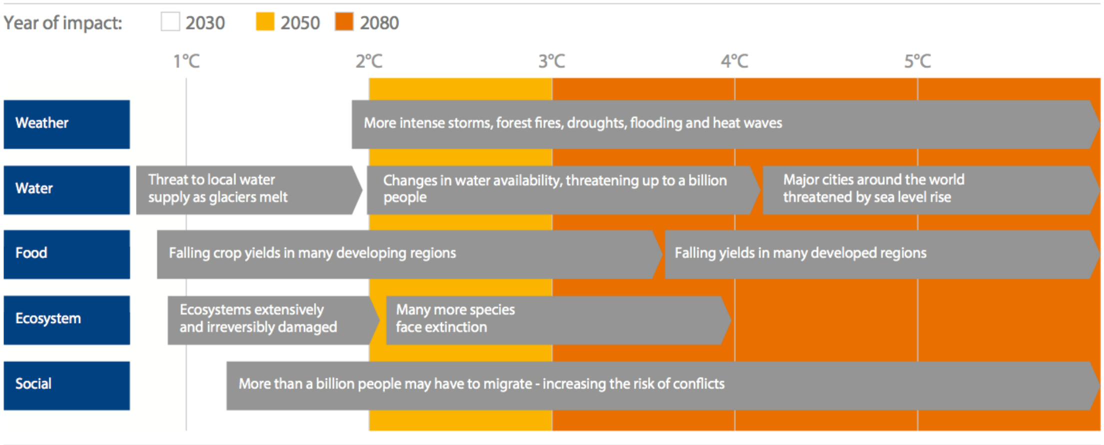
Global poverty has significantly declined over the past few decades due to economic growth and demographic changes, while social indicators, such as health and education, have steadily improved. There has been substantial progress towards meeting most MDG targets at a global level. Results, however, have not been equally distributed within and across countries and regions - the question of how to effectively address deep-rooted forms of deprivation will therefore continue to be a valid one.

Environmental sustainability

Given the impact of the projected trends in CO_2 emissions, global average temperatures could increase by about 3.5°C by 2100 (Climate Action Tracker, 2012; IEA, 2011) - well above the 2°C of global warming commonly considered the threshold for triggering dangerous climate change and consequences. Moreover, the 2°C scenario is now considered unobtainable, even if there is rapid decarbonisation and a green growth revolution (though it remains a target for political negotiations). Climate change is already among the priorities on the international agenda and is likely to have a fundamental influence on future development cooperation.

During the Rio+20 Summit in June 2012, countries signed off on a plan to set new global sustainability goals, but future progress is likely to face big obstacles. On the one hand, climate change presents tangible environmental and economic threats; on the other, its urgency is constantly challenged by the more short-term priorities of job creation, growth and economic stability concerns.

Figure 4: Possible impact of global warming on different sectors



Source: World Economic Forum, Global Risks 2013

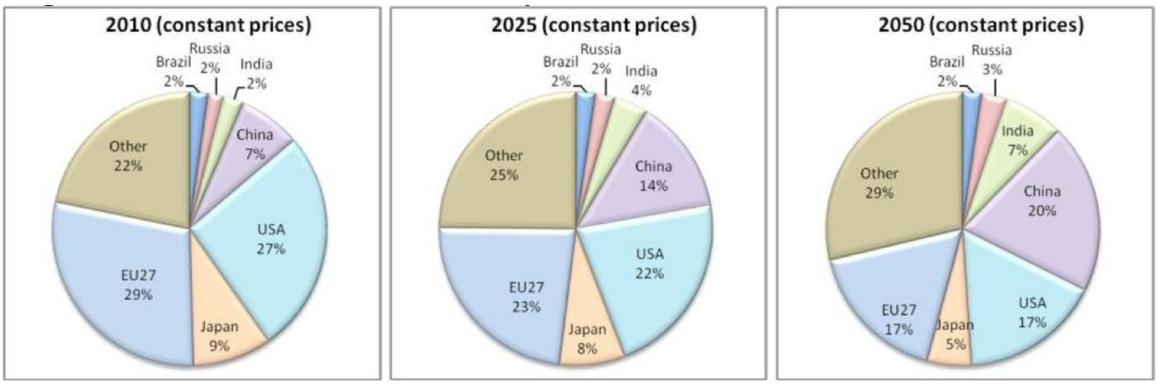
Peace and security

Security and stability are themselves preconditions for achieving sustainable development objectives, and it is generally believed that development cooperation can help improve security, thus creating the necessary conditions for long-term institutional change. However, making stabilisation efforts a development priority raises concerns about the 'securitisation' of development (i.e. development aid being used entirely for security or foreign policy purposes), which can potentially undermine the legitimacy of humanitarian action.

Countries are often trapped in cycles of violence, which erodes economic opportunities and results in low levels of human development. According to World Bank estimates, 1.5 billion people live in countries affected by repeated cycles of violence and conflict (World Bank, 2011). Even though deaths caused by civil war have fallen considerably since the 1980s, a quarter of the world's population still lives in conflict-affected countries and over 40 million people have been displaced from their homes.

The geography of wealth

Figure 5: Shares in the world economy, 2010, 2025 and 2050 (in % of world GDP)



Source: Fouré et al., 2012

The development cooperation discourse is continuously evolving, corresponding to a shifting geography of wealth – from the 'East Asian Tigers' of the 1980s and 1990s, through the 'BRICS' (Brazil, Russia, India, China and South Africa) from the late 1990s, to the current trend of middle-income countries catching up with OECD countries. Economic growth rates in sub-Saharan Africa have also shown considerable improvement after decades of stagnation or decline. Over the past two decades, developing countries were for the first time growing faster than high-income economies (OECD, 2011). An estimated 83 developing countries managed to double OECD per capita growth rates in the 2000s, compared to only 12 countries in the 1990s.

