

Our Collective Interest

Why Europe's problems need global solutions
and global problems need European action

European Think Tanks Group
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Preface

In 2010, the group of European think tanks which we lead, published a report addressed to a new leadership in the European Union (EU). In 2014, welcoming a new team of European leaders, we again call attention to the importance of a global perspective in European policy-making. The report is issued in the name of our four institutions and of the 26 authors who have contributed to the text. It calls for a new understanding of the EU's global role, and in particular, a new approach to international development.

The key message is that the EU's ambitions for its own citizens – for prosperity, peace and environmental sustainability – cannot be divorced from its global responsibilities and opportunities. As the title of the report suggests, Europe's problems need global solutions, and global problems need European action. A shared collective effort is in our common interest.

Seen from within Europe, the rest of the world is a vital source of raw materials, manufactured products, markets, innovation and cultural enrichment. It can also be a source of environmental degradation and insecurity. The EU can only benefit if the rest of the world, and developing countries in particular, pursue a path of successful sustainable development.

Seen from the outside, the EU is a source of goods and services, of technology, of aid, and of inclusive and accountable political and social models. At its best, the EU can offer technical, institutional and financial contributions to global public goods. However, it can also be a factor in financial and political instability.

We identify five global challenges which will shape the future of the EU and the world, and in relation to which the EU's performance as a global actor can be judged. These are:

The key message is that the EU's ambitions for its own citizens – for prosperity, peace and environmental sustainability – cannot be divorced from its global responsibilities and opportunities.

1. **The world economy.** Is the world economy becoming more equitable, resilient and democratic? Is the EU contributing to better and more inclusive trade and finance regimes, which allow for full participation by all?
2. **Environmental sustainability.** Is the world set on a more sustainable path, in which the EU is playing its part internally and externally, especially with regard to climate change and the necessity of a green economy?
3. **Peace and security.** Is the world becoming more peaceful and secure? And is the EU contributing to the prevention of violent conflict and to peaceful societies?
4. **Democracy and human rights.** Is the world better governed and more democratic? Is there greater respect for human rights around the world? And is the EU acting effectively to understand and support democratic political change?
5. **Poverty and inequality.** Have poverty and inequality declined? And is the EU acting effectively to understand and tackle the drivers of poverty and inequality?

We do not contend that the EU offers a panacea. However, faced with global challenges, the EU is often better placed to act than its individual member states. This is because of its economic weight, including its position as the world's largest trading bloc. It is also because the EU can act in a more neutral way than individual member states. The EU's role has to be seen in the wider context of member state contributions

to global governance, in particular the UN, NATO and the international financial institutions, as well as groupings such as the G7 and G20.

Some may think that we stray beyond our development remit in tackling global trade and finance, peace and security or climate change. We emphatically disagree. International development will always have poverty reduction and human security at its core. However, it is no longer simply about a one-way

We understand international development in this century to be about all countries and their citizens tackling shared problems of sustainable development, and with each partner playing its part.

relationship of support to developing countries – and especially not only about aid. We understand international development in this century to be about all countries and their citizens tackling shared problems of sustainable development, and with each partner playing its part. Do not be surprised by the repeated calls in our report for action within the EU, and for coherence between internal and external initiatives.

We recognise that new thinking about the scope of international development means new ways of working in EU institutions – not new structures, but rather a new strategy and new commitment to joint action and problem-solving, across traditional boundaries. Every part of the EU institutional apparatus, including the Council, the Commission, the Parliament, and the European External Action Service (EEAS), must seek to approach complex and inter-dependent problems in new ways.

As Directors, we would like to thank Mikaela Gavas, Simon Maxwell, Svea Koch, Mark Furness, Clare Castillejo, Alisa Herrero and James Mackie for their overall leadership of the project, and all the authors for their contributions to the chapters.

We repeat that the report is issued in all our names. This does not mean that every single author agrees with every single judgement. However, we are united in our optimism about the potential of the EU. The period to 2020 offers a real opportunity for transformation towards a more inclusive, peaceful, prosperous and equitable world. Europe has a central role to play.

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Acronyms

ACP	African, Caribbean and Pacific group of states
AGOA	African Growth and Opportunity Act
APPP	African Power and Politics Programme
ASEAN	Association of Southeast Asian Nations
AU	African Union
BRICS	Brazil, Russia, India, China and South Africa
CAR	Central African Republic
CARIFORUM	The Forum of the Caribbean Group of African, Caribbean and Pacific States
CBCR	Country-by-country reporting
CFSP	Common Foreign and Security Policy
CODEV	Development Cooperation Working Group
COP	Conference of Parties
CPA	Cotonou Partnership Agreement
CSDP	Common Security and Defence Policy
CSO	Civil society organisation
DAC	Development Assistance Committee of the OECD
DCI	Development Cooperation Instrument
DEVCO	Directorate-General Development and Cooperation
DIPECHO	Disaster Preparedness ECHO
DRR	Disaster Risk Reduction
ECHO	Directorate-General Humanitarian Aid and Civil Protection
ECOWAS	Economic Community of West African States
EDF	European Development Fund
EEAS	European External Action Service
EED	European Endowment for Democracy
EFTA	European Free Trade Association
EIDHR	European Instrument for Democracy and Human Rights
EPA	Economic Partnership Agreement
ERDF	European Regional Development Fund
ESF	European Social Fund
ESI	Employment and Social Inclusion
ETS	Emission Trading Scheme
EU	European Union
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FPI	Foreign Policy Instruments
FTA	Free Trade Agreement
GCCA	Global Climate Change Alliance
GDP	Gross Domestic Product

GHG	Greenhouse gas
GI	Governance Initiative
GNI	Gross National Income
GSP	Generalised System of Preferences
GVC	Global value chains
HoM	Head of Mission
HR/VP	High Representative of the Union for Foreign Affairs and Security Policy/Vice-President of the European Commission
ILO	International Labour Organization
IPCC	Intergovernmental Panel on Climate Change
ISP	Instrument of Stability and Peace
LDC	Least developed country
LIC	Low-income country
LMIC	Lower middle-income country
MDG	Millennium Development Goal
MFF	Multiannual Financial Framework
MIC	Middle-income country
MNE	Multi-national enterprise
NATO	North Atlantic Treaty Organization
NGO	Non-governmental organisation
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
OSCE	Organization for Security and Co-operation in Europe
PI	Partnership instrument
PIT	Personal income tax
RCEP	Regional Comprehensive Economic Partnership
RoO	Rules of Origin
RTA	Regional trade agreement
SDGs	Sustainable development goals
SIA	Sustainability impact assessment
TNC	Transnational corporation
TRIPS	Trade-Related Aspects of Intellectual Property
TTIP	Transatlantic Trade and Investment Partnership
UK	United Kingdom
UMIC	Upper middle-income countries
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNFCCC	United Nations Framework Convention on Climate Change
UNSCR	United Nations Security Council Resolution
US	United States of America
VPs	Vice-Presidents
WDR	World Development Report
WTO	World Trade Organization



Introduction and Executive Summary

Why must Europe act?

Interdependence and common interest lie at the heart of the EU's new agenda

Peace, prosperity and sustainability in the world as a whole are essential for Europe to thrive. In this report we argue that the period to 2020 offers a real opportunity for transformation towards a more inclusive, peaceful, prosperous and equitable world – and that Europe has a central role to play. In 2015, the global agreement on a post-2015 sustainable development framework will be agreed at the United Nations (UN), and a global climate agreement will be adopted at UN talks in Paris. Both agreements will apply equally to all countries in the world, whether developed or developing.

Europe has experienced a difficult period in recent years. The threat of global financial meltdown has receded, but the recession in Europe has been long and deep, affecting in particular the quarter of young people who are unable to find employment. Public confidence in the European Union (EU) has fallen to historically low levels. Elections to the European Parliament in May 2014 saw an increase in the number of sceptical politicians, who tapped into a vein of public dissatisfaction.

At the global level, financial instability, pervasive levels of chronic and extreme poverty, rising inequalities, climate change, and violent conflict remain unresolved. More than 1 billion people still live in absolute poverty, on less than \$1.25 per day. Despite the increasing economic convergence

between developing countries and advanced economies, employment and social challenges are still alarming, with nearly 1.5 billion people in vulnerable employment and 839 million workers in 'working poverty' – unable to earn more than \$2 a day. Of all child deaths in the developing world, 45% can be attributed to malnutrition. Annually, 300,000 women still die during childbirth. Violent conflict affects more than 1.5 billion people globally. For the first time since World War II, the number of displaced people worldwide has exceeded 50 million.

These are not separate issues: internal and external problems are often opposite sides of the same coin. The cost of human suffering is unacceptable. Yet, beyond international solidarity, addressing global problems is in the EU's interest: greater welfare and equality beyond

Europe contribute to economic growth, investment and good governance, all of which have positive spill-overs in relation to EU migration, asylum and security objectives. A sustainable environment in Europe will only be achieved if climate change is tackled through a global consensus. Security in Europe will only be guaranteed if peace can be maintained in other parts of the world. Conversely, prosperity, sustainability and peace in the world also depend in part on actions in Europe. As Javier Solana, the EU's former High Representative for Common Foreign and Security Policy recently noted, the EU's greatest challenge relates to managing global interdependence – and the economic, social and political ties that make the entire world Europe's neighbour.ⁱ

The period to 2020 offers a real opportunity for transformation towards a more inclusive, peaceful, prosperous and equitable world - and Europe has a central role to play.

ⁱ See: <http://www.project-syndicate.org/commentary/javier-solana-offers-a-plan-to-renovate-the-eu-s-increasingly-ineffective-and-unpopular-institutions>

Five challenges face the EU and the world

For the EU, the key is to mobilise all resources and actors in tackling five key challenges:

1. The world economy. Is the world economy becoming more equitable, resilient and democratic? Is the EU contributing to better and more inclusive trade and finance regimes, which allow for full participation by all?
2. Environmental sustainability. Is the world set on a more sustainable path, in which the EU is playing its part internally and externally, especially with regard to climate change and the necessity of a green economy?
3. Peace and security. Is the world becoming more peaceful and secure? And is the EU contributing to the prevention of violent conflict and to peaceful societies?
4. Democracy and human rights. Is the world better governed and more democratic? Is there greater respect for human rights around the world? And is the EU acting effectively to understand and support democratic political change?
5. Poverty and inequality. Have poverty and inequality declined? Is the EU acting effectively

to understand and tackle the drivers of poverty and inequality?

Translating political commitments on these challenges into effective collective action requires strong EU leadership and political direction. A new approach will require a global strategy that links internal and external action, as well as new ways of working, with new systems, processes and incentives.

The EU has the legislative and policy building blocks, as well as the financial resources

The basic building blocks are in place and include the Lisbon Treaty, the Europe 2020 strategy, the 2005 European Consensus of Development, and the 2012 EU Agenda for Change (see Box A).

The EU's toolbox draws on different parts of the Lisbon Treaty. The policy domains for external action include development cooperation, humanitarian aid, trade, migration, agriculture, fisheries, environment, energy, climate change, research and foreign and security policy. The EU has exclusive competence on trade, but not on development cooperation, foreign policy or climate change. However, even in areas where

Box A: The overarching policy framework

The Lisbon Treaty¹, December 2007:

Article 21 of the Treaty on European Union states:

The Union's action on the international scene shall be guided by the principles which have inspired its own creation, development and enlargement, and which it seeks to advance in the wider world: democracy, the rule of law, the universality and indivisibility of human rights and fundamental freedoms, respect for human dignity, the principles of equality and solidarity, and respect for the principles of the United Nations Charter and international law.

Europe 2020²:

Growth, according to the strategy, should be smart, sustainable and inclusive. It has a global dimension. The original statement³ by the EU states:

Global growth will open up new opportunities for Europe's exporters and competitive access to vital imports ... An open Europe, operating within a rules-based international framework, is the best route to exploit the benefits of globalisation that will boost growth and employment. At the same time, the EU must assert itself more effectively on the world stage, playing a leading role in shaping the future global economic order through the G20. In addition, one of the critical objectives in the next few years will be to build strategic relationships with emerging economies ...

Agenda for Change⁴:

...Supporting developing countries' efforts to eradicate poverty is ... a priority for EU external action in support of the EU's interests for a stable and prosperous world. Development policy also helps address other global challenges and contribute to the Europe2020 Strategy.

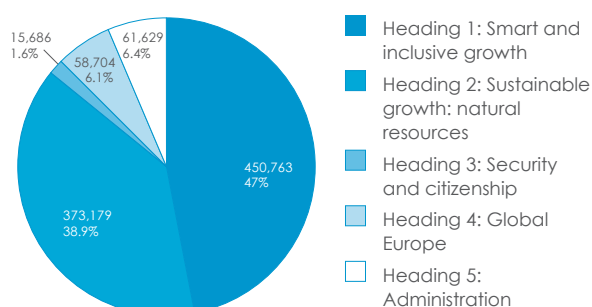
1 Full text available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2007:306:FULL:EN:PDF>

2 See: http://ec.europa.eu/europe2020/europe-2020-in-a-nutshell/index_en.htm

3 See: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:2020:FIN:EN:PDF>

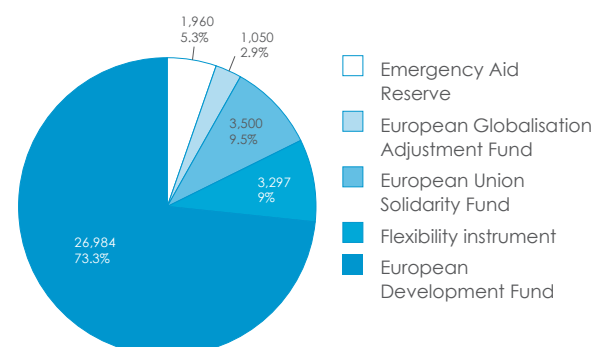
4 Full text available at: http://ec.europa.eu/europeaid/what/development-policies/documents/agenda_for_change_en.pdf

Figure A: Multiannual Financial Framework 2014-2020



Source: Own elaboration

Figure B: Off-budget instruments 2014-2020



Source: Own elaboration

the EU does not have exclusive competence, effective EU leadership will lead to better results in promoting coherent and well-coordinated policies across the EU institutions and among member states' governments, and in forging alliances.

With regard to resources, the Multiannual Financial Framework (MFF) for the period 2014 to 2020 has been agreed at €960 billion (in 2011 prices), a 3.44% cut from the 2007 to 2013 MFF. Figure A provides a breakdown of how the €960 billion will be distributed across the MFF headings. Just over 6% of the EU budget is earmarked towards addressing global challenges. Figure B shows the 'off-budget' funds, including the European Development Fund (EDF). The EDF, which amounts to €27 billion for the next seven years (in 2011 prices), has been frozen at current levels until 2020. Nevertheless, with an annual budget for external assistance of around €12.5 billion, the EU is a larger contributor than any of its member states and the second largest donor in the Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC). A review of the MFF is expected to take place in 2016/17, which may open up a discussion on the reprioritisation of resources across the budget headings.

What needs to be done?

1 Contribute to a 21st century growth model that emphasises responsible trade and financial policy coordination

The limitations of current approaches to governing the market have been starkly revealed

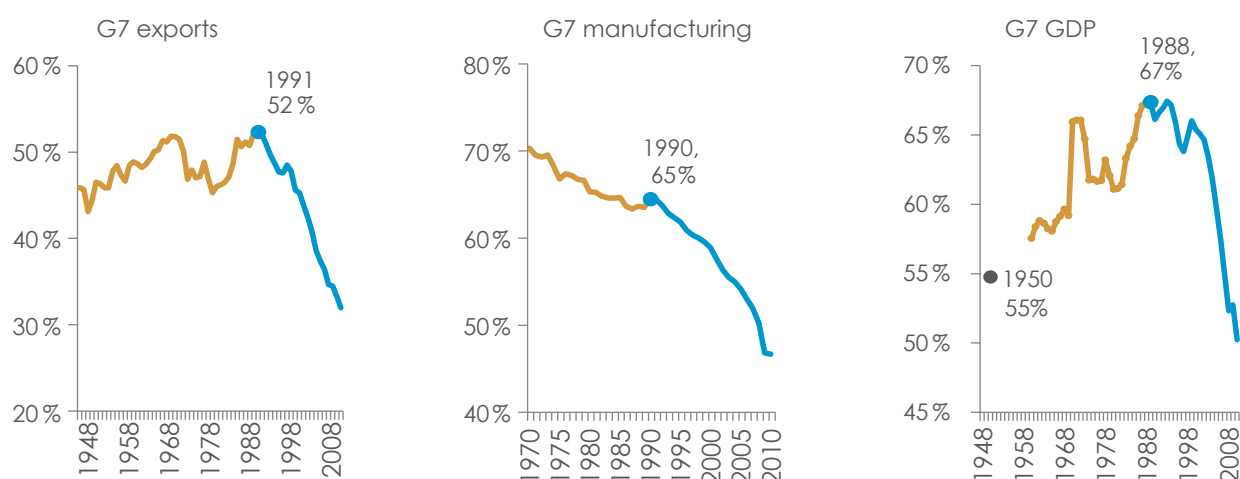
in recent years. Two policy levers stand out, both for their potential impact on the framework conditions for global economic exchange, and for the fact that collective action at the EU-level is essential to ensure they are used successfully: first, responsible trade policy; and secondly, global financial policy coordination.

Responsible trade

Trade remains a crucial driver of progress, driven largely by the private sector. Trade has grown at twice the rate of world Gross National Income (GNI) since the 1980s. However, the landscape of private sector trade and investment has changed dramatically in recent years, with the growth of highly disaggregated global supply chains and production networks: trade in global value chains increasingly involves elements of value being added in many different locations, or what might be called 'trade in tasks'. Intermediate goods now account for 60% of all global trade, while the share of G7 manufactured exports has substantially declined in the past two decades (see Figure C). At the same time, the financial sector has grown very fast. In 1980, global financial assets were around \$12 trillion and slightly above a one-to-one ratio with global gross domestic product (GDP). Over the past three decades, this ratio has shifted in favour of finance to reach a three-to-one ratio: global financial assets amounted to \$212 trillion in 2010, while global GDP was approximately \$65 trillion.

National regulators have not been able to match the speed of the transformation of global trade and financial flows, particularly as a large

Figure C: Global shifts in world trade, manufacturing production and GDP



Source: Source: Baldwin, R. (2013) in R. Baldwin, M. Kawai, and G. Wignaraja, *The Future of the World Trading System: Asian Perspectives*. London: Centre for Economic Policy Research. Available at: www.voxeu.org/sites/default/files/Future_World_Trading_System.pdf

Note: Graph presents the percentage of G7 shares compared to rest of world.

part of the process has been conducted using offshore financial centres out of reach of national tax authorities. Furthermore, as around one third of global trade is now conducted within multi-national enterprises (MNEs), there are big questions about how to track and tax these intra-firm transactions.

The EU has been a key driver of the move towards regional Free Trade Agreements (FTAs), particularly since the 1980s, and this trend continues unabated. It is seeking more trade with African, Caribbean and Pacific (ACP) countries through Economic Partnership Agreements (EPAs), as well as via the EU-US (United States) Transatlantic Trade and Investment Partnership (TTIP), the EU-ASEAN (Association of Southeast Asian Nations) and the EU-MERCOSUR (Common Market of the South) FTAs. However, there are concerns about regional FTAs, given their potential for trade diversion, for non-tariff barriers to increase (especially for non-participants) and about their effect on the international trade regime more broadly. For example, there are examples of the EU undermining the regional integration efforts of some developing countries, rather than fostering them.

EPAs have been particularly problematic. Agreement on these reciprocal free trade agreements was meant to be reached in 2007. Only one comprehensive regional EPA (with the Caribbean) has been signed and ratified to date. Progress has been made in other countries and

regions on slimmed-down agreements, including most recently in West Africa and Southern Africa. Others are being negotiated to meet a deadline of October 2014, but there are some very real risks that existing efforts to foster regional integration for some ACP countries could be undermined unless a more accommodative stance is adopted by the EU.

The EU-US TTIP, if agreed, could do much to reinvigorate and strengthen trade and investment relations between two of the world's largest trading blocs. However, should this new ambitious partnership be agreed, greater attention needs to be paid to the effects that TTIP has on the global trade system, emerging economies and on developing countries. Since tariffs between these two blocs are already low at present, much attention is being paid to non-tariff barriers and regulatory cooperation in the negotiations. The implications of the outcome will depend on whether the EU and US agree on the mutual recognition, equivalence or harmonisation of their standards. If they harmonise standards, the effects on countries depend on whether they agree on a higher or lower standard.

The EU should:

- Do more to improve trade and development opportunities for countries that are not ready to enter into FTAs. For example, the EU could extend to the least developed countries (LDCs) the same preferences it offers in FTAs. This means

broadening and improving the Generalised System of Preferences (GSP) to focus more on those countries most in need, including offering concessions on trade in services. The Bali package agreed at the recent World Trade Organization (WTO) Ministerial needs to be implemented, in particular the resources for trade facilitation (i.e. aid for trade). This should be additional official development assistance (ODA). The EU could lead by example, by responding effectively to calls from the LDC group on Rules of Origin and implementation of the services waiver.

The EU can help foster a global 21st century growth model, which articulates a sustainable development vision.

- Improve its approach towards assessing the economic, social and environmental effects of new trade and investment agreements. The sustainability impact assessment (SIA) currently used to assess agreements is weak and actively fails to engage business throughout the negotiation process or into the implementation phase.
- Ensure that the consequences of the TTIP for emerging economies and developing countries – and also for the global trading system at large – are given due consideration in the ongoing negotiations. The compatibility of the TTIP and other trade agreements with the emerging post-2015 goals needs to be considered.

Financial policy coordination

The EU should work with partners on coordinating the governance of global financial markets and the reform of international financial institutions, including in the G20. There is a need for transparent, widely accepted triggers for economic policy coordination. Existing EU shock facilities need to be updated to new realities and an *ex ante* rather than an *ex post* approach adopted.

A related priority is addressing illicit financial flows out of and into developing countries, including measures to improve the exchange of information and transparency. Estimates show that developing countries lost close to \$6 trillion in illicit financial flows over the last decade, much of it linked to tax avoidance. Several of the world's most

notorious tax havens are under the sovereignty of EU member states, such as those located in British overseas territories, while the tax policies of some member states, including Austria, the Netherlands, Luxembourg, Cyprus, Ireland and the UK (United Kingdom), do not go far enough in questioning the origin of funds invested by non-residents. The EU should be a role model in promoting the automatic exchange of tax information. The new EU leadership should continue to push member states to meet Financial Action Task Force standards requiring companies to disclose ownership information and making tax crimes a predicated offence.

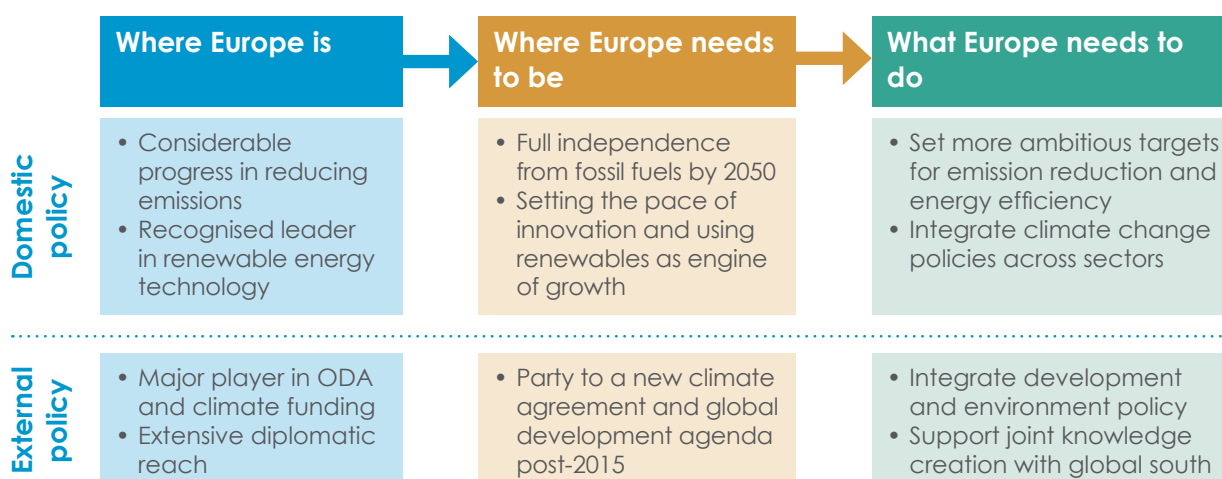
By doing this, the EU can help foster a global 21st century growth model, which articulates a sustainable development vision.

2 Work to achieve an ambitious global climate agreement and support the transition to a green economy

A decisive, influential, leading EU will be necessary to achieve a substantive climate agreement and an ambitious global development agenda in 2015. But there are troubling signs that the EU is relaxing its ambition on the domestic front, which hurts its credibility as a global champion of progressive climate change policy. Failure to reach a climate agreement will be a blow to global cooperation – and it will hurt European citizens and their economies. In contrast, a proactive climate and energy policy would help keep Europe's competitive advantage in the areas of low carbon technology development and implementation, and would help it to reduce its dependence on imported fossil fuels.

The EU has shown strong political commitment to climate action and environmental issues, domestically and in its international relations. It has set ambitious targets and has made progress in reducing its own emissions and helping other countries to do the same. The EU has set the goal of reducing its carbon emissions to 32% of 1990 levels by 2020, providing a platform for a fossil fuel-free economy by 2050. Internationally, the EU has funded several initiatives, such as the

Figure D: Where Europe is, needs to be and what it needs to do on climate change



Source: Own elaboration

Global Climate Change Alliance (GCCA), to support both mitigation and adaptation efforts in developing countries.

However, short-term concerns with the economy have stalled progress domestically and lessened the EU's level of ambition with regard to reducing dependence on fossil fuels. While the EU hesitates, other countries, like the US, Brazil and India, are advancing quickly to promote renewable energies. Furthermore, the EU's achievements, while significant, still fall short of what is needed to stay within safe planetary limits. If the EU commits to a more aggressive agenda to reduce its dependency on fossil fuels and increase energy efficiency, the economy will benefit in the long term and the EU's geopolitical role will be enhanced.

For the future, domestic and external ambition must go hand-in-hand. The EU has to take far-reaching actions inside its own borders to maintain credibility as a champion of progressive climate and environmental policy. The EU should complement this approach with increased investments in international diplomacy and cooperation, utilising its considerable expertise in development cooperation (see Figure D).

To maintain its relevance and influence, the EU must:

- Improve its own domestic environmental performance by setting more ambitious and sustainable climate, growth and energy targets, and by carrying out the necessary policy reforms that will allow it to deliver on those targets.

- As a matter of urgency, use its considerable foreign relations and international development reputation to push for progressive environmental policies globally and, in particular, to secure a global climate change agreement in 2015.
- Continue and strengthen efforts for joint knowledge creation between Europe, emerging economies and developing countries on the transition towards sustainable development, as exemplified by the Horizon 2020 programme.

Specifically,

- The next High Representative for Foreign Affairs and Security Policy (HR/VP), in close coordination with the Climate Commissioner, the Development Commissioner and the EU's leadership, should build a much stronger profile in the area of climate change and low carbon development.
- The European External Action Service's (EEAS) capacity to deal with climate change should also be strengthened at headquarters and EU Delegation levels.
- The new Development and Environment Commissioners should pursue further integration of development and environment policies, including through the post-2015 sustainable development agenda, and the publication of a Communication on development and climate change.
- The EU should support the integration of global and domestic environment goals into a revised definition of ODA or a successor measure,

to measure and compare contributions to inclusive and sustainable development.

- The EU needs to invest much more in strategic partnerships at the bilateral level in green transformation and climate change (e.g. with China and India), and invite other countries to participate in innovative funding schemes for reciprocal cooperation for the protection and provision of global public goods. Building transformative coalitions for low carbon development should be a high priority for the years to come.
- Innovative European initiatives such as the GCCA should continue to be used to strengthen the response to climate change in the most vulnerable countries of the world.

Domestic and external ambition must go hand-in-hand. The EU has to take far-reaching actions inside its own borders to maintain credibility as a champion of progressive climate and environmental policy.

3 Tackle conflict and fragility with clear collective decision-making and a better division of labour

Violent conflict and insecurity affect more than 1.5 billion people globally and will be one of the major foreign and development policy challenges for the EU and the new Commission in the coming years. Globally and in the EU's neighbourhood, the strategic environment is changing. Informally, EU officials talk of more than 50 fragile, conflict-prone or conflict-affected countries, in which the EU has a presence or an interest. In 2014, countries such as the Central African Republic, Egypt, Iraq, Libya, Mali, Syria and Ukraine have all been on the agenda at the top table of EU decision-making. Increasingly the strategic spill-over from unaddressed violent conflict in Africa, the Middle East and the European neighbourhood has a direct impact on the EU and its citizens.

The EU has taken a lead role when there has been clear demand and the space for it to do so, as well as where it brings assets to the table that no other actor can, such as in the neighbourhood. In other parts of the world, the EU has tried to play the role of 'best supporting actor' to the UN,

regional organisations, national authorities or civil society, often responding quickly once the crisis

phase has been reached. For the EU, improving this 'supporting actor' role should not be dismissed as inconsequential or of limited value, or driven mainly by a shortage of money. It can be particularly strong, especially if the EU institutions manage to exploit their real added-value: they have fewer bilateral interests

than other actors; the capacity to establish long-term partnerships; global presence and continued long-term presence; a critical mass of financial investments in many countries; availability of short and long-term financial instruments; credibility as a promoter of democracy and human rights; and the potential to offer an integrated approach.

Over the past decade, EU institutions have developed capacities to respond to conflict and address fragility. While it was possible in the past to contend that many of the 'nuts and bolts' of a better EU response to conflict and fragility were not in place (lack of everything from policy guidance, specialist units, adapted financial instruments, operational capacity, a Commission mandate, or even the existence of the EEAS), our assessment is that the essential elements are now in place, and that many work well. With the exception of its human resource policy, it is now increasingly difficult to make a credible case that the EU institutions do not have the right tools available. Something more fundamental is needed to join up these assets. The challenge is to make the different parts of the puzzle add up to more than the sum of their parts in an EU system that incentivises genuine cooperation rather than duplication, division and unhelpful competition. The recent attempts at acquiring a genuine, comprehensive EU approach

and the Action Plan in the making should be seen as a floor, rather than a ceiling, in terms of working better together.

In addition to the work of the EU institutions, there is recognition that an EU policy dealing with external conflict and crisis is

It is now increasingly difficult to make a credible case that the EU institutions do not have the right tools available. Something more fundamental is needed to join up these assets.

ineffectual if there is no complementary political and military back-up from member states or, if required, even a military lead. Recent research from France, Germany, Italy, Poland, Spain, Sweden and the UK on their respective readiness to work more comprehensively on the nexus between security, stabilisation, recovery and development – which is at the core of Common Security and Defence Policy (CSDP) missions – shows that this is determined, first, by the member state's willingness (or political ability) to use force, or labelled differently, their 'strategic culture'; and second, by their readiness to integrate politically within the Union. Some countries (e.g. Italy) score highly on both these axes, others (e.g. the UK) only on one.

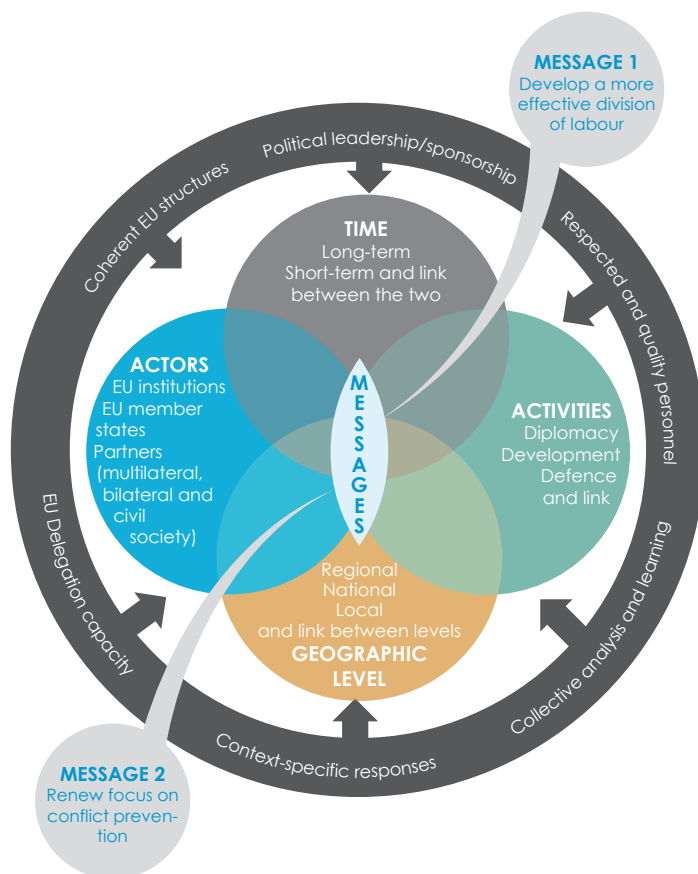
Thus, the EU's approach to conflict and fragility can be either more of the same, or something different, with renewed leadership and better decision-making. This should take the conflict context as its starting point (see Figure E). The priorities in the future are the following:

- Develop and implement a more effective 'division of labour' on conflict and fragility globally and in each geographic context, among the EU institutions and between the EU institutions and member states, leading to a more effective unity of action. In most cases, globally, the EU should be looking to further develop its role as 'best supporting actor' in both the political and financing realms.
- Renew the focus on the lost art of conflict prevention. This means putting multidimensional conflict prevention back at the top of the EU political agenda. The EU needs to recognise that, given what has happened in Africa, Ukraine, the Middle East and the neighbourhood, crisis management alone is insufficient and costly, as well as damaging to the fundamental long-term interests of the EU. The EU has often talked about and even committed to prioritising prevention. But now – with a new leadership, a new mandate and a new budget (with more

resources for long-term capability-building in the Instrument of Peace and Stability) – is the time to act. Newly developed early warning systems and conflict analysis approaches, and a maturing approach to mediation and dialogue need to be rolled out more systematically with top-level political sponsorship.