This general and accelerating trend towards global economic convergence is producing a major shift in the balance of global economic and political powers: global inequality is dropping as inter-country inequality is reduced. Country-level inequality is however rising and is re-emerging as a source of concern.

Issues for discussion

- Does the 'new' agenda imply that traditional donor agencies have to be reconfigured?
- Given the likelihood of future financial crises and natural catastrophes, are there ways to build resilience in the economic and environmental systems at the same time?
- Should more or less aid be directed to middle-income countries?
- Apart from the challenges ahead, what opportunities does climate change action present for future sustainable development?

Further reading

Evans, A. (2010) 'Aid Effectiveness post-2010: a think piece on ways forward'. London: Overseas Development Institute.

Elhawary, S., Pantuliano, S. and Foresti, M. (2010) 'Development, security and transitions: a meeting series report'. ODI Meeting Series Report. London: Overseas Development Institute.

Fouré, J., Bénassy-Quéré, A. and Fontagné, L. (2012) 'The great shift: macroeconomic projections for the World Economy at the 2050 Horizon'. CEPII Working Paper. Paris: Centre d'Etudes Prospectives et d'Informations Internationales.

Hillebrand, E. (2010) 'Poverty, growth, and inequality over the next 50 years', Paper prepared for the Expert Meeting on How to Feed the World in 2050, Food and Agriculture Organization of the United Nations.

Kharas, H. and Rogerson, A. (2012) 'Horizon 2025: Creative destruction in the aid industry'. ODI Research Report. London: Overseas Development Institute.

Kharas, H. (2010) 'The emerging middle class in developing countries'. OECD Working Paper 285. Paris: OECD Development Centre.

Melamed, C. (2012) 'After 2015: contexts, politics and processes for a post-2015 Global Agreement on Development'. ODI Research Report. London: Overseas Development Institute.

OECD (2011) 'Perspectives on Global Development 2012: Social cohesion in a shifting world'. OECD Report. Paris: OECD.

Rogerson, A., Norton, A. and Maxwell, S. (2012) 'Inclusive and sustainable development: challenges, opportunities, policies and partnerships'. ODI Working Paper. London: Overseas Development Institute.

Sumner, A. (2010) 'Global poverty and the new bottom billion'. IDS Working Paper. Brighton: Institute of Development Studies.

World Bank 2011: World Development Report on Conflict Security and Development

World Economic Forum 2013: Global Risks

Appendix 4

Background note – Session 2: Reengineering development finance in the 21st Century (prepared by Mira Markova)

'Official Development Assistance' (ODA) is dying…What we are witnessing is the dilution of an outdated concept – one based on long gone illusions about the unity, the clarity and the purity of the 'international community's' goals – into a new complex breed of public policies that attempt to confront the challenges of a globalized world. A triple revolution of objectives, players and instruments is reshuffling the cards, dynamiting old practices and habits. The bustling creativity of development finance is precipitating a change of era: a new phoenix is rising from the ashes of a half-century old policy.

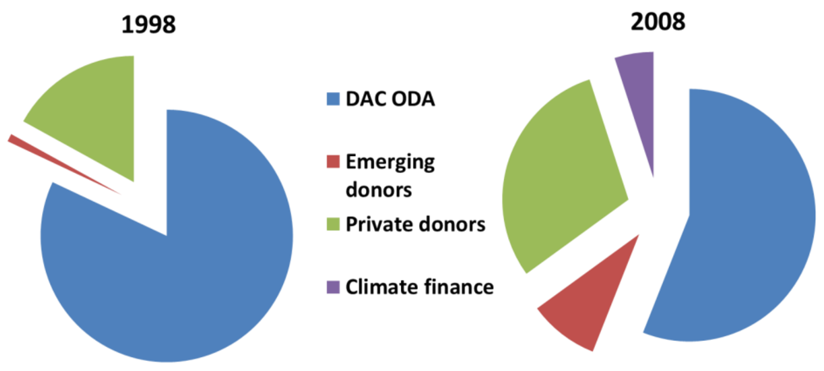
(Severino and Ray, 2009)

A changing pattern of flows

The mixture of development resources is in flux and the future of traditional aid is in turmoil. This is likely to have a profound effect on the planning of any post-2015 scenarios. Only a decade ago, development assistance was predominantly supplied by traditional OECD donors and conformed to an established set of norms. Developing countries now have access to an increasing variety of resources to finance their development. While Official Development Assistance (ODA) still plays a catalytic role in low-income and least developed countries, it is also increasingly challenged by alternative sources of finance such as Foreign Direct Investment (FDI), remittances and emerging new non-traditional forms of development finance. The latter fulfil similar purposes and include South-South Cooperation (SSC), climate finance, philanthropy and other forms of private development assistance. Both traditional and non-traditional flows have been growing in volume over the past decade – a trend likely to continue in the future. The development finance agenda is undergoing a rapid transformation, which is questioning the relevance of ODA and making it necessary for donors to rethink their strategies.

Greenhill et al (2013) estimate that total development assistance grew from $77.1 billion to $213.5 billion between 2000 and 2009. In 2000, the 'non-traditional' component of these flows was only $5.3 billion, or 8.1% of the total. By 2009, non-traditional flows had increased tenfold to $53.3 billion, making up 30.7% of total development assistance.