Yet the real challenge for the new leadership is to make the different components work better together. New priorities must be supported by stronger leadership and by recruiting, retaining and rewarding excellent and highly knowledgeable staff in this area. A thorough and frank review should also be undertaken to determine whether the current EU institutional structures inhibit or incentivise effective cross-institutional or cross-thematic thinking and action in responding to conflict and fragility. This will reveal whether the current system is fit for purpose and will provide clear ideas for how it might be improved.

Figure E: Widening and deepening the EU's approach to conflict and fragility



Source: Own elaboration

4 Invest in and deliver support to democracy and human rights

Globally, there is increasing demand for responsive and effective governance, respect for human rights, gender equality and women's empowerment, as well as growing recognition that these issues are closely related to the achievement of broader economic development agendas.

Democracy and human rights are central to the EU identity. The EU has a comparative advantage in support for democracy and human rights because of its long history of external engagement in this area, as well as its own experiences of democratisation, from which it can draw useful lessons. In addition, the EU's commitment to support a broad range of rights – including women's rights, minority rights and economic, social and cultural rights, alongside civil and political rights – its own experience of progress on these rights, and its commitment to integrate all these rights into its engagement with third countries, gives it the potential to add value in promoting a genuinely integrated approach to human rights.

However, recent events – particularly the Arab Spring – have highlighted gaps between EU principles and policies, on the one hand, and its actions and impact on the other. Until now, the impact of EU support to democracy and human rights has been

uneven. Reasons include varying levels of political commitment, a tendency to favour technocratic support and transfer of institutional blueprints over more political approaches, inflexible bureaucratic mechanisms, and an ineffective approach to incentivising reform. Traction has been greatest in the immediate neighbourhood, although even that has been limited. Women's rights continue to remain a low priority within EU external action.

Recognising these problems, the EU has recently developed new policies and institutional mechanisms to enhance and better structure its support to democracy and human rights. This revised policy framework provides an opportunity to transform the way in which the EU supports democracy and human rights. However, in order

to do this, the EU will need to develop politically smart and contextually relevant approaches that recognise the complexity and essentially domestic nature of political change processes. The EU needs to be realistic about the role it can play in supporting change. It will also need to take greater account of the changing context for democracy promotion, including: the increasing prevalence of hybrid regimes, shrinking space for civil society, new forms of citizen action, reduced EU (financial) leverage, and increasing influence of emerging powers.

If the EU is able to rise to these challenges, the new policy framework could now be the basis for an enhanced approach that involves the following:

- A genuinely political engagement on democracy and human rights that is based on an understanding of local context. Notably, it is important that EU actors adopt a broad definition of democracy based on relations of accountability, transparency and responsiveness between state and citizen, rather than a particular set of institutions and rules. The EU will need to avoid using simplified human rights and democracy conditionality. Instead, it should adopt a more realistic approach to incentives and conditions that targets local opportunities for reform, takes account of international drivers/barriers to reform, and is aligned across EU external action areas. The EU will also need to engage in a much more sophisticated way on these issues with emerging powers.
- The harmonising of all EU external action with democracy, human rights, gender equality and women's empowerment goals. Indeed, the 2012 'EU Strategic Framework on Human Rights and Democracy' stresses that the EU will promote these goals in all areas of its external action, such as trade, environment, technology and the CSDP. This would also involve the EU using its collective weight to promote global rules that support rather than undermine the development of democratic and accountable states across a wide range of policy areas. For example, this would be in relation to illicit

The EU's new policy framework provides an opportunity to transform the way in which the EU supports democracy and human rights.

financial flows, transnational organised crime, migration, the arms trade, natural resource management, and the environment.

- Link policies and support mechanisms for civil society in a more coherent manner, including through funding and dialogue, as well as drawing civil society into EU-partner country bilateral engagement strategies. The protection and development of civil society could feature more centrally in EU bilateral agreements (for example as it did in the controversial EU–Ukraine agreement).
- Engage strategically with local authorities and step up efforts to allow the use of innovative funding modalities that facilitate flexible, transparent and cost-effective access to resources at the local level.
- Strengthen engagement with political parties, recognising their importance as well as the risks inherent in supporting them. For instance, the European Parliament stressed in June 2011 the need to 'strengthen the organisation of political parties, particularly those that promote democratic values, without taking sides' in its report on EU external policies in favour of democratisation.

5 Tackle the drivers of poverty and inequality

In recent decades, continued economic expansion and general human development have reduced poverty substantially. However, progress has been geographically uneven, and economic growth has left large numbers of people in low and middle-income countries living only fractionally above the poverty line. A very large number of people still live in poverty – 1.2 billion people were living in extreme poverty (on \$1.25 a day) in 2010, down from 1.9 billion in 1990; and the number of people living on \$2 a day has hardly decreased – 2.4 billion in 2010 compared to 2.6 billion in 1981. In terms of the hard-to-reach, up to half a billion people are estimated to be chronically poor. At the same time, high inter- and intra-national

inequality are on the rise: almost half of the world's wealth is now owned by just 1% of the population and seven out of 10 people live in countries where economic inequality has increased in the last 30 years. Other sources show the poorest 5% of the world's population have not seen their incomes or consumption increase since 1988, and the poorest 20% have made little progress in terms of, for instance, access to land, women's access to education and marriage rights, when compared with people in the middle of the distribution.

Projections show that reducing income inequality and improving governance would improve human development outcomes significantly, implying that

it would be possible to get close to zero absolute deprivation in terms of child deaths, stunting, education and access to safe water by 2030. For this reason, reducing income inequality offers a big dividend in terms of enhancing the impact of growth on poverty reduction, but also of interrupting inter-generational transmission of poverty through allowing greater investment by households in education and

health – that is, increasing equality of opportunity.

The most intractable poverty is where there are intersecting inequalities (or multiple disadvantages) affecting particular social groups and certain categories of people (e.g. women) within those groups. This is often founded on persistent historical patterns of discrimination. Chronic poverty is often linked to specific inequalities in opportunities – education/labour market links, land, or gender inequality. Tackling such socially embedded inequalities will be a priority on the road to zero extreme poverty and deprivation.

Tackling poverty and inequality is at the heart of Europe's own integration project and, despite recent trends in poverty and unemployment, Europe's experience in reducing inequalities and extending social protection is remarkable. Most member states have well-developed social security systems. Income inequality in Europe lies well below levels in other regions in the world. Member states account for around 40% of the world's public social

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protection expenditure, spending approximately 25% of their GDP on social protection, compared to the world average of 14%. However, income inequality and unemployment in Europe has increased in recent years, with the top 20% earning 5.1 times as much as the bottom 20% on average in 2012; and the unemployment rate rising from 7.1% in 2008 to 10.9% in 2013. Between 2009 and 2012, the number of people at risk of poverty and social exclusion in the EU increased from 114 million to 124 million.

If the EU wants to make a difference in the eradication of poverty at home and abroad, it needs to understand and tackle the drivers that keep people in extreme poverty. This entails tackling chronic poverty, stopping impoverishment and sustaining escapes and upward trajectories from poverty.

The common view that there is a trade-off between growth and redistribution needs to be challenged: there is now substantial evidence to support the argument that growth reduces poverty faster and more sustainably where equality is greater, or if inequality is also reduced. Recent work shows that redistribution does not need to hamper growth, and that inequalities can indeed be tackled.

Within Europe, structural funds, had at least up until the financial crisis, helped poorer member states to catch up with the rest in an unprecedented example of cross-country solidarity efforts. For example, between 1995 and 2005, Greece reduced the gap with the rest of the EU27, moving from 74% to reach 88% of the EU's average GDP per head. By the same year, Spain moved from 91% to 102%, and Ireland reached 145% of the EU's average, starting from 102%.

Greater welfare and equality beyond Europe is in the EU's own interest: besides contributing to economic growth, investment and improved governance in developing countries, it contributes to achieving EU security, migration and asylum policy objectives. Additionally, efforts in this area

help the EU remain a key global player in the provision and protection of global public goods.

Unfortunately, an examination of European Commission evaluations in the field of development cooperation and humanitarian aid reveals that, whereas the overall objective (and therefore targeted impact) of EU aid is the reduction and elimination of poverty, it is sometimes difficult to establish the poverty impact of EU aid from the thematic and instrument evaluations. Few projects and programmes specifically appear to target poverty in their design (though specific inequalities are frequently noted); nor is it often clearly demonstrated how poverty and inequality have been affected. The EU is not the only aid donor struggling to demonstrate impact on poverty and inequality. Nonetheless, this problem needs to be

addressed. There is work to do across many sectors: education, social protection, agriculture, employment and human rights. Neglected regions must also be targeted.

Building on its existing policies – the European Consensus on Development and Agenda for Change – the new EU political and management leadership should continue to promote a world vision based on the values of social justice and protection, solidarity and economic, social

and territorial cohesion. The EU should support proposals to frame its own poverty eradication policies, as well as the goals and targets in the post-2015 development agenda in terms of the key measures which address chronic poverty, prevent impoverishment and sustain escapes from extreme poverty. This is as well as promoting the inclusion of an income inequality target (to be defined at national level). The EU should share the positive elements and lessons from the European social model when exploring new and existing strategic partnerships with emerging countries and when conducting political dialogue with countries phasing out from development assistance.

To be effective, EU interventions should be grounded on a solid analysis of the dynamics

If the EU wants to make a difference in the eradication of poverty at home and abroad, it needs to understand and tackle the drivers that keep people in extreme poverty. This entails tackling chronic poverty, stopping impoverishment and sustaining escapes and upward trajectories from poverty

of political change and resistance to pro-poor reforms in partner countries. The EU should adopt a poverty dynamics approach in identifying suitable sectors and programmes in partner countries. In addition,

- The EU should further extend joint-programming with EU member states and work with them to maximise the focus on the reduction of poverty and inequality of all EU international cooperation.
- The EU should ensure that those countries in which aid is being phased out have a clear 'destination' of graduation, including making sure that not all instruments are withdrawn simultaneously (particularly aid-for-trade). These countries are major partners for managing regional and global development challenges, particularly the five highlighted in this report. The EU urgently needs to develop new cooperation strategies with these countries.
- The EU should ensure that the programming and implementation of the Partnership Instrument targets outcomes that contribute to poverty eradication in terms of, for instance, standard-setting for decent work.
- As part of the implementation of the Agenda for Change, the EU should keep the list of countries to which it provides aid under review and use opportunities such as the Mid-Term Review in 2017 to make further adjustments to the list.

The EU should share the positive elements and lessons from the European social model when exploring new and existing strategic partnerships with emerging countries and when conducting political dialogue with countries phasing out from development assistance.

The EU has begun to address these challenges, in particular with the Lisbon Treaty entering into force and the creation of the EEAS in 2009. Nevertheless, it remains ill-equipped to deliver 'whole of government' approaches and to engage more effectively across internal and external policy fields for a number of reasons:

- The EU's capacity to manage the inter-linkages between both different external policies and the external projection of internal policies remains underdeveloped.
- Existing coordination mechanisms, like the established External Relations Group of Commissioners, have been fairly inactive.
- The EEAS has contributed little towards strengthening the EU's profile on global development challenges, improving the effectiveness of EU representation at multilateral level, or providing mid- to long-term oriented strategies of how to effectively address global challenges.
- Too often, the EU's responses to global challenges are instrument-led which reinforces silo thinking and working.
- Technical and diplomatic forums for holistic approaches to key issues are absent.
- The European Parliament's work, organised in single-issue committees, makes it ill-equipped to handle cross-cutting issues and there is a strong tendency between committees to fight for the mandate for certain issues.

Delivering across a range of inter-linked policy areas will require a stronger focus on external action (including the external dimension of internal EU policies) by the collective leadership groups in the Council, the College of Commissioners, the Commission directorates, the EEAS, the European Parliament and the EU member states. The Commissioner for Development will have a crucial role to play.

In the future, the EU will need to do the following:

- Engage much more effectively at the highest levels across its institutions and directorates, developing 'whole of government' approaches

How can the EU's leadership be strengthened?

A bold new approach to the management of the EU's external action is required if the five global challenges are to be tackled effectively. Existing ways of working and organising EU external action have failed to deliver the 'step change' necessary. We therefore call for a more transformative approach to the way the EU does business and organises itself. This will not require Treaty change, but leadership, a change of attitude, and an investment in new ways of working.

with a direct and clear political responsibility.

- Work more closely and effectively between EU member states and the EU institutions.
- Understand and be effective in delivering global deals.
- Demonstrate leadership in promoting multilateralism and managing the international system.
- Work more collectively, intensively and more smartly in difficult environments, including in fragile and conflict-affected states.
- Increase capacity to provide a global sustainable development perspective on a range of issues.
- Be more honest, selective and strategic about where it contributes no added value in engaging in an issue and then stepping back – the EU does not need to be everywhere on all global issues.

Specifically, the EU will need to:

- *Develop an EU global strategy that links internal and external action and targets for sustainable development and global collective action*
Europe 2020 provided the EU with a strategy for economic growth and job creation, but was framed and driven by a domestic agenda. In the 2003 European Security Strategy and its 2008 review, the rest of the world is treated as a threat. There is little sense of common stewardship of the world, its resources and its people. The EU should develop a global strategy that tackles the five global challenges identified in this report: responsible and inclusive growth; a sustainable, green economy; peace and security; democracy and human rights; and the fight against poverty and inequality. It should be closely linked to domestic strategies, with specific targets as set out in the Europe 2020 strategy. It also needs to include a rekindled view on multilateral governance, multilateral institutions and strategic

The EU will need to engage much more effectively at the highest levels across its institutions and directorates, developing 'whole of government' approaches with a direct and clear political responsibility.

partnerships, based on shared interests and concrete avenues for global collective action. A global strategy must inform more tangible, more immediate guidance of priorities such as the Commission's 18-month work programme, and the priorities agreed by the new College of Commissioners.

- *Enable strong leadership across policy areas*

The new President of the Commission should structure the Commissioners into clusters – coordinated by Vice-Presidents (VPs). There should be an informal understanding that, although all Commissioners are of equal legal status, the VPs will coordinate the work of the cluster of Commissioners in their particular areas of responsibility. VPs would have two distinct responsibilities: first, an internal coordination function, supervising a 'pool' of Commissioners; and second, an external function, representing and enhancing the EU's visibility in the respective thematic area. It would be essential for VPs in charge of Commission clusters to report their actions and policies on a regular basis to the President of the Commission and the College as a whole, as well as to the Parliament.

As the person responsible for overseeing all external action, the new HR/VP needs to further intensify his or her political leadership and ensure effective coordination of all external action – including monitoring and challenging the external projections of internal policies (such as climate, energy and migration). This would require giving new life to the External Relations Group of Commissioners, with a larger membership comprising Commissioners responsible for Development, Humanitarian Aid, Enlargement and Neighbourhood Policy, Trade, Economic and Monetary Affairs, Environment, Climate Action and Agriculture. The Group should also be used more proactively to build joint initiatives. This will require strong political leadership at

The EU needs a rekindled view on multilateral governance, multilateral institutions and strategic partnerships, based on shared interests and concrete avenues for global collective action.

the highest level (either from the President of the Commission and the HR/VP in person or by allowing external relations Commissioners to act as deputies of the HR/VP). Again, we see a crucial role for the Development Commissioner, as the key spokesperson and policy lead with a primary focus on developing countries.

From a global development perspective, it would be particularly important for Commission clusters outside those combined under external action to coordinate closely with the HR/VP. In addition, a new EU strategy would provide a common strategic orientation across the thematic clusters. Its implementation and progress would have to be guaranteed and overseen by regular meetings of the respective VPs. As we have consistently argued for highest-level leadership to bind in the member states and ensure ownership, the President of the Council has to link at least one EU Summit agenda specifically to the issues raised in this report.

- *Create task forces to develop high-level joint strategies and work programmes covering the five priority areas*

The HR should make full use of his/her power as VP, and seek to develop a task culture in the Commission that would enable a flexible and fluid approach, adjustable to circumstance, and nimble. Task forces could be created on the five priority areas, each led by a Commissioner, with the strongest possible mandate from the HR/VP agreed with Commissioners. This would be to break down barriers, to incentivise learning and effective collective action towards ambitious targets to which all, including member states, will be collectively held accountable. Such task forces do not need to become permanent working structures but could be used to initiate joint action on issues that need to be solved and addressed across VPs and Commission clusters. The task forces should develop a select number of pioneering initiatives (between and across policy fields). Above all, the HR/VP and Commissioners themselves must invest in these task forces with strong and consistent political sponsorship (with the chairing of

these meetings only being undertaken by the political level or Director-General/Secretary General themselves). This is to stop them becoming exercises in bureaucratic filibustering between directorates offering lowest common denominator outcomes.

- *Enhance the necessary skills and capacities, both at EU Delegation level and at headquarters*

Working across areas will require some adjustments to existing capacities, including transversal and overview skills (i.e. the ability to work across specialist areas, a clearer understanding of how different policy areas inter-relate, diplomatic and negotiating skills, and political and communication skills); and speaking with one voice externally (i.e. political will/internal consensus-building capacities and international dialogue processes to build and maintain coalitions). Other areas for improvement include sharing knowledge and experience across institutions within countries, but also at the European level. Implementation at field level will require Heads of Delegations to have sufficient expertise in policy coherence issues.

The new HR/VP will also need to strengthen the EEAS' capacity and improve teamwork. This includes making better use of existing thematic expertise within the European Commission and existing technical expertise from member states. A good portion of Commissioners' cabinets should be appointed on the basis of whether they can demonstrate genuine competencies on the five challenges identified as priorities in this report.

- *Embolden EU Delegations and EU Heads of Delegations*

While the issues noted will require bold leadership and action from the top, they will also require an agile, responsive and creative bottom-up approach at the country and regional level. Here there is a crucial enhanced role for Heads of EU Delegations. The EU Delegations need to adopt a long-term, 'whole of EU' approach to complement and work with the EU member states' diplomatic assets, rather than a disjointed technocratic approach increasingly influenced

by short-term member states' political agendas. Heads of Delegations must have a 'whole of EU approach' firmly in mind while inspiring staff to collective action when necessary. They must also be able to feedback tough messages about how top-down action in pursuit of

progress on the five areas actually works at ground level and how it can be made more effective.

- *Re-organise the European Parliament to strengthen accountability*

Stronger parliamentary scrutiny should be built into any new arrangements, but without micro-management of budgets, and with safeguarding the confidentiality of political reporting of the EEAS. Special joint committees could be established to enhance the scrutiny of issues that fall between more than one committee. This means that committees would co-lead on certain issues, without establishing a certain hierarchy in their mandates.

The test of any governance system is whether it can deal efficiently and effectively with the challenges it faces. In this case, the system needs to deliver a 'whole of government' approach, integrating internal and external dimensions, and helping to broker the global deals that

The system needs to deliver a 'whole of government' approach, integrating internal and external dimensions, and helping to broker the global deals that are necessary to provide global public goods.

are necessary to provide global public goods. The task is further complicated by the fact that the EU is not just a government system, but an intergovernmental system. As such, the EU responds to the pressures and demands emanating from its member states as much as to those from its partner countries. To be able to

deliver global public goods post-2015, the EU as a whole – member states and institutions – must work together more closely and effectively.

The period to 2020 offers great opportunities for transformation, but only if the right steps are taken. The international agenda will be dominated over the coming months by the negotiations of a post-2015 sustainable development framework and of a new climate deal. The Open Working Group on Sustainable Development Goals completed its work in July 2014 and has passed the baton to the UN Secretary General. There will be major negotiations in 2015, and major milestones, including a conference on Financing for Development in Addis Ababa in July 2015. All the issues discussed in this report will feature in the post-2015 process, and in the crucial climate talks that will run in parallel. The new EU leadership team must make these a priority. They are central to our collective interest.



A global economy for the good of all: responsible trade and financial policy coordination



1.1 The challenge

After a long period of economic prosperity in advanced and developing countries, the 2008 financial market meltdown and subsequent global and euro crises came as a shock. The global economy remains fragile. Few policy reforms have been undertaken to address the global economic imbalances and regulatory loopholes that led to the crisis.

The story of the recent transformation of the global economy is familiar¹: economic activity grew exponentially in recent decades with the integration of the former Communist bloc and the rise of China, India, Brazil and other countries. Their integration into the global system of trade and finance has been accompanied by rising trade and capital flows, higher living standards for some of the world's poorest people, and an emerging middle class in developing countries.

At the same time, however, inequality has risen, employment has become more precarious and socio-economic dislocation in western countries has increased. Meanwhile, the questionable sustainability of much current economic activity and its contribution to climate change has raised serious concerns that stretch beyond the time horizons of politicians and their political cycle. Amid these epoch-defining global processes, citizens feel powerless, especially as governments tell them that there is little they can do, instead remaining fixated on short-term piecemeal remedies.

In developing countries, although millions of people have been lifted out of absolute

Few policy reforms have been undertaken to address the global economic imbalances and regulatory loopholes that led to the crisis.

poverty, their situation is still extremely precarious. In Africa, many people have a slightly higher standard of living than they did a decade ago, but high population growth is undermining gains, agricultural productivity is stagnating, physical infrastructure is still poor and key institutions are weak.² Manufacturing sector workers in many

developing countries experience labour conditions that would be unacceptable in the west. According to the 2014 International Labour Organisation (ILO) World of Work report, employment and social challenges are still alarming, with nearly 1.5 billion people in

vulnerable employment and 839 million workers in 'working poverty' – unable to earn more than \$2 a day. Moreover, the economic growth model driven by fossil fuels is unsustainable as climate change takes hold.

The limitations of orthodox market governance approaches have been starkly revealed in recent years. Better management of trade and finance, including through closer international policy coordination, are key to influencing global prosperity and dealing responsibly with social, economic and sustainability imbalances. Better governance could foster virtuous growth cycles driven by innovation, rather than vicious ones driven by speculation.

The global economic governance architecture was developed for a world in which countries traded with each other, not a world of interconnected firms with a production base in one country and headquarters in another. Since

the 1980s, as countries have been integrated in global supply chains and production networks – collectively referred to as global value chains (GVCs) – world trade has grown on average nearly twice as fast as world production.³ Intermediate goods trade – i.e. the trade of parts necessary for the production of a good – now accounts for 60% of all global trade.⁴ As trade has become increasingly fragmented across countries, it has also become more coordinated: 80% of all trade takes place within the international production networks of transnational corporations (TNCs), of which one third takes place within a given firm.⁵

Cost reductions resulting from the globalisation of production and fragmentation of trade have supported the financialisation of previously non-financial parts of the corporate sector.⁶ Increased profits have been used to purchase financial assets, which have in turn raised shareholder returns.⁷ These returns have not been adequately reinvested in enhancing productive capacity or up-skilling domestic workers, in the virtuous circle anticipated by the new trade literature of the 1980s and 1990s. Nor have they helped developing countries foster their own industrialisation processes. Instead, the increased ability to fragment, offshore or outsource knowledge and labour intensive activities have driven inequality through trade-offs between unskilled and skilled labourers.⁸

National regulators have not been able to match the speed of this transformation, particularly as a large part of financialisation has been conducted using transfer pricing and offshore financial centres out of reach of national tax authorities. The scale is breathtaking: in 1980 global financial assets were around \$12 trillion and slightly above a one-to-one ratio with global GDP. This ratio has shifted in favour of finance over the last three decades to reach a three-to-one ratio: global financial assets amounted to \$212 trillion in 2010 while global GDP was approximately \$65 trillion.ⁱ

The EU single market is currently the world's largest. The EU is also currently the world's largest trader and investor. However, this is not expected to be the case by 2020.

Clearly, the balance of power between states and markets has shifted dramatically in recent years. Dividing lines in terms of policy have become blurred as indicated by the socialisation of banking sector risk.

The euro crisis and recession, itself symptomatic of forces of convergence and divergence between the northern and southern regions as well as inadequate governance, has not changed the fact that the EU single market is currently the

world's largest. It is also currently the world's largest trader and investor.⁹ However, this is not expected to be the case by 2020. Europe needs to use its weight better now, so as to provide opportunities for sustainable development in the future. There are several levers that European policy-makers can use. Two stand out, both for their potential impact on the framework conditions for global economic exchange and for the fact that if they are to be used successfully, collective action at EU-level is needed. They are:

- responsible trade
- financial policy coordination.

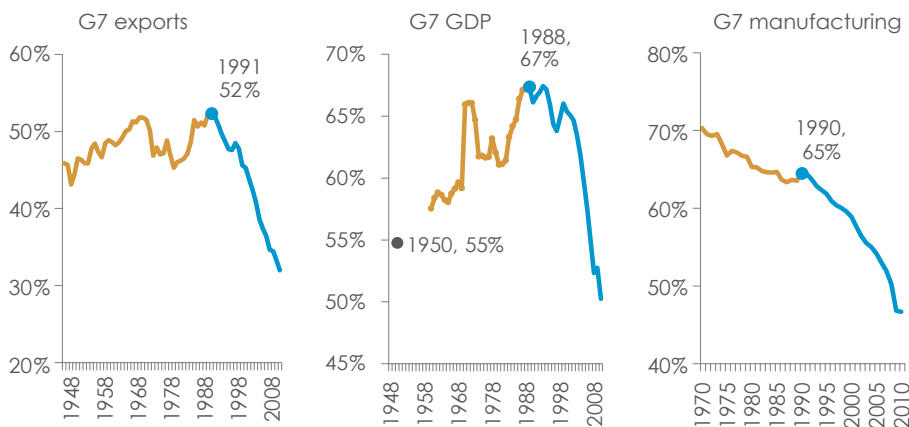
1.2 The EU's added value and track record

i Responsible trade

The unbundling of global trade, with countries no longer trading in goods so much as in services, has resulted in a declining share of exports, income and manufacturing in OECD countries since the 1990s (Figure 1). This process has occurred as production has shifted from 'headquarter' economies in the Group of Seven (G7) towards China and other Asian economies, subsequently increasing their relative share of world manufacturing (Figure 2). At the same time, however, the share of global value added remains highest within OECD countries.¹⁰ This is because the increased consolidation of the marketing and retailing nodes of GVCs means that large oligopolistic firms from industrialised countries

ⁱ See Arestis and Sawyer (2013) for the estimate of flows in 1980. The estimate of financial assets in 2010 is taken from Roxburgh et al. (2011) and global GDP from The Economist (2011).

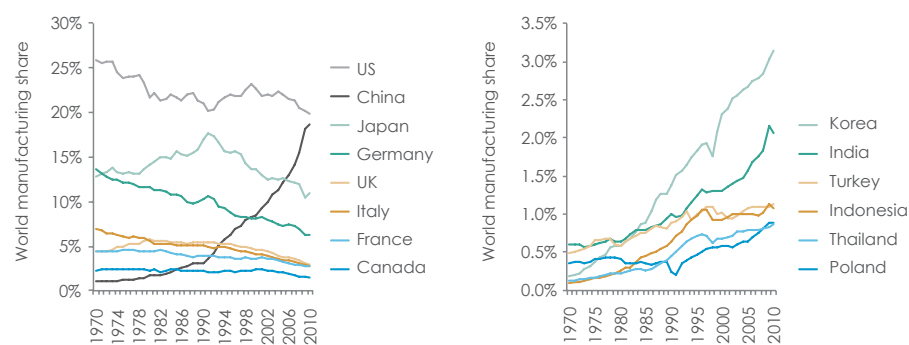
Figure 1: Global Shifts in World Trade, Manufacturing Production and Gross Domestic Product



Source: Baldwin (2013)

Note: Graph presents the percentage of G7 shares compared to rest of world.

Figure 2: World Manufacturing Share: Seven Gainers and the G7 Losers



Source: Baldwin (2013)

are able to capture most of the value created in the chain.

Mainstream trade economists are finally coming around to the fact that the global trading environment does not behave as a standard two-by-two neoclassical trade model.¹¹ Given the degree of capital mobility and intra-firm trade under the control of TNCs, the ability of governments to exert influence on these flows has become weakened. However, economic planning is back in vogue; there is recognition of the imperative for better guidance of the private sector towards making socially productive investments. International institutions also continue to grapple with the challenge. For example, the G20 requested implementing bodies such as the OECD, World Trade Organization (WTO) and the United Nations Conference on Trade and Development

(UNCTAD) to explore the implications of GVCs for trade, investment, development and jobs. At national level, countries like the UK recognise the need for an industrial strategy, and for engagement with actors in global value chains.

Since the 1990s, free trade agreements (FTAs) established on a bilateral and regional basis have become the centrepiece of trade diplomacy. With multilateral negotiations becoming increasingly complex and protracted, trade deals between selected partners are seen, rightly or wrongly, to hold the promise of quick and comprehensive improvements in market access. The establishment of rules

for trade and investment which go beyond those agreed at multilateral level can help to increase trade through integration within regional and international production networks.

The EU has been a key driver of this regional trade agreements (RTAs) process (Table 1). It is seeking to upgrade developing countries into new partnerships, if they are ready. As the world's largest trading bloc, the EU has a key role in ensuring that the FTAs it negotiates on behalf of EU members and businesses help to foster prosperity at home and abroad. The EU is articulating its vision of sustainable development within these agreements, but it needs to be consistent and ensure that statements are backed up with action, as well as support for countries that need it (e.g. through providing Aid for Trade).

Table 1: Summary of physical RTAs

Country	2000 RTAs	2005 RTAs	2010 RTAs	Present number of RTAs
EU	16	23	31	35
US	2	6	11	14
Brazil	4	4	5	5
Russia	13	14	15	16
India	3	7	14	16
China	0	4	9	10
South Africa	2	3	4	4

Note: Totals are cumulative and for 'physical RTAs' (i.e. agreements covering both goods and services are counted as one agreement rather than two).

Source: WTO RTA database, country profiles.

See: www.wto.org/english/tratop_e/region_e/rt_a_participation_map_e.htm?country_selected=ZAF&sense=b (accessed 29 April 2014)

EU initiatives include, for example, negotiations already completed with Colombia and Peru, and underway with Vietnam (a member of ASEAN), India, and through Economic Partnership (EPA) negotiations between the EU and the African, Caribbean and Pacific (ACP) regions. These types of agreements can provide an attractive environment for investment, and by locking in policy reform can enhance the competitive advantages of developing countries that participate in them. But some agreements, notably the EU–US

Transatlantic Trade and Investment Partnership (TTIP), will exclude developing countries even though they are likely to affect them indirectly, for instance, by including issues that developing countries rejected in the WTO Doha Round and the EPA negotiations. We discuss how and why this occurred below.ⁱⁱ

There are concerns about RTAs, given their potential for trade diversion, for non-tariff barriers to increase (especially for non-participants) and about their effect on the international trade regime more broadly. For example, there are instances where the EU undermines regional integration efforts of some developing countries, as opposed to fostering them. The EU's approach to assessing the economic, social and environmental effects of new trade and investment agreements could be improved substantially. Although parliamentary scrutiny has increased since the Lisbon Treaty, more could be done in this area: parliamentarians need to ensure they have the right information, as well as the tools, to undertake their own assessments of agreements. This is not always the case.

Unlike other major players, such as the US, the EU has no single 'template' or gold standard in its approach to RTAs.ⁱⁱⁱ This raises the question

Box 1: Promoting or Undermining Trade and Development Objectives

The end of the non-reciprocal trade regime known as the Cotonou Partnership Agreement (CPA) on 31 December 2007 has caused the fragmentation of the ACP group into regional groupings that have either initialled reciprocal free trade agreements – EPAs – or have been granted non-reciprocal market access under the GSP (or Generalised System of Preferences, a non-reciprocal preferential trade agreement). Although deadlines for the temporary regime allowing interim EPA countries to export to the EU have been extended until 2014, the implementation of some initialled agreements may prove disruptive to current or planned customs unions, as well as to potential, trade and investment patterns on an intra-regional basis. This may be problematic for those ACP members that are not LDCs because, if downgraded to the EU's GSP, they may face an increase in tariffs on selected products and specific value chains that they export to the EU. Whatever outcome is finally achieved is likely to have implications for future development and regionalism across ACP members that have not signed and ratified a regional EPA (only one comprehensive regional EPA with the Caribbean has been signed and ratified to date, while other countries and regions have negotiated slimmed-down agreements, including most recently in West Africa and Southern Africa).

Differences in export regimes will set in stone the post-CPA deterioration in Rules of Origin cumulation, and may influence the location and sourcing decisions of international firms.

For example, there are differences in Rules of Origin applicable to some fisheries products in the Pacific EPA (signed by Fiji and Papua New Guinea) compared to the EU's Everything But Arms, with the potential to influence value chain development. There may be other cases where national and regional value chains, e.g. tobacco from Malawi, may be disrupted if agreement on an EPA cannot be reached.

ⁱⁱ The US initiatives to broaden and deepen the Trans-Pacific Partnership will also exclude China.

ⁱⁱⁱ As discussed by Khor (2008), it is quite well known that the US makes use of a template for its negotiating position in bilateral FTAs. There is less available information on the EU position.

of whether the EU is applying an intelligent differentiation or its approach to this is simply incoherent.

As one example, do FTAs encourage a policy framework within which social, political and environmental reform can be encouraged? Only the Caribbean Forum (CARIFORUM) EPA has enforceable provisions, though the use of trade remedies (i.e. suspension of preferences) is explicitly ruled out. This is also the case for the EU–Korea agreement. By contrast, the FTAs between the EU and the Central American and Andean states have much weaker provision. The sustainable development objectives when they exported under GSP+ were stronger and more enforceable.^{iv}

There are other concerns related to the approach of the EU towards trade negotiations with developing countries. As we have seen in the EPA negotiations with the ACP sub-regions, there is a wide divergence in liberalisation timelines, as well as specific clauses included in agreements.¹² Other questions arise about the potential of these agreements to undermine rather than support regional integration (Box 1). There are also limited incentives for the least developed countries (LDCs) to enter into an FTA with the EU since they are able to export under the EU's Everything But Arms regime (duty free and quota free), but there will be costs in terms of removing tariffs on EU imports.