Figure 1: Changing pattern of aid flows



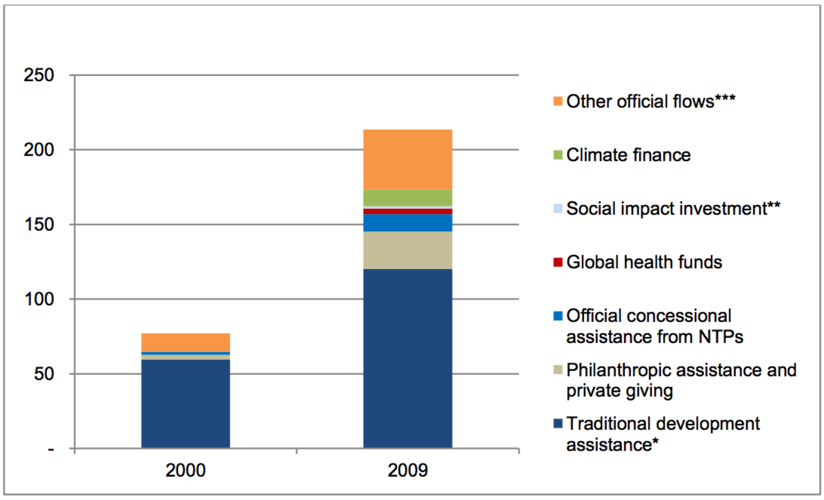
Source: Kharas (ed), 2011

Figure 2: Which financing resources matter? Changing nature of capital flows to sub-Saharan Africa (USD billion)

	2001	*2011*
Private capital flows		
FDI, net inflows	15	40.9
Bond flows	2	6
Net portfolio equity inflows	-0.9	8.3
Total above	**16.1**	**55.2**
Other financial flows		
Aid for Trade	2.5	9.2
All ODA aid	14	43
Remittances	4.8	31
IFC investments		2.2
IDA / IBRD credits		36.3

Source: Te Velde, 2013 (European Parliament Hearing presentation)

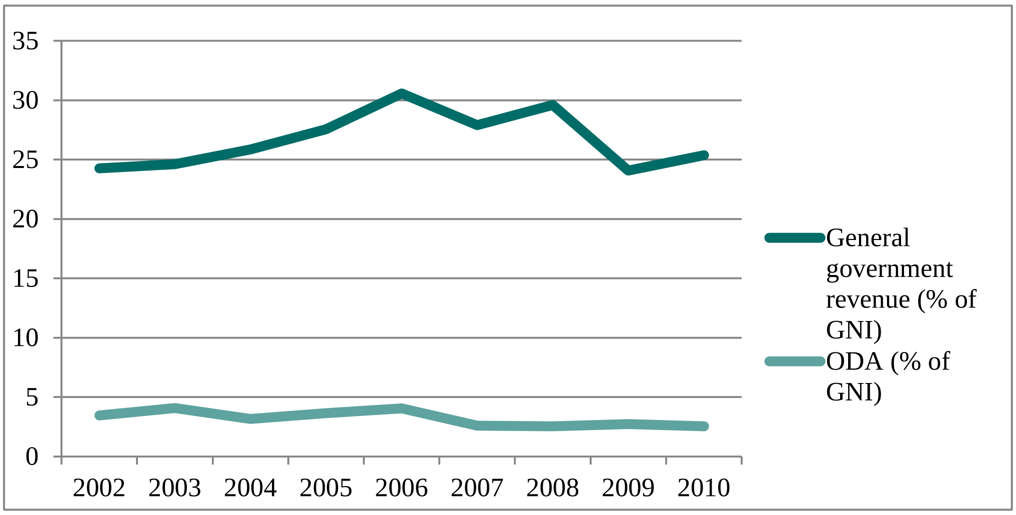
Figure 3: Trends in development assistance flows, for 2000 and 2009 (in billions)



Source: Greenhill et al. 2013

Domestic resource mobilisation

Figure 4: Trends in government revenue and ODA in sub-Saharan Africa

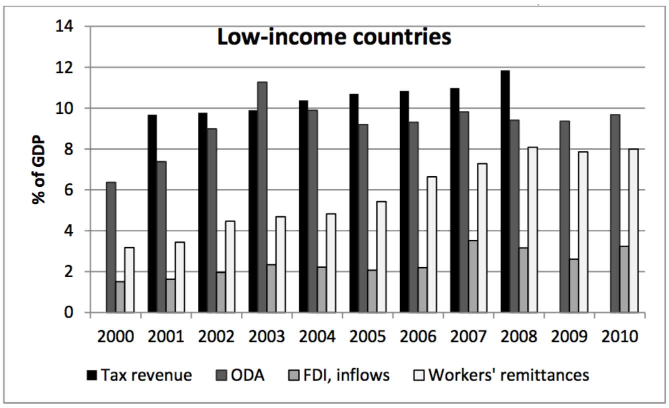


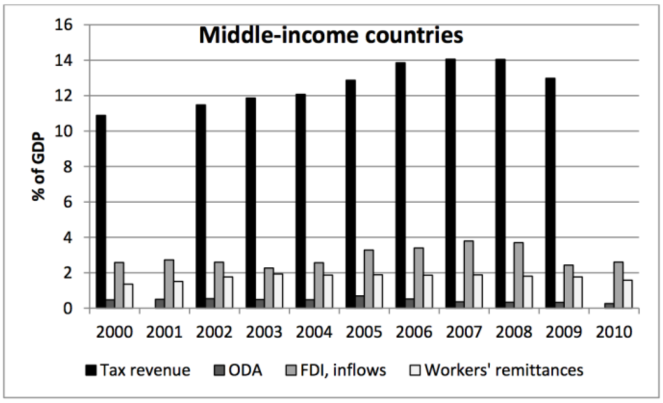
Source: Author's own construct using IMF and OECD-DAC database

A more prominent source for development resource mobilisation in the future could come from developing countries themselves. The high government revenue ratio (government revenue as a percentage of GNI) in countries in sub-Saharan Africa suggests that governments have considerable means to promote development. As the global financial crisis has affected ODA growth, the case for domestic resource mobilisation has become more prominent, although there is little clarity on how to channel and increase the contribution of such funds. A large body of empirical work suggests that developing countries can increase tax revenue to raise development finance, or at least increase the extent to which taxation is used to finance development.

The distribution and importance of the different development finance flows are highly uneven across income categories. For MICs tax revenue is significantly higher than ODA, FDI or remittances, whereas for LICs ODA is close to, or in some years even higher than, tax revenues. Other sources of development finance were and will continue to be concentrated in MICs: the level of FDI inflows and remittances to MICs in 2010 was considerably higher than to LICs and has been increasing at a higher rate (Greenhill and Prizzon, 2012).