The EU–US TTIP, if agreed, could do much to reinvigorate and strengthen trade and investment relations between two of the world's largest trading blocs. However, should this new ambitious partnership be agreed, greater attention needs to be paid to the effects that TTIP has on the global trade system and on developing countries. Because tariffs are already low between these two trading blocs at present, much attention in the negotiations is being paid to non-tariff barriers and regulatory cooperation. The implications of the outcome will depend on whether the EU and US agree on the mutual recognition, equivalence

or harmonisation of their standards.¹³ If they harmonise standards, the effects for third countries depend on whether they agree on a higher or lower standard.

Some authors posit negative effects of trade diversion through tariff removal on producers in North and West Africa.¹⁴ Similarly, the textiles, clothing and footwear sectors might be adversely affected in Bangladesh, Cambodia and Pakistan.¹⁵ However, these results focus on existing trade patterns, not the development of future ones. Analysts agree that much more significant effects are likely to be produced by measures to address behind the border barriers, such as standards and rules.

If the TTIP is used to harmonise standards and rules, this may not only benefit EU business and importers but also developing country exporters to both major markets if they manage to meet the standards.¹⁶ The converse would also apply: if a higher standards bar is agreed, this could raise costs or create new

barriers for importers. Streamlining standards and rules in the context of the TTIP in theory offers positive potential for developing countries if it includes subjects such as the Rules of Origin. For example, the EU has recently harmonised the Rules of Origin for textiles and clothing products under its Everything But Arms regime so that they now match the African Growth and Opportunity Act (AGOA). AGOA is the US legislation aimed at assisting sub-Saharan African economies and improving economic relations between the US and that region. Such an approach could potentially help to mend bridges and remedy some of the country casualties that have arisen as the EU has pursued EPA negotiations with the ACP.

If agreed, the TTIP could chart a new course for the world trading system, particularly if the EU and the US were to use the TTIP as a blueprint for future agreements with emerging economies and developing countries.¹⁷ How it will become WTO-compatible is the focus of much debate. Many concerns have arisen because of this. However, it

Greater attention needs to be paid to the effects that TTIP has on the global trade system and on developing countries.

iv GSP+ conventions not mentioned in the FTA include those related to human and labour rights as well as conventions related to the environment and governance principles.

should be noted that actions by the EU and US have been prompted by the negotiations for mega-regional FTAs underway in other parts of the world, most notably in Asia through the negotiation of the East Asia Regional Comprehensive Economic Partnership (RCEP). The wave of regional FTAs in this region, coupled with stalling at the multilateral level, has prompted the US and EU to act both in terms of deepening their own trade integration strategies, but also in terms of upgrading developing countries to new partnerships if they are ready.

However, in Asia, the perceived encirclement of China by the EU and US in relation to planned RTAs, such as the EU–ASEAN FTA and the Trans-Pacific Partnership being negotiated by the US and 11 other countries in the Asia-Pacific region – excluding China – is a huge gamble that may not pay off. There are risks of hurting not only relations

with China but also EU businesses with operations within global supply chains. There are already examples of this, including in the recent case between the EU and China on solar panels. On the one hand, the EU has a legitimate

interest in preventing dumping, providing the correct procedures are in place. On the other hand, preventing the import of Chinese solar panels seems contrary to the promotion of a green economy within the EU and fails to understand the nature of the EU's integration with global value chains including those emanating from China. Concerns have been raised regarding the extent to which the Commission is representing EU business in the 'community interest'. The EU needs to better consider the role of EU business, and workers, within emerging global production networks and avoid situations where its actions damage their interests.¹⁸

The European Commission's most recent Communication on trade and development¹⁹ recognises that the landscape of trade and investment has changed dramatically in recent years. In response, it has proposed major reforms to its trade and development instruments. This includes with regards to its GSP. Changes to product and country graduation thresholds in the GSP, which came into effect in 2014, are

specifically intended to prompt graduates into negotiations for FTAs. These include all upper middle-income countries (UMICs).

By graduating UMICs out of the scheme (as well as making some changes to product graduation thresholds), the reform process is intended to focus subsequently on those countries most in need, which the EU defines as the LDCs. However, on closer inspection the benefits are likely to be limited because, in many instances, the products affected either attract a zero 'Most Favoured Nation' tariff (in which case graduation has no effect) or there are no significant poor-country sources of EU imports.²⁰

For countries that are not ready to enter into FTAs, including LDCs, the EU could do more to improve trade and development opportunities. This means broadening and improving the GSP so as to better focus on those countries most in need,

including offering concessions on trade in services. Some progress has been made at the WTO with regards to the LDCs' services waiver so that WTO members can provide preferential treatment to services from LDCs without

extending it to others, as well as statements on the need for multilaterally agreed Rules of Origin for LDCs. The EU could do much to promote this new trade agenda, including:

- Offering LDCs at least the same services and Rules of Origin preferences that it offers in its FTAs (including for Mode 4, migration).
- Ensuring the additionality of Aid for Trade. At present the EU offers proportionately less Aid for Trade to LDCs than other income groups.
- Giving greater attention to the border measures that inhibit LDC participation in GVCs; such measures are good for EU businesses which benefit as importers (and pay no tariffs), as well as EU exporters that may be seeking to develop new global value chains with LDCs and integrate them within intermediate goods trade.

Finally, the sustainability impact assessment (SIA) methodology currently used to assess agreements is weak and fails to actively engage business throughout the negotiation process, as well as into the implementation phase. The

For countries that are not ready to enter into FTAs, including LDCs, the EU could do more to improve trade and development opportunities.

methodological approach does not adequately capture the extent to which trade patterns have changed. It is also arguably out of date as we move towards using input-output models to understand current trade flows.^v It therefore does not sufficiently address the concerns of EU businesses and workers regarding the potentially adverse effects of new trade deals. The links to mitigation measures, flanking and sensitising measures are not publicly discussed and the SIA is made in the initial stages of the negotiation process, on a hypothetical agreement rather than the final one. We cannot, therefore, know whether the outcomes of negotiations and trade liberalisation have been met, since expected and actual outcomes are never compared.

ii. The EU's role in global financial policy coordination: financial market governance and illicit financial flows

The global economy is becoming more multipolar in the sense that no government can exercise hegemonic power over the system, as the US and its western allies were able to do in 1944 when the Bretton Woods institutions were created. As former WTO director Pascal Lamy recently said, 'within a few decades, international institutions will almost certainly be asked to do something they have never before had to face – they must address the needs of a post-hegemonic world economy in which no single state will be capable of stabilising the international economic system'.²¹ Given current uncertainty about medium-term global growth and the emergence of competing centres of financial power, better coordination is essential.²² In this section we draw attention to recent developments in global financial market governance and the need to address illicit flows.

Europe can only convince others if it can speak with one voice on global financial market governance.

Financial market governance

The basic fact is that there are no global rules on finance, and the global economy has never been

in so much need of new ideas. Bodies to govern international finance include the International Monetary Fund (IMF), the World Bank, the OECD (on tax), the Financial Stability Forum, the Bank for International Settlements and the G20. In the post-crisis era, implicit understandings, rather than formal cooperation, have structured the management of recovery. For example, should quantitative easing proceed, capital account management in countries with open capital markets will be necessary to stem adverse effects on the developing world. This has led to a realisation of the need to consider more unorthodox policies. The shift in perspective is to some extent taking place as part of larger subtle shift away from orthodox market fundamentalism towards a more managed market economy.²³

Whereas under the trade and climate change regimes there are global rules and institutions to coordinate the actions of all players and to provide a public good, this is not the case for finance. Although the mandate of institutions such as the IMF is to oversee the international monetary system and monitor the economic and financial policies of its member countries, it lacks the rule-making function of the trade and climate change regimes, and the enforcement mechanism of the trade regime. It has also been heavily criticised in terms of its legitimacy, despite its near-universal membership. Unlike the institutions charged with governing the trade and climate change sphere, its governance structure is far from democratic. New forms of cooperative relationships towards global economic governance are unlikely to evolve unless the structures, objectives and norms of these institutions are better aligned with the preferences of emerging powers within a multipolar world.

Europe can only convince others if it can speak with one voice on global financial market governance. This means adopting common positions in discussion forums, especially the G20. It also means demonstrating Europe's commitment

^v As pointed out by Jones et al. (2013), GVC research has generated a resurgence in Leontief-style input-output analysis, since the introduction of publicly available international input-output (IIO) tables, including that developed by the OECD-WTO (2012).

to better global coordination through the IMF and World Bank. G20 members need to push for more drastic reforms of the IMF in order to avoid the institution being marginalised by emerging powers.²⁴ This includes both location (to avoid being Washington-centric), and the range of currencies included in the IMF's basket of special drawing rights. However, even if reform of IMF voting rights and the expansion of its reference currencies were agreed, the basic point remains – there is no global authority on rule-making or enforcement in relation to finance. The European record on reforming global financial architecture is piecemeal and tensions between member states remain.

Ad hoc policy coordination could not prevent the excesses that led to the 2008 financial crisis and subsequent recession, such as the uncontrolled global expansion of liquidity. As the World Bank²⁵ recently argued, there is a need for transparent, widely accepted triggers for economic policy coordination. Establishing useful triggers would be a step towards a more rules-based international monetary system. Such an approach could also help the EU to update its existing shock facilities so that these operate on an *ex ante* rather than an *ex post* basis.²⁶ That is, dealing with crises before they arise as opposed to bailing out countries as a result of them.

Given the difficulty of establishing coordination in a global arena in which actors look out for their own interests first and foremost, the best policy coordination triggers would target global public

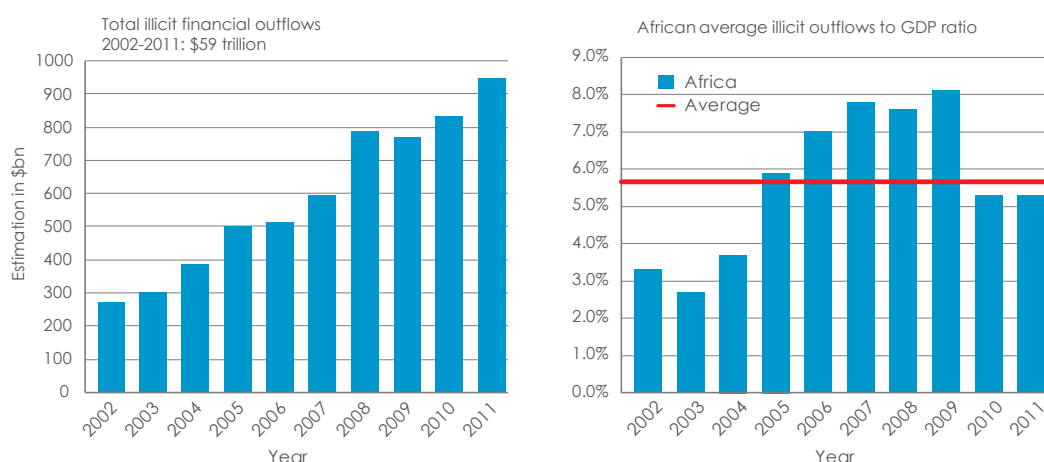
goods. The World Bank considers as most promising indicators like low global inflation, sustained economic growth, stable exchange rates and adequate global liquidity, as these objectives are universal.²⁷ International action through the G20 resulted from concerns about sustainable growth and financial stability, together with recognition that coordination must be deepened. Sustaining the momentum created by cooperation in the G20 requires long-term commitment to global public goods provision in the financial system.

Illicit financial flows

With state coffers emptying across Europe, the public debate on international tax evasion by wealthy westerners and developing country elites has catalysed the international community, including the EU, to make progress on addressing several issues related to illicit financial flows, tax havens and offshore financial centres. These include:

- Exchange of information. Monitoring and taxing business activity across borders requires information. Current agreed standards place the burden of proof for tax evasion on the information-requesting tax authority, and are therefore underutilised by developing countries, whose tax administrations have difficulty with the information-processing burden.
- Transparency of ownership and money laundering. It is hard to know who controls funds and assets. National legislation determines if banks, companies or individuals are required

Figure 3: Illicit financial flows



Source: Authors' compilation, based on Global Financial Integrity (2013)

to hold and disclose ownership information on their accounts and transactions, as well as whether the jurisdiction shares it with foreign revenue authorities.

- Transfer pricing. Around two-thirds of all transactions occur between companies that are part of the same group. In most cases this is not illegal, but there is no common standard for pricing such transfers. Multinational companies are therefore taxed on their global profits rather than those of their various branches or holdings. Under current international rules, determining if a transfer is illicit is difficult.

Building on these advances requires the EU to be more consistent on policy. Several of the world's most notorious tax havens are under the sovereignty of EU member states, such as those located in British overseas territories.

Estimates show that developing countries lost close to \$6 trillion in illicit financial flows over the last decade far exceeding ODA flows for the period.

Weaknesses in the global governance system for finance are reflected in the rising levels of illicit financial flows. These strip resources that could otherwise finance much-needed public services, from security and justice to health and education. They also contribute to corruption in the public sector and weaken the governance of developing countries' financial systems.

While cross-border tax evasion and money laundering also plague western countries, the socio-economic impact on developing countries is more severe, given their greater need for basic services.²⁸ Estimates show that developing countries lost close to \$6 trillion in illicit financial flows over the last decade²⁹, far exceeding official development assistance (ODA) flows for the period. Africa has been particularly hard hit. By some estimates, Africa loses as much as 5.7% of its GDP through illicit financial flows – or around 10 times what it receives in aid.³⁰

Aside from the weak domestic revenue mobilisation capacity of tax authorities in

developing countries, an issue of concern is the active planning by multinational enterprises and national elites to reap benefits from the gaps, inconsistencies and ambiguities in national and international tax and financial jurisdiction. A significant amount of foreign direct investment (FDI) to developing countries is channelled through territories that allow for high degrees of financial secrecy^{vi}, and significant resources are lost through creative accounting mechanisms (such as transfer mispricing) used by multinational companies.

The problem has proved very difficult to resolve, and may be even more so in a future dominated

not by western multi-national enterprises (MNEs) but by those driven by emerging powers^{vii}, unless the right framework is laid now. Modern business activity can no longer be regulated by national legislation alone, and yet tax legislation has not changed to

reflect this. Global companies seem to be beyond the reach of national regulators. They can register where they want, paying 'tax' in low-tax jurisdictions rather than in the places where they generate their profits. Reluctant politicians argue that stricter regulations will discourage foreign investment, even though there is very little evidence that this would be the case.³¹

In the longer term, the EU can meaningfully promote the development and implementation of a common global standard for the automatic exchange of information at OECD and G8/G20 levels, and promote the voice of developing countries in these forums. Furthermore, the EU could ensure it provides adequate support to partner countries to make use of tax information. This not only means technical assistance to tax authorities in developing countries.³² It also means the provision of assistance by EU member states with the collection of taxes as part of the standard agreement for information exchange. Less than 0.1% of global ODA currently goes to providing direct support for

vi Exact figures are difficult to measure. Estimates from development NGOs, the OECD and UNDP range from 10% to as much as 50%. A global ranking of such jurisdictions is available at: www.financialsecrecyindex.com

vii China now has more Fortune 500 companies than most other countries compared to just one in the early 1990s. See: www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Documents/Dancing-with-the-dragon-O-201309.pdf

viii See: http://ec.europa.eu/commission_2010-2014/barnier/headlines/speeches/2013/06/20130612_en.htm

increasing the capacity of revenue and customs institutions in developing countries.

A widely supported response to transfer mispricing is the concept of country-by-country reporting (or CBCR), requiring companies to present financial information annually on every country they operate in. The EU has been a trailblazer in this regard, having last year amended the EU Transparency and Accounting Directive^{viii} to introduce CBCR for European companies in extractive industries. To set the international agenda on good governance in tax matters, the new EU leadership should honour the commitment made in the regulation to extend the requirement for CBCR to all other sectors – in particular the banking sector.

1.3 What the EU should do

Europe needs to lead by example and assume a new, more positively influential role within a multi-polar global economy. In order to do this, it needs to get its own house in order and effectively articulate a new vision of sustainable growth and development. This will ensure that existing mechanisms are streamlined towards leveraging trade and finance to this objective. Such prescriptions may seem pie-in-the-sky. But as the new Commission takes office, we need to ask ourselves what the alternatives are. We can muddle along, hoping that everything will be fine but fearing that it will not; we can give up on internationalism and retreat into our own shells, a move that would foster inefficient isolationism and dangerous nationalism; or we can try again at the global level to strike a series of deals that make a difference.

Globally, the EU can help foster a global 21st century sustainable growth trajectory. It should recognise that it has a unique position, serving as a bridge between old and new powers. In this way, the EU could work towards winning friends and influencing people so as to work better towards a more sustainable global growth trajectory that addresses social and economic tensions. If steps are not taken to move towards this, the EU could

end up losing friends and alienating its own citizens, exacerbating tensions, and missing an unparalleled opportunity to shape a new global economy that works for everyone. The EU could better lead by example, including the following actions:

- *Articulate a sustainable development vision, including on trade, financial coordination and taxation issues (moving towards virtuous growth cycles rather than vicious ones) and ensure that existing mechanisms are streamlined and consistent with this objective. More specifically:*
 - Adapting to the realities of global value chains: There is a need to ensure that existing trade and investment mechanisms are better aligned. There are examples of a lack of understanding of how the EU trades within global value chains, including recent anti-dumping actions over imported solar panels.
 - Upgrading existing trade and development mechanisms to incentivise sustainable development: Social and environmental standards should not be lower or less enforceable in FTAs than the EU's GSP+. The EU-US TTIP presents a unique opportunity to better align trade and development mechanisms. Areas of harmonisation between the US and EU include standards, but also Rules of Origin.
 - Developing impact assessments and promoting dialogue over time: When seeking to upgrade developing country trading partners to new agreements such as FTAs, it is important to update existing business dialogue and mechanisms for monitoring progress over time. This includes not only with trading partners, but also within and among EU member states, so as to design the appropriate flanking and sensitising measures required by new trade liberalisation. The current heavy reliance on SIAs to assess the pros and cons of new 'hypothetical' trade and investment agreements is weak.
- The Bali package agreed at the recent WTO Ministerial needs to be implemented. Resources for trade (Aid for Trade) facilitation should be additional to ODA. The EU could

Globally, the EU can help foster a global 21st century sustainable growth trajectory.

lead by example by responding effectively to calls from the LDC group on Rules of Origin and implementation of the services waiver; this includes through broadening and deepening its GSP.

- *Work with partners on coordinating the governance of global financial markets and the reform of international financial institutions, and lead by example:*
 - There is a need for transparent, widely accepted triggers for economic policy coordination. Existing EU shock facilities need to be updated to new realities and an *ex ante* rather than an *ex post* approach adopted. Using triggers to guide policy interventions before they arise would avoid the need for bailouts later.
 - Addressing illicit financial flows out of and into developing countries includes measures to improve the exchange of information and transparency. The EU should be a role model in promoting the automatic exchange of tax information. Recent changes to the Savings Tax Directive and the Administrative

Cooperation Directive^{ix} can provide a shot in the arm to extending automatic exchange of tax information. By reaching internal agreement with all member states and European Free Trade Association (EFTA) countries that signed up to such information exchange, the new leadership would lend the EU the credibility needed to push for a global standard.

- The 2012 Financial Action Task Force (FATF) recommendations are the most progressive worldwide standard on increasing financial transparency. To advance transparency on ownership information, the new EU leadership should continue to push member states and associated countries to meet FATF standards, particularly requiring companies to disclose ownership information, making this information accessible in public registers and making tax crimes a predicate offence. Steps towards this are already being taken under the fourth revision of the Anti-Money Laundering Directive.^x

ix See: http://europa.eu/rapid/press-release_MEMO-13-533_en.htm

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2 On a more sustainable path: securing an ambitious climate agreement and moving towards a green economy

2.1 The challenge

Climate change is a major threat to human well-being. It also worsens other aspects of global environmental change such as biodiversity loss, desertification and ocean acidification. It is a central issue in development.

Until now, the EU has been a recognised global leader of climate change policy, both at the international negotiation table and at the cutting edge of implementation at home. It is no accident that these two have gone hand-in-hand. The EU has had the credentials to speak strongly in international debates because it has been seen to take decisive action domestically; as the world's largest market, the EU's policies and actions strongly influence the actions of other countries and regions.

The EU's position as a global leader in climate and environmental policy is directly beneficial for Europe in two crucial ways.

- First, Europe is vulnerable to climate change, so working towards preventing dangerous change in the global climate is as much about self-preservation as it is about contributing to a global challenge. Moreover, leadership in this arena gives credibility to the EU as an actor of global influence on other issues.
- Second, as a technological leader, the EU needs to retain its competitive advantage in the areas of low carbon technology development, diffusion and application, as well as in the creation of so-called 'green jobs'.

Securing a global climate agreement in 2015 will be of great economic importance for Europe, as it will influence the speed and scale of technological development and diffusion, particularly (but not exclusively) in the energy sector.

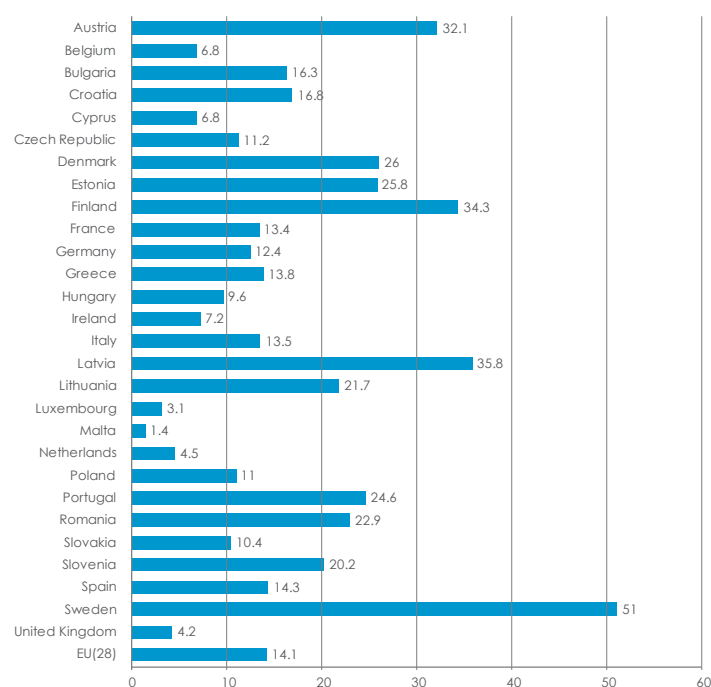
Both of these dimensions are being threatened by a loosening of the EU's focus and commitment towards sustainability, which is in part caused by the prioritisation given to macro-economic stabilisation and the promotion of short-term growth.¹ Europe's current weakness with regard to its environmental and climate policies could have a major impact on international negotiations for a climate change agreement and a sustainable development agenda – the two critical global processes that will culminate in 2015. Although

Europe has taken some steps to integrate these agendas (Box 1), failure to be sufficiently proactive and well-coordinated may result in a lost opportunity. For example, a climate agreement with a low ambition level will make it difficult to achieve universal food and water security, key elements of a post-2015 agenda, and to secure the continuing progress in poverty

reduction that has been achieved over the last decade. According to the World Bank,² about 75% of people in developing countries still live on less than \$4 a day, making them extremely vulnerable to external shocks and natural disasters.

Securing a global climate agreement in 2015 will be of great economic importance for Europe, as it will influence the speed and scale of technological development and diffusion, particularly (but not exclusively) in the energy sector. While the EU was an early developer and adopter of green technologies, the pace of change elsewhere risks putting Europe behind the game. For example, the

Figure 4: Share of renewable energy in gross final energy consumption in 2012



Source: Own elaboration

transition to a low carbon economy is already part of the policy programmes of China and Brazil. China is planning to start reducing its absolute emissions by 2030, having already achieved impressive reductions in its relative emissions. China, the US and many other countries are increasing their investment in renewable energy technologies, reflected in the fact that in 2012, 40% of new photovoltaic modules and 70% of new wind power were installed outside Europe. Efforts in energy are also increasing worldwide, with China and India leading in energy-efficient cement production. Emission trading systems are in preparation in 16 countries and at provincial or state level in the US, Canada and China.³ Securing the EU's position in relation to climate and energy policies is therefore needed not only to maintain its clout in multilateral diplomacy, but also to safeguard its own economic competitiveness. The recent moves by the US and China in terms of setting targets for further emissions reductions increase the pressure on the EU.

For these reasons, it is essential that Europe should give clear and stable signals to the

private sector, research institutions and consumers regarding the transformation of the energy system. The fact that EU member states have different energy packages (Figure 4) and stimulus policies hampers the capacity of the private sector to engage with some member states; thus some businesses continue to pursue investments in coal plants while others seek to promote more fundamental energy transitions.

The potential for harmonising policies is emphasised by the fact that a green transformation mainly depends on the reorientation of private investment flows. In addition to stimulating domestic investment for sustainable development within its own borders, the EU also provides both grants and loans (the latter particularly through the European Investment Bank) to facilitate the engagement of the EU's private sector

in promoting green investments in developing countries. A variety of instruments are available that differ in the extent to which they seek to promote hands-on engagement to facilitating direct investment.⁴

Setting specific targets for energy efficiency and renewable energy are important to secure international credibility. They also help to create an enabling environment for the use of green growth innovations, which will prevent the EU from losing ground to other economies. While Europe hesitates, other countries – the US, China, Brazil, India – are investing heavily in renewable technologies. This means that the competitive edge will soon be determined by the command of renewable energy technologies and their cross-sectoral diffusion and application. Energy costs – which on average account for 2.2% of revenues in the manufacturing industry – do not determine the competitiveness of most European enterprises, with the exception of a few very energy-intensive sectors such as paper, cement, industrial gases, iron and steel, plastic and aluminium. These are, however, quite

i While not crucial for EU competitiveness, energy policy remains politically contentious in EU politics because of its strong effect on the welfare of EU citizens, whose household expenditure on energy increased by 40% between 2000 and 2010 (Desbrosses, 2012).

important exceptions.ⁱ Their adjustment to low carbon technologies and business models should be expedited by developing roadmaps that allow for more energy efficiency, the use of renewables and the substitution of products and processes.ⁱⁱ

Paradoxically the EU, despite failing to invest adequately, is rich in solutions. For example, Germany is among the top three countries in terms of the amount of intellectual property rights in relation to clean energy.ⁱⁱⁱ Facilitating the transfer of such technologies has been on the agenda for years, e.g. in the run-up to the 2009 Copenhagen Climate Change Conference of Parties, but it has not been resolved and was recently raised again at the WTO.⁵ There is increasing consensus in international research that the current agreement on Trade-Related Aspects of Intellectual Property (TRIPS) and the international institutions for intellectual property inhibits the development of innovations in relation to population and target groups that are unlikely to allow the developer to regain its investment.⁶ International discussions in relation to TRIPS and the essential medicines agenda have identified a number of possible innovations that would provide incentives for the adoption and diffusion of technological innovations in the energy sector for target groups that under the current system would not be economically feasible. This would be worth exploring in the area of international climate change.⁷

2.2 The EU's added value and track record

The EU has been and continues to be a major driver of global environmental change. Despite the relatively high efficiency standards in energy

use within its borders, Europe's production and consumption relies heavily on external inputs. Imports of fossil fuels, raw materials, biofuels, virtual water (the water necessary to grow imported food), meat, fish and livestock feed increase the size of Europe's environmental footprint in an era of deepening resource scarcity.^{8,9} Strong and sustained economic growth in all other parts of the world implies that the EU's current consumption levels will become untenable. If current trends

persist, the global demand for food, water and energy is expected to rise by 35%, 40% and 50% respectively by 2030.¹⁰ The next Commission's most fundamental task is therefore to accelerate the transformation of the EU's economy so that Europe can both adapt to and help shape this new reality.

It took several decades for the EU to become a champion of climate change mitigation. The European Parliament played an

important role. By adopting a resolution on climate change in 1986, it helped to politicise a topic that had hitherto been the sole domain of scientific debate. This encouraged the EU institutions to develop a strong EU-level policy on climate change, despite fears of energy insecurity that led some member states to oppose change. In 1988, the European Council resolved more broadly that the Union was to 'use more effectively its position of moral, economic and political authority to advance international efforts to solve global problems'.¹¹

Climate action developed into a central plank of the EU's external policy and became an important source of its soft power.¹² However, the early bid for EU leadership had to endure both internal challenges—from member states that were opposed to strong action and from internal disputes among the European Commission's various sectors and

If current trends persist, the global demand for food, water and energy is expected to rise by 35%, 40% and 50% respectively by 2030. The next Commission's most fundamental task is to accelerate the transformation of the EU's economy so that Europe can both adapt to and help shape this new reality.

ⁱⁱ For an integrated European strategy towards a non-fossil energy sector, more than that would be required, i.e. an integrated European energy market and grid, a reform of the European emission trading system, a diffusion of feed-in tariffs, and, ultimately, that energy policy becomes a European competence, in order to leverage the economic advantages of an integrated approach across a vast area with very diverse physical conditions of renewable energy use. See WBGU (2011), Chapters 7.3.2–7.3.4 and Neuhoﬀ et al. (2014).

ⁱⁱⁱ Although the EU still owns the largest volume of patents, in recent years the in recent years Brazil, Russia, India, China and South Africa (the BRICS) have shown a much larger relative increase in patents (Spencer et al., 2013).

directorates – as well as hostile attitudes from more sceptical third countries.¹³ The present challenge is to hold the member states to account on their ambitious proposals as several face economic hardship.¹⁴ The successive enlargement of the EU has also prompted challenges in maintaining a unified EU position, given the greater disparity in economic circumstances of different member states, as well as the fact that some countries are net exporters of energy, others are importers, and all have widely different energy mixes (e.g. reliance on nuclear power).¹⁵

But there are now signs of diminishing ambition. The Commission proposes a greenhouse gas emission reduction target of 40% by 2030 based on 1990 levels – a target that may appear to be within the recommendations of the Intergovernmental Panel on Climate Change (IPCC), but is one that lacks a strong long-term vision. A higher target for 2030 would: a) make more realistic the road to an economy not dependent on fossil fuels by 2050 by securing a gradual pathway, and b) give Europe the chance to support carbon emissions reductions in developing countries by demanding reduction certificates.^{iv} A higher target for 2030 would seem possible given that the Commission expects to reach a reduction of 32% by 2020. However, the ongoing crisis in Ukraine that led to the Council postponing its decision on climate change targets to October 2014 has sent a signal of EU uncertainty on its policy position.

Today, the EU's engagement in the area of climate change can be grouped into the following interconnected fields of action.^v

1. Shaping and reforming domestic EU policies to promote the EU's climate change objectives and influence third countries to adopt similar legislation.
2. Promoting EU external policies to engage in bilateral or regional cooperation and influence

international action, such as through the Emission Trading Scheme (ETS).

3. Engaging as a block in international negotiations to further international action and reform global governance.
4. Using the EU's development cooperation instruments to support developing countries in adapting to and mitigating climate change.

Domestic policy-making

In the area of domestic policy-making, the adoption of the EU's Energy and Climate Package in 2008 reinforced the linkages between energy security and global efforts to reduce dependency on fossil fuels, and thus represented a big step forward in EU integration. The EU did not approach climate action from a sectoral perspective, but

instead sought to make it part of a holistic strategy for transforming Europe's economy towards one that is knowledge-based, resource-efficient and low carbon. The Europe 2020 strategy, which was adopted in 2010 amid the optimism

of a new EU Treaty entering into force and the institutional innovations it propelled, effectively linked domestic policy and external action under this wider objective.^{16, 17}

Europe 2020 seeks to mainstream and reinforce the role of sustainability in policy development by establishing the mutually reinforcing priorities of sustainable and inclusive growth, driven by five headline targets and seven flagship initiatives. One of these flagship initiatives aims to promote a resource-efficient Europe through (1) decoupling the use of natural resources from economic growth; (2) developing policies regarding raw materials, energy efficiency, biodiversity, as well as roadmaps to wean the economy, energy and transport from fossil fuels; and (3) promoting the use of market-based instruments, phasing out environmentally harmful subsidies and introducing

The EU has been relatively successful at mainstreaming climate change policy without undermining its social and economic objectives.

^{iv} While it is a step forward that the 40% target excludes offsetting through certificates from outside the EU, the implicit lack of demand for such certificates from Europe will weaken the EU's negotiating stance under the United Nations Framework Convention on Climate Change (UNFCCC). The EU could maintain its goal of global net emission reductions by limiting its demand for certificates to sectors and projects with no risk of carbon leakage.

^v These fields of action have been adapted from the ones used to distinguish and group EU actions in the area of inclusive and sustainable growth, as presented in the 2012 European Report on Development (2012: 149).

Table 2: Progress made towards selected Europe 2020 targets

Goals	Indicators and units	Target	Performance in relation to target				
			2005	2008	2009	2010	2011
Reduce greenhouse gas emissions by 20% compared to 1990 (or even 30%, if the conditions are right)	GHG Emissions (Index 1990 = 100)	80	93	90	84	86	83
Increase share of renewable energy sources in final energy consumption to 20%	Share of renewable energy in gross final energy consumption (%)	20	8.5	10.4	11.6	12.5	13.0
Improve energy efficiency by 20%	Primary energy consumption (million tonnes of oil equivalent [TOE])	1483	1703	1682	1592	1645	1583
	Final energy consumption (million TOE)	1086	1192	1173	1110	1152	1103

Source: Own elaboration

the greening of tax systems.¹⁸ As shown in Table 2, the Commission's Europe 2020 monitoring process indicates that progress has been made in these areas, although it is not clear whether progress is the effect of dedicated policy actions or of the recent economic slowdown.