Figures 5 and 6: Domestic and cross-border flows as a share of GDP: LICs vs. MICs

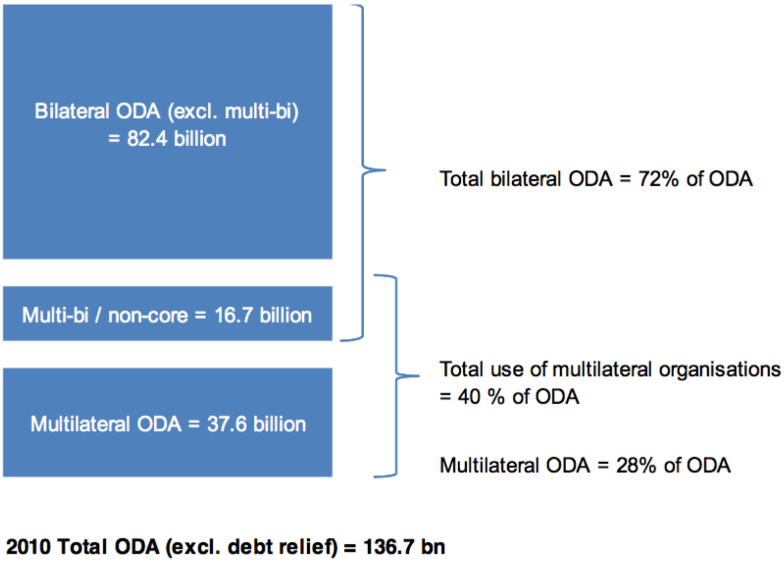




Source: Greenhill and Prizzon, 2012

Multilateralism vs. bilateralism

Figure 7: Gross ODA disbursements (2010) (excluding debt relief and contributions from EU institutions, in constant 2010 prices)

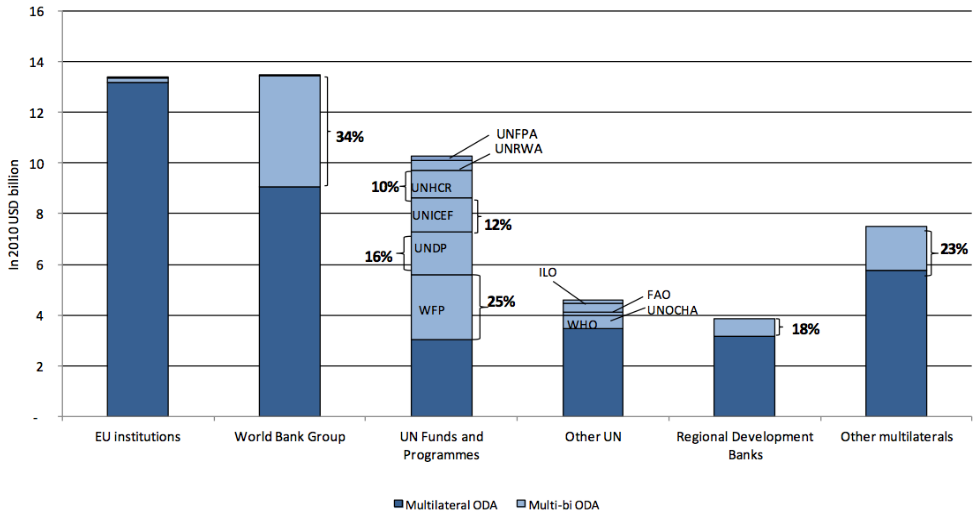


Source: OECD DAC 2012 Report on Multilateral Aid

In 2010, the multilateral system accounted for 40% of gross ODA (an 8% increase in real terms compared to 2009). Bilateral aid comprised 72% of all ODA: 12% of total ODA (USD 16.7 billion) was identified as bilateral but was in fact channelled through and implemented by multilateral agencies.

45% of multi-bi aid is not allocated by country, but is earmarked for a specific region, theme, and/or sector (e.g. Sub-Saharan Africa, food security, climate change, or education). Of the 55% that does go to particular countries, the bulk is disbursed to fragile and conflict-affected low-income countries, which means that the multi-bi aid serves as a channel for donors to reach the poorest and most fragile countries.

Figure 8: Total use of the multilateral system, gross ODA disbursements in 2010

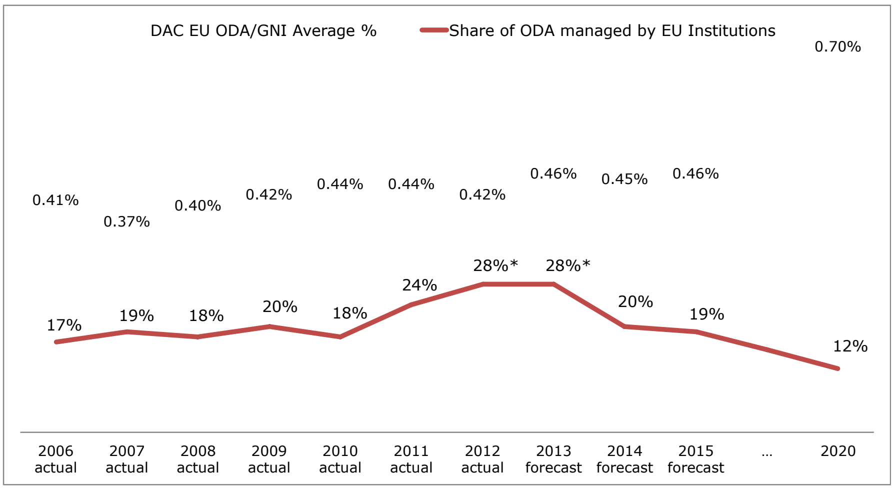


Source: OECD DAC 2012 Report on Multilateral Aid

The largest volume of multi-bi flows is channelled through UN Funds and Programmes and the World Bank Group. Since it only recently started to accept earmarked funds, the EU has a relatively small share of multi-bi flows but it channels the largest volume of multilateral development aid.

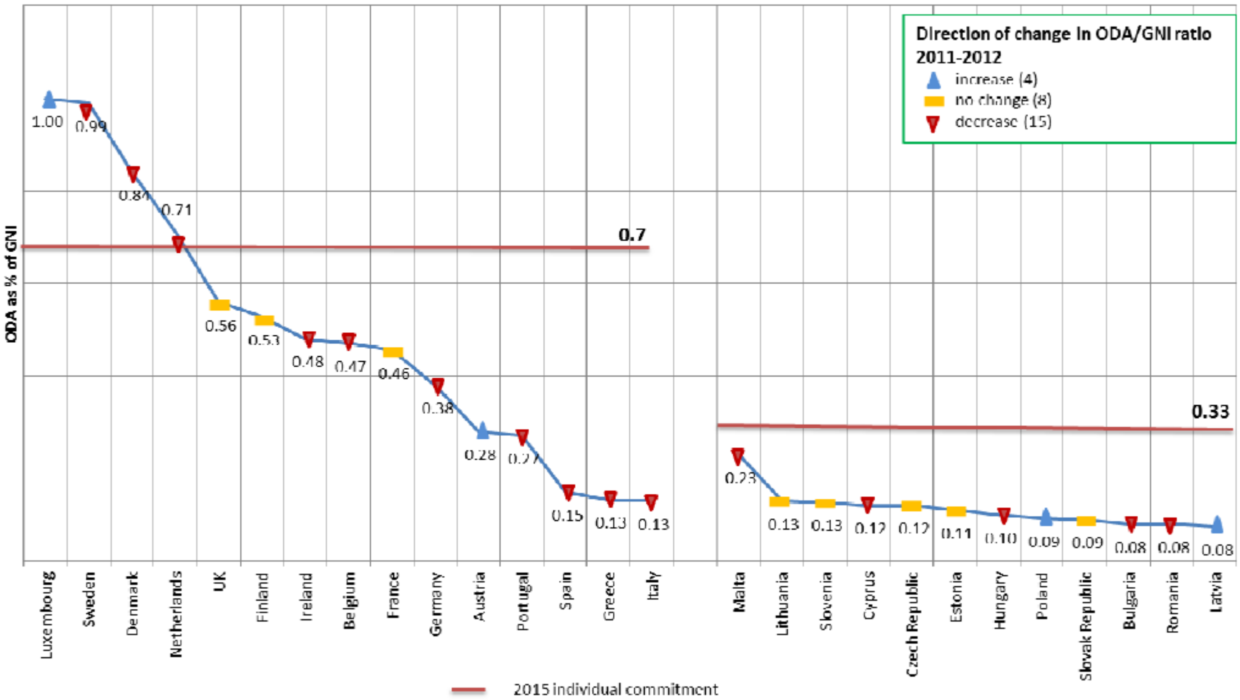
However, as the Member States' ODA levels grow in an attempt to reach the 0.7% target, the respective share channelled and managed through the EU will decline – this is because the individual contributions by Member States are fixed for the following seven-year term by the MFF and the EDF agreements.

Figure 9: A declining footprint of the European Union



***The increase in the share of ODA managed by the EU for 2012 and 2013 to 28% is due to an increase in loans.*
Source: Gavas, 2013

Figure 10: Gap between 2012 ODA levels and 2015 agreed individual targets of the 27 EU Member States and direction of change from 2011 to 2012



Issues for discussion

- Is ODA still relevant?
- Does having more choice regarding sources of development finance put recipient countries in a stronger negotiating position?
- To what extent should donors support the diversification of sources of development financing?
- Should ODA become exclusively concentrated on countries which cannot access private development flows?
- How can donors use ODA to leverage other investment flows?
- Is it better to be a big multilateral donor or a small bilateral organisation?
- Is climate finance changing the entire framework of development finance?

Further reading

Evans, A. (2010) 'Aid Effectiveness post-2010: a think piece on ways forward'. ODI Working Paper. London: Overseas Development Institute.

ECOSOC (2008) 'Background study for the Development Cooperation Forum: trends in South-South and triangular development cooperation'. New York: United Nations.

Gavas, M., Geddes, M., Massa, I. and te Velde, D.W. (2011) 'EU blending facilities: implications for future governance options'. European Think-Tanks Group. London: Overseas Development Institute.

Glennie, J. (2011) 'The role of aid to middle-income countries: A contribution to evolving EU development policy'. ODI Working Paper 331. London: Overseas Development Institute.

Greenhill, R., Prizzon, A., Rogerson, A. (2013) 'The age of choice: How are developing countries managing the new aid landscape?' ODI Working Paper 364. London: Overseas Development Institute.

Greenhill, R. and Prizzon, A. (2012) 'Who foots the bill after 2015? What new trends in development finance mean for the post-MDGs'. ODI Working Paper 360. London: Overseas Development Institute.

Griffiths, J. (2012) 'Leveraging private sector finance. How does it work and what are the risks?'. London: Bretton Woods Project.

Grimm, S. and Zhang, C. (2012) 'South-South Cooperation and the Millennium Development Goals (MDGs): Preparing for a post-2015 setting'. Background paper for the European Report on Development 2013.

Grimm, S., Humphrey, J., Lundsgaarde, E. and de Souza, S. L. J. (2009) 'European development cooperation to 2020: challenges by new actors in international development', EDC 2020 Working Paper 4. Bonn: European Association of Development Research and Training Institutes.

Kanbur, R. and Sumner, A. (2011) 'Poor countries or poor people? Development assistance and the new geography of global poverty'. Vox, November 2011.