It is significant that Europe has been able to achieve these goals without compromising the well-being of its citizens or the economic output of its economy. This means that the EU has been relatively successful at mainstreaming climate change policy without undermining its social and economic objectives – something that stands in contrast to the political position of ‘cut public expenditure to grow’ that many member states have promoted, and which has gradually pushed the Europe 2020 strategy to the background.^{vi} Short-term thinking is also prevalent in climate change adaptation policies. The slow process in EU member states in adopting and implementing national adaptation strategies shows that most member states think in local, short-term costs only and mostly disregard cross-border and regional implications. However, failure to act now is likely to lead to higher adaptation costs in the future that will have to be channelled through the EU budget.¹⁹ A large majority of European citizens seems to share the latter view as they regard climate change as a serious problem and expect their governments to support energy efficiency and renewable energies.²⁰

EU external policies

The EU's profile and engagement in climate change has had some influence on the approach taken on EU external policies. It should be emphasised that, while seeming soft and benevolent, the EU's emphasis on climate action in the context of its external action reflects real and sensitive EU interests. The EU's economy largely depends on externally sourced inputs and raw materials, with more than 80% of its oil and 60% of its gas being imported from outside the EU.²¹ The Ukraine crisis sensitised EU politicians to the need to change their energy dependency, resulting in the publication of a European Energy Security Strategy^{vii} as an input to further discussions within the EU.

In a speech at a forum in Singapore in 2013, the High Representative of the Union for Foreign Affairs and Security Policy/Vice-President of the European Commission (HR/VP) Catherine Ashton clearly framed the external policy implications of climate change. She said:

Climate change poses a growing and imminent risk to us all. If this leads to parts of our continents becoming uninhabitable as a result of severe droughts or floods, the effects will be disastrous. And of course greater prosperity for all of us depends on our ability to secure energy resources, despite increasing scarcity while at the same time avoiding this becoming a source of conflict.^{viii}

vi Council President van Rompuy reportedly wanted Europe 2020 to be a fixed agenda item for European Council meetings, but the challenges caused by the Euro crisis did not allow him to carry that further.

vii On 28 May 2014.

viii The speech is available at: http://europa.eu/rapid/press-release_MEMO-13-707_en.htm (accessed 4 March 2013).

In December 2013, a joint Communication of the Commission and the European External Action Service (EEAS) confirmed the important role of the HR/VP in the area of environmental protection and climate change. In particular, the EU Delegations in third countries were highlighted as having much potential in terms of improving the EU's outreach and to facilitate dialogue and coalition-building.²²

International negotiations

The climate package and Europe 2020 also guided the further strategic engagement of the EU in international negotiations, principally within the UNFCCC. The EU's resolve to assert itself more strongly in this area was reinforced at the 2009 Copenhagen Conference of Parties where it was side-lined by other major actors. The 2010–2014 Commission introduced a separate Directorate General for Climate Action, which visibly increased the issue's political profile. Recent international climate change negotiations, such as the 2011 Conference of Parties meeting in Durban, have been more positive. However, the political and economic challenges that the EU faces are today much higher than at the time when its high ambition in the area of climate change was defined. Moreover, given the high increases in greenhouse gas emissions from China and other Asian economies, the dichotomy between Annex I and Non-Annex I countries (i.e. rich countries which are responsible for emissions vs. developing countries which are not) is no longer tenable.²³ In this context Europe could take a stronger lead in redefining the content and meaning of 'common but differentiated responsibilities'.

Official development assistance

Finally, the EU is the largest global provider of official development assistance (ODA), some of which is used to support climate change adaptation and mitigation actions in developing countries. In November 2012, the EU reported that it had committed €7.3 billion to climate change-related Fast Start Finance over the period 2010–12. The EU moreover estimates to have been by far the largest contributor to both mitigation-related and adaptation-related ODA in 2010 and 2011, with a global share of 50% over the period.²⁴ This

is however not easy to verify, given the different practices of OECD members in applying so-called 'Rio markers' for climate change expenditure in their reporting of ODA to the OECD secretariat.

The European Commission's 2013 Communication on Financing for Development no

Box 2: Using developing country systems to deliver EU climate finance: early experiences from the GCCA

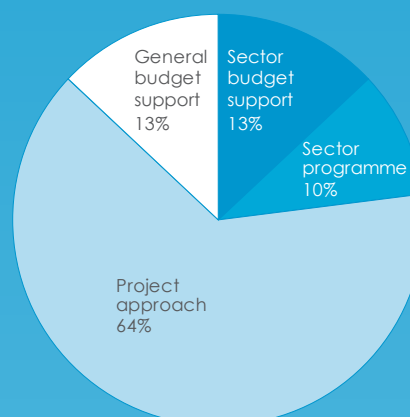
The GCCA is using various forms of budget support to strengthen climate change action in different developing countries (in addition to using project interventions). Budget support builds on the framework set by the Paris principles on aid effectiveness and presents an opportunity of providing external support at scale to national programmes.

Climate change is being incorporated into General Budget Support programmes in Lesotho, Mauritius, the Seychelles and the Solomon Islands. These initiatives aim to integrate climate change into overall poverty reduction programmes and national development efforts.

The GCCA is also making use of the EU sector budget support instrument in several countries, including Bhutan and Rwanda, to catalyse and consolidate climate change adaptation or mitigation components within existing sector programmes. This support adds to governments' own investments in priority sectors, ranging from rural development to the water sector.

As climate change finance is expected to increase in future years, the use of budget support provides an important opportunity to improve the capacity of developing countries to absorb funds made available to support their adaptation and mitigation efforts.

The present state of play within the GCCA programme is reflected in the following diagram.



Source: Figure reproduced and text adapted from Global Climate Change Alliance data. Available at: www.gcca.eu/about-the-gcca/innovative-and-effective-approaches/piloting-budget-support-for-climate-change (accessed 29 March 2013).

longer distinguishes between climate finance and development assistance. Climate finance now comes out of ODA, which is in line with the EU's wider policy ambition to integrate funding for poverty reduction and sustainable development.²⁵ This suggests that the earlier focus on the additionality of climate finance, as emphasised within the international climate negotiations, may be giving way to a view that sees benefit in having climate finance delivered to developing countries through ODA channels. This preference is also reflected in the choice to dedicate 25% of the Development Cooperation Instrument under the next Multiannual Financial Framework (MFF) (i.e. approximately €5 billion) to promoting global public goods, with strong priority given to climate action.

In addition to the important volume of its development assistance, the EU also seeks to maximise effectiveness through the use of different funding modalities in different circumstances. This includes a) sector budget support to fund developing countries' sector strategies, including in a small number of cases such support

being used for climate change under the Global Climate Change Action initiative (Box 2); b) pooled funding that gathers funds from different providers in addition to the EU and places these under developing country management (but with separate donor administration); c) regional-level funds such as the ACP-EU Energy Facility and the Intra-ACP Programme of the Global Climate Change Alliance (GCCA); and d) global vertical funds to increase resources for climate action, in particular the newly established Green Climate Fund.

In addition, the EU has developed strong competencies to manage development finance at the regional level.²⁶ This type of geographical cooperation gives significant voice to Regional Economic Communities on the prioritisation of available budgets. It also potentially adds to

the EU institutions' capacity to support cross-border climate action through its development cooperation budget.

To conclude on the EU's track record, the EU has shown some significant positive results, both in its policy commitment and in specific outcomes such as the reduction of carbon emissions and increased use of renewable energy sources. Perhaps the best-known measure to reduce emissions has been the EU's Emissions Trading Scheme, which sought to accelerate decarbonisation in Europe and promote a global carbon market.²⁷ This innovative market-based mechanism, despite having its own serious challenges, was a game-changer. It has been copied elsewhere as market mechanisms are increasingly acknowledged as one component of the overall strategy to address climate change.

However, it is clear that overall progress by the EU has fallen short of expectations. A gap exists between policies and the EU's implementation record. What explains this gap? As we have already suggested, Europe's sluggish recovery and widespread

public sector spending cuts hold part of the answer. There are also a number of policy areas in which political progress has been slow due to conflicting interests between member states, or the pressures exerted by lobby groups.

2.3 What the EU should do

The credibility of the EU as a champion of progressive climate change policy now hinges on whether it will adopt ambitious actions inside its own borders. With a view to the climate negotiations in Paris in December 2015, all countries will publish their planned mitigation reduction contributions by the first months of 2015. Besides showing different levels of ambition, the planned mitigation reductions will also show that transforming economies towards low greenhouse gas emission levels will be the

The credibility of the EU as a champion of progressive climate change policy now hinges on whether it will adopt ambitious actions inside its own borders.

ix While experiencing serious political challenges in promoting a more ambitious climate change engagement, in December 2013 the US President Barack Obama announced that he was ordering the federal government to increase its use of renewable energy to 20% by 2020, nearly triple the 7.5% currently used. In early June, President Obama announced a 30% reduction target for emissions from power plants by 2030 (compared to 2005).

main trend to follow.^x In this context, the EU can make a difference. First, by demonstrating that it is possible to reduce dependence on fossil fuels through investing in research and development, and by changing incentives, policies, and institutional settings and thus behavioural patterns, while maintaining satisfying levels of prosperity. And second, by establishing mitigation partnerships with countries willing to wean off fossil fuels, and to cooperate in identifying and implementing solutions for this task. This requires increased investment in international cooperation. The link between domestic and external action points to the need for a more proactive involvement of the HR/VP on climate change, as well as a need to continue to pursue integration of EU environmental, development and research and innovation policies.

Climate and environmental policies are reframed as positive contributions to both European prosperity and international development.

To maintain its relevance and influence, the EU must act in three key areas.

1. Improve its own environmental performance, both by setting more ambitious climate and energy targets to be reached by 2030 and by carrying out the necessary policy reforms (including a revitalisation of the European Emission Trading System) that will allow it to deliver on those targets, and remain on track to reach the goal of an 80% reduction by 2050.
2. As a matter of urgency, use its considerable foreign relations presence, in conjunction with its achievements through development cooperation, to push for progressive environmental policies globally and, in particular, to secure a global climate change agreement in 2015.
3. Continue and strengthen efforts for joint knowledge creation between Europe, emerging economies and developing countries on the transition towards sustainable development. This type of knowledge is needed to respond to the diverse realities of our heterogeneous world.

Improvements in these three areas require that climate and environmental policies are reframed as positive contributions to both European prosperity and international development. This means, for example, that investment in integrated European electricity grids and other new infrastructure for clean energy should be understood as both a means to reduce greenhouse gas emissions as well as a contribution to European jobs and economic growth. A similar change in attitude towards low carbon and

resource-efficient economic activities will be needed in other sectors such as agriculture and transportation. For development policy, such a reframing involves a better integration of social inclusiveness and environmental sustainability in conceptual

and practical terms, as well as the introduction of instruments for joint learning and reciprocal cooperation towards a green transformation.

Improving the EU's own record on environmental performance

To improve its own record on environmental performance, we recommend that the EU takes the following action.

- Set more ambitious levels for emission reductions than those outlined in the present EU 2030 framework. These are insufficient to set the trajectory towards eliminating the dependence of Europe's economy on fossil fuels. Moreover, reduction targets should offer options for linking to emission trading systems in the medium term. This can be done while acknowledging differing member state contributions and allowing for some differentiation in national targets^x, as has been achieved in other EU policy areas.^{xi}
- Revise the Europe 2020 strategy at the level of the European Council under the new European Commission^{xii} to make the EU competitive and fit for a low carbon century. The revamped

x Some concrete ways are suggested by Spencer et al. (2013: 11).

xi One example from a different sector concerns the targets for official development assistance by 2015, which were different for the EU 15 and the (since the joining of Croatia) the EU 13.

xii This is necessary as the Europe 2020 strategy was adopted before the start of the euro crisis, which has led some member states to consider it overtaken by events.

strategy should convincingly reflect a shared vision of the EU's future economy, environment and social fabric, and thus provide a clear political steer to the short-term costs that will have to be incurred to realise this vision.

- Push for making intellectual property rights more flexible, creating incentives for innovation aimed at supporting target groups that under the present patenting system would not be economically feasible.
- Stimulate the private sector to continue taking its own initiatives in this area, while also ensuring full transparency over their engagement in EU policy processes to expose efforts to dilute or delay climate change legislation.

Leading the push for better global climate and environmental policy

To help deliver progressive climate and environmental policy in the global arena, we recommend that the EU takes the following action.

- Ensure that the next HR/VP, in close coordination with the Climate Commissioner and the EU's leadership, builds a much stronger profile in the area of climate change, strengthening linkages between climate policy measures in the EU and abroad. EEAS capacity to deal with climate change should also be strengthened at HQ and EU Delegation levels.
- Ensure that the new Development Commissioner continues on the path started by his/her predecessor in pursuing the further integration between development and environmental policy, including through a post-2015 sustainable development agenda.
- Push for the inclusion of specific goals on energy efficiency and renewable energy in the post-2015 agenda/sustainable development goals (SDGs), as a way to better integrate environmental and development targets, and to support a post-2015 agenda promoting inclusive and sustainable development.

Working with others to create new knowledge

To strengthen cooperation and joint knowledge creation between Europe and developing countries, we recommend that the EU does the

following.

- Reforms development cooperation instruments in order to support joint knowledge creation and innovative country alliances towards reciprocal cooperation (rich and poor, especially including the BRICS and other middle-income countries (MICs)) that engage in specific areas of mitigation/adaptation/green investment.
- Pushes to strengthen transparency in ODA reporting so that contributions to climate change mitigation and adaptation are clearly defined. This will require broad-based EU support in the OECD as well as good individual disaggregated reporting by EU institutions and the member states.
- Supports the integration of global and domestic environmental goals into a revised definition of ODA or a successor to measure and compare contributions to inclusive and sustainable development.
- Invests much more in robust dialogue and strategic partnerships at the bilateral level in the area of green transformation and climate change (e.g. with China and India), which add a support base for related agreements at the international level.
- Invites third countries to participate in innovative funding schemes for reciprocal cooperation, the aim of which would be to establish learning experiences on new formats for cooperation for the protection and provision of global public goods.

The year 2015 will be a major turning point for global development and climate policy, and for the future of multilateralism itself. Europe has a historic calling for playing a leading role in these two arenas. This is not only because the EU is a living, vibrant example of peaceful cooperation and joint prosperity-building, but because it has shown that climate and environmental policy can and should be taken seriously. A show of unity and commitment on the part of the EU would send a strong signal to the world that there is a continued relevance for international cooperation on environmental and climate change policies, and a powerful case for investing in a green transformation sooner rather than later.

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3 A more peaceful and secure world: a more effective response to violent conflict and insecurity

3.1 The challenge

Violent conflict and insecurity affect more than 1.5 billion people globally¹ and will be one of the major foreign and development policy challenges for the EU in the coming years. Globally and in the EU's neighbourhood, the strategic environment is changing – conflict and fragile states are drawing closer to the EU's borders. Informally, EU officials talk of more than 50 fragile, conflict-prone or conflict-affected countries in which the EU has a presence or an interest.ⁱ In 2014, countries such as Ukraine, Mali, the Central African Republic, Syria, Egypt, Libya, Iraq, Kosovo and Serbia have all been top of the agenda for EU decision-makers because of conflict, fragility or the threat/legacy of conflict. The strategic spill-over from these situations can have a direct impact on the economic and political security of the EU.

A distinct trend is that current conflicts are becoming more difficult to resolve.² Violence often re-emerges in so-called 'post-conflict countries'. The 2011 World Bank's World Development Report (WDR) notes that 90 per cent of conflicts initiated in the 21st century occurred in countries already affected by civil war.³ Some have predicted that, in the next few decades, an increasing proportion of conflicts will occur in those same regions, such as east, central, and southern Africa as well as in east and south Asia.⁴

Violent conflict and insecurity affect more than 1.5 billion people globally and will be one of the major foreign and development policy challenges for the EU in the coming years.

Countries are not only affected by internal issues and regional spill-over effects, for example associated with ethnic or identity-related tensions. Broader global conflict drivers linked to globalisation also play a role. These are growing in force and are generally outside the capacity of the fragile- and conflict-affected states to address.⁵ Price shocks, capital flight, increased resource scarcity and international security threats stretch the already limited resilience of fragile states. Weak capacity can make them particularly attractive to actors with a preference for fragile governance systems, ranging from legal corporations (for instance, active in land investment decisions) to illicit trade,

Box 3: Defining fragility – the EU's approach

The definition of fragility and fragile states has been endlessly debated. The EU's own definition of fragility refers to weak or failing structures and to situations where the social contract is broken due to the state's incapacity or unwillingness to deal with its basic functions, and meet its obligations and responsibilities regarding the rule of law, protection of human rights and fundamental freedoms, security and safety of its population, poverty reduction, service delivery, the transparent and equitable management of resources, and access to power. The EU also acknowledges that situations of fragility, including at state level, differ and present specific features, which require adapted policy responses.