Kharas, H. and Rogerson, A. (2012) 'Horizon 2025: creative destruction in the aid industry'. ODI Working Paper. London: Overseas Development Institute.

Kindornay, S. (2011) 'From Aid Effectiveness to Development Effectiveness'. Ottawa: The North South Institute

Klingebiel, S. (2012) 'Results-Based Aid (RBA): new aid approaches, limitations and the application to promote good governance'. Bonn: German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE).

Kragelund, P. (2011) 'Back to BASICs? The rejuvenation of non-traditional donors' development cooperation with Africa'. Development and Change, 42, 585-607.

Markova, M. (2013) 'Scientific or political: assessing options for the 11th European Development Fund allocation method'. ODI Working Paper. London: Overseas Development Institute.

Martins, P. M. G. (2010) 'A post-2015 development agenda: what role for ODA'. London: Centre for Development Policy and Research, SOAS.

Núñez Ferrer, J. and Behrens, A. (2011) 'Innovative approaches to EU blending mechanisms for development finance'. Brussels: Centre for European Policy Studies.

Reality of Aid (2010) 'South-South Cooperation: a challenge to the aid system'. Quezon City: IBON Books.

Severino, J. and Ray, O. (2009) 'The End of ODA: death and rebirth of a global public policy'. CGD Working Paper 167. Washington: Center for Global Development.

Shafik, M. (2011) 'The future of development finance'. CGD Working Paper 250. Washington DC: Center for Global Development.

Appendix 5

Background note – Session 3: Managing strategic partnerships in a multi-polar world (prepared by Raphaëlle Faure)

The EU is engaged in numerous partnerships with a variety of actors, ranging from countries to regional blocs and international organisations. Some of these are characterised as 'strategic partnerships', while others are referred to as 'joint-partnerships' or 'joint strategies', for example.

The European Security Strategy of 2003 gives an indication of what constitutes a strategic partnership: 'There are few if any problems we can deal with on our own. The threats described above are common threats, shared with all our closest partners. International cooperation is a necessity. We need to pursue our objectives both through multilateral cooperation in international organisations and through partnerships with key actors. […] **In particular we should look to develop strategic partnerships, with Japan, China, Canada and India as well as with all those who share our goals and values, and are prepared to act in their support** [emphasis added]'.

Between 2003 and 2010, the EU's bilateral relationships with seven emerging powers – Brazil, China, India, Mexico, Russia, South Africa and South Korea – were upgraded to strategic partnerships (although they continue to incorporate an ODA component). In addition, the EU also has longer established strategic partnerships with Canada, Japan and the United States. This brings the total of bilateral strategic partnerships to ten countries (the 'lucky 10') which all belong to the Group of 20. The recent trend has been to build deeper relationships with new global players over the past decade; looking forward, other candidates for future strategic partnerships include: Turkey (although this could prove to be politically challenging given Turkey's candidacy to becoming an EU Member State), Indonesia, Pakistan and Nigeria, along with some countries from the Gulf (Renard, 2012).

Elements of a successful bilateral strategic partnership

Strategic partnerships fulfil three main functions:

- A ***'reflexive' function***, meaning that the EU self-asserts itself as a partner in the international arena.
- A ***management function*** for bilateral relationships, especially in the areas of trade and economics.
- A ***structural role in enhancing global governance*** by mobilising bilateral means to address issues at the international level (Grevi, 2012).

EU framework for bilateral partnerships

The EU celebrates bilateral summits with each of its partners, launches common action plans and establishes multi-dimensional cooperation at the bilateral, regional and global levels under each strategic partnership (Gratius, 2011). While most core issues differ across the partnerships, trade and investment seem to be issues of particular importance, as they feature in all of them.

The choice of countries and the reasons for engaging with them are directly linked to the interests at stake and are not the result of an overarching foreign policy strategy.

Overview of the EU's strategic partnerships (SPs)

Bilateral	Core issues	Aid	FTA	Nature of SP
Brazil (2007)	Trade (10th partner), environment, energy	Yes	Negotiations Mercosur since 1999	Limited, value and interests based asymmetric SP
Canada (no official SP declaration)	All-inclusive, focus on values, global peace, environment, energy, trade (11th partner) and investment	No	Negotiations since 2009	All-inclusive, like-minded SP
China (2003)	Trade (2nd partner), investment, human rights	Yes	No (PCA)	Limited, interest based asymmetric SP
India (2008)	Trade (8th partner), investment, security	Yes	Negotiations since 2006	Limited, value and interest based asymmetric SP
Japan (no declaration)	Trade (6th partner), investment, development, peace	No	No (in consideration)	Limited, like minded SP
Mexico (2009)	Trade (19th partner), investment, development, (public security)	Yes	Yes (2000)	Limited, like minded SP
Russia (2009)	Trade (3rd partner), energy	Yes	No (PCA)	Limited, interest based SP
South Africa (2006)	Development, trade (13th partner), regional peace	Yes	Yes (2008)	Limited, development focused SP
South Korea (2010)	Trade (9th partner), development, democracy	Yes	Yes (2010)	Limited, like-minded SP
United States (1990)	All-inclusive (1st trade partner)	No	Imminent launch of negotiations for a comprehensive trade and investment agreement	Like-minded, value and interests based on asymmetric SP

Source: Gratius (2011) based on EU official documents.
Note: PCA = Partnership and Cooperation Agreement

To date, the seven most recent partners still receive aid from the EU. However, as a result of the EU’s policy of differentiation, these countries will no longer be eligible to receive EU bilateral aid from 2014.

The Partnership Instrument

The Partnership Instrument will replace the 'financing instrument for cooperation with industrialised and other high income countries and territories' (ICI), which expires at the end of 2013. Therefore a new financial instrument is needed to replace it. The Partnership Instrument will allow the EU to pursue agendas beyond development cooperation with global players, but also to defend core EU interests with any other partner country, as the need arises. It could also underpin new relationships with countries graduating from bilateral development assistance.

Its three specific objectives are to:

(a) implement the international dimension of the 'Europe 2020' strategy by supporting EU bilateral, regional and interregional cooperation partnership strategies, by promoting policy dialogues and by developing collective approaches and responses to challenges of global concern, such as energy security, climate change and environment;

(b) improve market access and developing trade, investment and business opportunities for European companies, in particular SMEs, by means of economic partnerships and business and regulatory cooperation;

(c) enhance widespread understanding and visibility of the Union and its role on the world scene by means of public diplomacy, education/academic cooperation and outreach activities to promote the Union's values and interests.

Source :
http://ec.europa.eu/europeaid/how/finance/documents/prop_reg_partnership_instrument_en.pdf

Other EU strategic relationships

Regional partnerships

The EU is engaged in a number of strategic relationships with regional blocs in addition to its 10 bilateral strategic partnerships. Below are three examples of such strategic relationships.

- The **Asia-Europe Meeting (ASEM),** created in 1996, is an informal process of dialogue and cooperation bringing the 27 EU Member States, the European Commission, Norway and Switzerland together with 20 Asian countries and the Association of Southeast Asian Nations (ASEAN) Secretariat. The ASEM dialogue addresses political, economic and cultural issues, with the objective of strengthening the relationship between the two regions. The summits reaffirm the different areas of collaboration between the two regions, many of which cover development cooperation issues.
- The **EU-Community of Latin American and Caribbean States (CELAC) strategic partnership,** created in 2010, held its latest summit in January 2013. The partners issued a two-year action plan on areas including: science, research, innovation and technology; sustainable development; environment; climate change; biodiversity; energy; regional integration and interconnectivity to promote social inclusion cohesion; migration; education and employment to promote social inclusion and cohesion; gender and investments and entrepreneurship for sustainable development.
- The relationship between the **EU and Africa** is governed by two frameworks: the African, Caribbean and Pacific (ACP), enshrined in the 1975 Lomé Convention, updated in 2000 by the **Cotonou Agreement**; and more recently, the **Joint-EU Africa Strategy (JAES)**, conceived at the 2007 EU-Africa summit in Lisbon, which reflects the pan-African dimension. The strategy focuses on eight areas of collaboration, including: peace and security; democratic governance and human rights; regional economic integration, trade and infrastructure; Millennium Development Goals; climate change; and migration, mobility and employment.

Institutional partnerships

To ensure greater collaboration in common areas of interest, the EU has also set up a series of strategic partnerships with international organisations. For example, strategic partnerships have been established with the International Organization for Migration (IOM), the United Nations Development Programme (UNDP), the World Health Organization (WHO), the International Labour Organization (ILO), the UN High Commissioner for Refugees (UNHCR), the World Food Programme (WFP), the United Nations Entity for Gender Equality and the Empowerment of Women (UN Women) and the United Nations Educational, Scientific and Cultural Organization (UNESCO).

Conclusion

While the EU has strategic partnerships or relationships with a number of actors, its partnership with the 'lucky 10' clearly stands out and implies a strong focus on establishing ties with influential countries founded in mutual economic and commercial interests. Unlike bilateral strategic partnerships, region to region relationships are much more centred on development cooperation.

Issues for discussion

- What is the future of the EU bilateral strategic partnerships? Are they aid driven, and if so, what will happen once those countries are no longer eligible for EU aid? How will the relationships move toward equal partnerships?
- Why are development aspects mostly covered in regional partnerships rather than bilateral partnerships?
- How can these partnerships be used to tackle development challenges? What should the EU do to ensure it remains an attractive partner in the eyes of countries that are strategic, or will become strategic?

Further reading

On the Partnership Instrument:
http://ec.europa.eu/europeaid/how/finance/documents/prop_reg_partnership_instrument_en.pdf

Gratius, S. (2011) 'The EU and the 'special ten': deepening or widening Strategic Partnerships?', *Policy Brief N. 76*, Madrid: FRIDE.

Grevi, G. (2012) 'Why EU strategic partnerships matter', *ESPO Working Paper n.1*, June 2012, European Strategic Partnerships Observatory.

Hess, N. (2012) 'EU Relations with "Emerging" Strategic Partners: Brazil, India and South Africa', *GIGA Focus International* Edition/English, Number 4, 2012.

Renard, T. (2012) 'The EU Strategic Partnerships Review: Ten Guiding Principles', *ESPO Policy Brief 2*, April 2012.

Rogers, J. and Simón, L. (2012) 'Think again: 'strategic partnerships'', *European Geostrategy*, 23 May 2012 [online source].

European Strategic Partnerships Observatory website:
http://www.fride.org/project/28/european-strategic-partnerships-observatory

Appendix 6

Background note – Session 4: Capability and capacity in future EU development cooperation (prepared by Raphaëlle Faure)

The world is changing, new actors are on the rise and challenges are becoming increasingly global. This moving context will require some adjustments and new thinking on the part of development cooperation actors. In this age of uncertainty, development agencies need to reform and adapt themselves. The nature of poverty is changing and this represents an opportunity, as a recent article in *The Economist* (2013) put it: 'Poverty used to be a reflection of scarcity. Now it is a problem of identification, targeting and distribution. And that is a problem that can be solved.'

In the short term, agencies are under pressure to perform better in terms of results and transparency. In the longer term, development agencies will have to:

1. Engage more effectively in a government-wide approach on topics such as global macro-economic management, climate change, security or state fragility.
2. Understand and be effective in delivering global deals, e.g. climate change or arms control.
3. Demonstrate leadership in managing the international system, including the reform of international agencies.
4. Step up engagement with the private sector, for example, through challenge funds.
5. Work more intensively in difficult environments, including especially fragile and conflict-affected states (Maxwell, 2010).

Options for the future role of development agencies at the Member States and EU levels

Visionaries

National development agencies could move away from a role of administering aid budgets toward one of exerting political influence and acting as a thought leader (Evans and Steven, 2010). Countries like the UK are too small to act on their own; the way to continue having an influence on development cooperation, is to develop a clear vision with which to approach other actors and convince them to pursue shared goals together.

Efficient disbursers

Development agencies could concentrate on being efficient disbursers of official development assistance (ODA) in a context where they face reduced demand on the one hand and, on the other, increased competition from new kinds of business models and new forms of finance (Rogerson, 2012).

Brokers and managers

Development agencies could broker and manage ODA and ODA-like funds, concentrating on financial issues, but with a stronger focus on partnerships with the private sector and with non-traditional donors, and on expanding the share of funds being used for regional and global public goods (Rogerson, 2012).

Deal-makers

Development agencies could become deal-makers and brokers across government and internationally, providing a unique perspective and resources (financial and non-financial) on the issues that shape global well-being (Rogerson, 2012).

Development architecture – the relationship with foreign policy

Many European countries have a merged structure at the policy level where development cooperation decision-making falls under the prerogatives of foreign affairs ministries, while the implementation of development cooperation is delegated to a specialised body. This offers opportunities in terms of the potential for greater policy coherence; but it also increases the risk of seeing short term objectives undermine longer-term development. The EU system is hybrid in this regard, as some of the development policy responsibilities rest with the External Action Service, while others fall under the Development Commissioner's authority.

Options for the EU as a development actor

The EU could play a stronger role in the provision of global public goods, or it could focus on its role as an aggregator of its Member States' influence. It could also do both by identifying and focusing on areas where it has a comparative advantage.

To do this effectively, the EU will need to build capacity and expertise. Large institutions often suffer from groupthink and struggle to harness new ideas and innovations. This is partly due to the low turnover among senior staff who tend to build their career within a given organisation, therefore having limited external experience compared to senior staff in the private sector for instance (Goldin, 2013). Building capacity that is relevant to today's environment in a large organisation like the EU will require joined-up thinking and action across departments, together with strong leadership and capacity in order to operate across policy areas and at national and international levels. This will be particularly challenging as the European Commission is under pressure to reduce the size of its staff. Other organisations have been through similar constraints; the UK's Department for International Development (DFID), for example, managed to increase its pool of advisers (specialised staff) by 45% while reducing its pool of administrative posts in 2011-12.

Issues for discussion

- How are development agencies responding to the changing development landscape?
- What will the development agency of the future look like?
- Does a focus on the provision of public goods risk diverting attention from the poorest?
- Is the ambition for the EU to become: (1) a great global multilateral aid agency, (2) an agile catalyst for all sources of development finance, (3) a powerful hub for coherent global policies far beyond aid, or (4) all of the above?

Further reading

Evans, A. and Steven, D. (2010) ‘Organising for Influence. UK Foreign Policy in an Age of Uncertainty’, *Chatham House Report*, London; Chatham House.

Gavas, M. (2013) ‘The EU and Global Public Goods. Challenges and Opportunities’, *DIIS Report,* Copenhagen: Danish Institute for International Studies.

Goldin, I. (2013) *Divided Nations. Why global governance is failing, and what we can do about it*, Oxford University Press.

IPPR (2010) *Policy Coherence and the Future of the UK’s International Development Agenda*, March, 2010, London: Institute for Public Policy Research.

Kharas, H. and Rogerson, A. (2012) *Horizon 2025 creative destruction in the aid industry*, London: ODI.

Maxwell, S. (2010) ‘Visioning the aid agency of the future’, unpublished.

Rogerson, A. (2012) ‘The policy and institutional response to development challenges: forging new partnerships’, in *Inclusive and sustainable development: challenges, opportunities, policies and partnerships*, paper prepared for the International High Level Conference to mark DANIDA’s 50th Anniversary: ‘Development policy in a changing world’, September 2012.

Sumner, A. (2013) ‘Aid agencies of the future. Poverty, geography and the double dilemma’, Guest blog, *The Economist*, 3 June 2013.

The Economist (2013) 'Poverty. Not always with us', *The Economist*, 1 June 2013.

Annex – Number of adviser posts at DFID

Number of adviser posts by cadre, planned growth between September 2012 and March 2013, and March 2013 and March 2015

	September 2012 actual	Planned increase (decrease) September 2012 to March 2013	March 2013 planned	Planned increase (decrease) March 2013 to March 2015	March 2015 planned
Conflict	29	1	30	3	33
Economics	122	14	136	-5	131
Education	35	6	41	0	41
Environment	54	5	59	-1	58
Governance	108	17	125	-1	124
Health	70	3	73	0	73
Humanitarian	23	5	28	-1	27
Infrastructure	25	7	32	-1	31
Private Sector	46	13	59	-5	54
Rural	27	5	32	2	34
Social Development	73	1	74	2	76
Statistics	41	-1	40	3	43
Evaluation	35	3	38	-1	37
Total	**690**	**77**	**767**	**-6**	**761**

NOTE

1. The values for individual elements may not sum exactly to the total because of rounding.

Source: National Audit Office, http://www.nao.org.uk/wp-content/uploads/2012/12/Briefing_DfID_Annual_Report_Accounts_2011-12.pdf

ODI is the UK's leading independent think tank on international development and humanitarian issues.

Our mission is to inspire and inform policy and practice which lead to the reduction of poverty, the alleviation of suffering and the achievement of sustainable livelihoods.

We do this by locking together high-quality applied research, practical policy advice and policy-focused dissemination and debate.

We work with partners in the public and private sectors, in both developing and developed countries.

ISSN: 2052-7209

Overseas Development Institute
203 Blackfriars Road
London SE1 8NJ

Tel +44 (0)20 7922 0300
Fax +44 (0)20 7922 0399

Cover image: ©iStockphoto.com/sculpies

UKaid
from the British people

This material has been funded by UK aid from the UK Government, however the views expressed do not necessarily reflect the UK Government's official policies.