Source: Council of the European Union (2007).

i Discussions at Wilton Park conference on EU Comprehensive Approach (WP1318), February 2014.

transnational organised crime⁶ and even, as in the Sahel, radicalised terrorist groups. In addition, the latest global analysis from the IPCC clearly points to the fact that climate change will exacerbate the causes of violent conflict.⁷

Casualty figures only scratch the surface of the real costs of conflict. In addition to the staggering human and economic costs to societies themselves, political and geopolitical costs of conflict will remain high for the EU and the international community. While poverty is declining in much of the world, this is not the case in countries consistently affected by violence.

The cost of violent conflict in developing countries amounts to roughly 30 years of GDP growth on average. Further, countries in protracted crisis can fall more than 20 percentage points behind in terms of overcoming poverty.⁸ For Africa alone, it is estimated that the annual cost of armed conflict is around \$18 billion a year.⁹ Moreover, the effects of violence are long-lasting. For countries that have experienced civil war, recovering to original growth paths takes an average of 14 peaceful years, and drops in trade of between 10% and 40% can persist up to 25 years after the onset of conflict.¹⁰

Human costs are horrendous, manifested for instance in the fact that, at the end of 2013, more than 50 million people around the world have been forced to leave or flee their homes because of conflict, violence and human rights violations.

ⁱⁱ Women and girls are especially badly affected, again reducing the ability of society to break out of the negative spiral of conflict and regain its resilience. Compared to peaceful countries, African countries in conflict have on average 50% more infant deaths, 15% more undernourished people, and their population's life expectancy is reduced by five years.¹¹

Perhaps the most devastating effect and resulting cost manifests itself in the deterioration of the quality of governance, whereby power shifts

to those with a stake in weak governance and ineffective or corrupt institutions.¹² The World Bank notes that even the fastest performing fragile states take 15 to 30 years before their institutions reach the level of performance of a well-functioning stable state.¹³

Focusing on the generation of income and economic growth alone will not make a difference. Nigeria, for example, has two narratives. One tells the story of an economically successful middle-income country. The other displays it as a state racked by growing instability and fragility, driven by deep structural causes and exacerbated by the latest insurgency of the Islamist group Boko Haram. While it is true that nearly half of fragile states are now in the middle-income category, forecasts indicate that global poverty will be increasingly concentrated in these countries in the future. This calls for approaches that deal with fragility from a 'system perspective'.¹⁴

Too often, the EU's approach to conflict and fragility has been less than the sum of its considerable parts, serving no one's interest.

With all this evidence and recent experiences, it is entirely realistic to expect that the EU, the HR/VP and the new Commission will continuously have to deal with violent conflict and fragility in the coming years. As conflict and the

consequences of fragility are even closer to the European doorstep, it will not just be a matter of 'external relations' requiring leadership across the Commission. Demands for better EU responses and unity of action in relation to specific geographic areas and topical thematic issues from politicians and the public will rather increase than drop and thus will remain at the top of the political agenda.

The EU today is a fast follower of international norms.ⁱⁱⁱ Over the last 15 years, the EU has consistently invested political and financial capital in aiming to prevent violent conflict and address fragility. This has involved developing its own institutional capabilities, including the mobilisation of a whole series of competent departments and mid-level officials with particular responsibilities.^{15, iv} Successes such as the Belgrade-Pristina Dialogue

ⁱⁱ See: <http://www.unhcr.org/53a155bc6.html>

ⁱⁱⁱ See Furness (2014).

^{iv} This was also noted at the European Commission level in ADE (Analysis for Economic Development) (with ECDPM) (2011).

or the past response to Aceh in Indonesia demonstrate the abilities of the EU when deploying all its assets.

Still, much more could and urgently needs to be done. There is significant potential in an EU that comprises the best of what EU member states and institutions can offer. Improving the poor interaction among the EU institutions themselves as well as between the EU institutions and EU member states is key. These dynamics have hampered the EU's impact on conflict and fragility, both in the past¹⁶ and as currently witnessed in the response to the current Ukraine situation. EU member states have often undermined the EU institutions' reactions to conflict and fragility, yet are also possibly the greatest strength of the EU's response.

Too often, the EU's approach to conflict and fragility has been less than the sum of its considerable parts, serving no one's interest. Indeed despite being consistently confronted with conflict and fragility, the EU's 'top-leadership approach' to conflict and fragility to date has often been a mixture of wishful thinking, short-termism, business-as-usual behaviour and amnesia on past lessons, interspersed with ill thought-out political fire-fighting.

What is required are more coherent member state and community policy frameworks, better communication on strategies and planning, and more closely coordinated country-level operations. This essential 'unity of purpose' can be enabled by better leadership and recognition of the value of shared responsibility in addressing some of the most difficult problems in international relations.

3.2 The EU's added value and track record

EU institutions' added value and role

The EU has taken the lead when there has been clear demand and space for it to do so, as well

as where it brings assets to the table that no other actor can, such as in its neighbourhood. In other parts of the world, the EU has played the role of 'best supporting actor' to the UN, regional organisations or national authorities, often responding quickly once the crisis phase has been reached.^v Smart partnerships with civil society and specialist organisations also offer particular value over the longer term and not just in the crisis phase.

This 'supporting actor' role for the EU should not be dismissed as inconsequential, of limited value or driven mainly by shortage of money. It can be particularly strong especially, if the EU manages to exploit its real added value. This has been noted as^{vi, vii}:

- *Having fewer bilateral interests than other actors* (mainly its member states, but also those of major powers). This means that the EU can be more neutral towards parties to conflict and is less encumbered by pursuit of other political interests.
- *Having the capacity to establish long-term partnerships*. This applies to partnerships with international organisations, but also national authorities and local and international civil society. This is often through the long-term financial and political agreements less subject to bilateral political changes.
- *Being a global presence and continued presence long term*. The EU is there for the long run and is present with 139 EU Delegations, including in almost all fragile and conflict-prone countries.^{viii}
- *Offering a critical mass of aid to many countries*. In many low income fragile or conflict states, the EU is among the top five donors.
- *Offering short- and long-term financial instruments*. The EU has the ability to plan development interventions over a seven-year period, but has also instruments for shorter-term interventions.

v This notion of 'best supporting actor' also extends to the EU's provision of humanitarian assistance. Given the specific status it has in external action, as laid down in the European Consensus on Humanitarian Aid, its distinctively different institutional set-up in the EU and its mandate which is decoupled from political processes, a discussion on the EU's provision of humanitarian action and how it relates to other EU external action more generally would go beyond the scope of this paper. http://ec.europa.eu/echo/files/media/publications/consensus_en.pdf

vi Other analyses have also validated some of these points; see EPLO (2012) and Sheriff et al. (2010).

vii The evaluation did not have the mandate to look at the candidate and enlargement countries of the EU.

viii The EU external action and comprehensive approaches should make better use of EU Delegations – an idea that is gaining prominence; see Furness (2014), Rasmussen (2013) and Helly et al. (2014).

- *Having credibility as a promoter of democracy and human rights.* The EU is often seen as a supporter of democracy and human rights, particularly by civil society actors.
- *Having the potential to offer an integrated approach.* The EU has the capacity to combine short-term and long-term actions, can undertake activities at various geographic levels, support different types of activities, and work with different types of actors. It is important to note that these assets are actually

understood and appreciated by partners in fragile states.

Since 2010, new developments have taken place, which have the potential to enhance the effect of the EU's action on preventing conflict and addressing fragility. First, the European institutions have changed, with the introduction of the EEAS and the creation of a more political profile. New political and financial tools have been developed for the EU to use. This marks a difference to the past, where the EU was primarily a donor instead

Table 3: The EU institutional assets in responding to conflict and fragility – a quick assessment

Asset	On paper	Commentary / analysis
1. EU policy commitments and framework		
Specific EU Treaty obligations	Good	Clear wording and priority on conflict and peace as one of the goals of the EU.
Overarching policy frameworks for CFSP, Common Security and Defence Policy (CSDP) as well as European Consensus on Development.	Good	Increasingly there are references to conflict/conflict prevention/fragile states yet not implemented comprehensively.
Policy framework for crisis, conflict and fragility (comprehensive approach 2013, but also commitments on fragility, security and development, conflict prevention, mediation and dialogue)	Good	A hard-fought negotiation and progress on recent communication. Is not integrative but rather allows EU actors to primarily do their own thing. Unclear higher-level political or senior official political sponsorship.
Recognition of gender dimension of conflict and fragility	Fair	While implementation has been patchy the EU has fully subscribed and backs international norms in relation to UNSCR 1325.
Recognition of international norms and best practice within EU policy frameworks	Fair	New Deal for State-building and Peace-building and the OECD Principles for Engagement in Fragile States signed up to and promoted, yet knowledge of these commitments not widespread.
Policy framework to address global drivers of conflict and fragility	Fair	EU has a well-developed but not well-implemented framework for policy coherence for development, some of which is relevant for global drivers of conflict and fragility.
Specific conflict-focused regional strategies like the Horn of Africa / Gulf of Guinea / Sahel	Good (where they exist)	Increasingly becoming more than merely a collective of activities (as in their first generation) to now something more strategic. Only really applied in Africa when relevant elsewhere.
Comprehensive country-based strategies – action plans	Weak	No overarching country-based strategies that cross-cut the EU areas of engagement (either in terms of EU as a whole or in terms of different policy domains). The EU is trying to align and promote international norms like the 'New Deal' and develop specific systems for CSDP political frameworks before launching missions. There is also greater capacity for 'Joint Programming' at the country level.
2. Institutional architecture		
EEAS, DEVCO, FPI, European Parliament	Fair	Assets exist but at the highest levels the institutions compete with division of labour being blurred – institutional incentives are more for keeping boundaries up. Some inter-institutional taskforces and platforms exist but these reinforce rather than weaken existing silo power structures.
Specialist units for conflict and fragility	Good	Specialised units/divisions exist in EEAS, DEVCO, FPI and now in the Parliament (Mediation) – but these are often isolated from higher-level decision-making or geographic units – the expertise is not formally tapped and human resources available not 'to scale' of the problem.

Asset	On paper	Commentary / analysis
EU Delegations	Good	Growing yet under-utilised role in providing information/analysis, building EU consensus among member states. However Delegations are already struggling under weight of multiple expectations.
EU institutions' human resources and human resource policies	Weak	Not sufficiently adapted – no recruitment of real conflict / fragility specialists in EU institutions other than contract agents, seconded national experts, CSOs and consultants.
3. EU-wide policy-making, decision-making and expert forums		
EU Foreign Affairs Council, Political and Security Committee, Council working groups on Development, Civilian Crisis Management, Political Military Group, Human Rights, and Geographic Working Groups Africa etc.	Fair	Some good work done but primarily in silos rather than integrated thinking and action on responses to conflict and fragility, including silo thinking back to member states. Decision-making is diffuse across working groups.
4. Working methods		
Early warning	Good	A new system with promise is currently being piloted in the Sahel and Central Asia, and will be rolled out more widely. Improvement on past efforts offers good potential to build on.
Conflict and political economy analysis	Good	Tools recently have been developed and applied in a limited number of cases, also to build consensus. This is progress but not used systematically, or sufficiently plugged in to guiding strategy and interventions.
Integrated planning and implementation	Weak	Very limited in practice. The different parts of EU (CFSP, CSDP, development) have their own planning processes – currently there is more sharing of operational space and information than integrated planning and action. Real difficulty lies in jointly 'taking context' as the starting point for planning rather the planning cycles of individual instruments.
Formal financial instruments included in the MFF and adapted aid modalities, including DCI, Instrument of Stability & Peace, EDF	Good	Good adaption and mainstreaming of conflict and fragility on paper, yet not optimally realised in practice. ^a Also innovation in state-building contracts for budget support, and more resources for conflict prevention in the ISP. So the scope and space exists, while ODA and humanitarian principles are also well protected. However, the ability of instruments to work together and complement each other is still difficult to realise in practice.
Lesson learning and evaluation	Fair	Evaluations and several lessons learnt exercises on relevant issues have been completed with some follow-up. Still, real learning is limited as is assimilating lessons learnt at the highest levels.
5. Intervention activities		
Political dialogue and mediation	Good	Difficult to find a part of the world where the EU is not engaged in mediation and dialogue yet is under-recognised and prioritised.
CSDP Missions	Fair	More than 30 missions have been launched. A key attribute, but often lacking strategic significance or critical mass or good link to overall political strategy in terms of becoming part of a wider effort of promoting peace-building/state-building.
Association Agreement	Good	Effective but only used in very few instances in the neighbourhood – not an option in most of the 50 conflict/fragile countries currently on EU's radar.
Financial portfolio	Good	Steady upwards trend of ODA and non-ODA resources spent in fragile environments or on conflict prevention and peace-building since 2001. Often a critical mass of EU support means it is an important player in fragile states.
Sanctions	Good	Unique addedvalue of EU – gets mixed results – so needs to be applied strategically.
Partnerships with UN, African Union, OSCE, CSOs etc. ^b	Good	Increasingly developed but EU has difficulty getting the collective best from the political partnership and financial partnership in a mutually supportive relationship.

Scale: Excellent, good, fair, weak, non-existent

^a EEAS and DEVCO have recently produced further guidance in this area: see EEAS and DEVCO (2013)

^b See also the chapter on democracy and human rights in this report.

Sources: Various ECDPM sources and European Commission evaluations

of a more political actor. Second, despite significant challenges, EU member states have become more active in terms of trying to work more comprehensively. This will ultimately determine the contribution the EU as a whole will

The EU is often quite fast in borrowing and adopting norms or best practices developed elsewhere by international bodies or by EU member states.

make to conflict prevention and addressing fragility, beyond those of the EU institutions alone. Third, EU internal policies are increasingly recognised as holding significant untapped potential to address the global drivers for conflict and fragility.

EU institutional assets

A key principle acknowledged by the international community and by the EU itself is to 'take context as its starting point' when responding to conflict and fragility. The idea that responses to conflict and fragility can be subject to easy check-lists has been universally debunked – however attractive the appeal to politicians and policy-makers. Research, historical evidence and practice have challenged such reductionist thinking while pointing out the particular importance of adaptive policy frameworks, institutional architecture, working methods and the suite of intervention activities.

The EU is often quite fast in borrowing and adopting norms or best practices developed elsewhere by international bodies or by EU member states. Such newly gained assets can be classified into five building blocks: i) policy commitments,

ii) institutional architecture, iii) expert and decision-making forums, iv) working methods and v) intervention activities. Table 3 analyses the reach and impact of the EU's policy tools.

There is certainly work to be done on some areas such as utilising conflict analysis in all instances, human resource policy, rolling out regional strategies, developing integrated country strategies and further breaking down walls between policy domains, but it is more the question of the sum of the parts rather than the individual pieces not being optimised.

Recent developments: the 2013 Communication on the comprehensive approach – a great leap forward?

After long negotiations, the EEAS and the Commission jointly launched a policy statement (Communication) in 2013 on a comprehensive approach to conflict and crisis.^{ix} The Communication contends that this 'comprehensive approach' is the EU's added value, since the EU is operational in all relevant policy domains, stays in most conflict zones for the long term, and works on the national, regional and global levels. The Communication builds on EU policies formulated in the past, prior to Lisbon. These policies also promised comprehensive or integrated approaches.

Box 4: Deepening the comprehensive approach: policy coherence for peace?

Global drivers of conflict and fragility undermine any effort to prevent conflict and build peace at the regional or country level. This is an area where the EU as the world's largest trading bloc as well as a major political influence with legislation over a wide range of internal matters could add value. This is also, however, an area on which the recent EU communication on the comprehensive approach is silent.

Clearly the EU is not completely overlooking the global factors that drive conflict and fragility. There is already a significant EU policy process and even a Treaty of Lisbon commitment to the area of policy coherence for development. Addressing global drivers of fragility and conflict can be linked to efforts to 'get the EU's own house in order' – for instance, better managing migration flows to and from the EU, controlling carbon emissions, drugs and the arms trade, and increasing financial transparency of EU companies are all political wins for the EU.

But is the EU doing enough? Without clear political sponsorship from the highest levels, the institutions' initiatives have been stuck at technical level. They generate large reports, meetings and even worthy Council conclusions, but most analysts note limited political progress at the member state or EU level with regards to policy coherence for development. So in itself it is not the best model of policy coherence for peace.

Sources: CONCORD (2013) and Galeazzi et al. (2013)

ix For an analysis of the Communication, see Volker and Sherriff (2013).

While there has been progress, independent evaluations and expert analyses have pointed to critical issues that need to be resolved for real progress to happen.

- First, progress on basic implementation of this Communication will not bridge a gap that can only be filled by leadership and a more fundamental revision of overarching EU decision-making mechanisms.
- Second, the Communication on Conflict Prevention in 2001 was overtaken by the events of 9/11, as officials scrambled to mobilise security responses. Something similar could occur with the comprehensive approach Communication and the Ukraine or the Iraq/Syria crises, as top-level decision-makers are trying to reinvent the wheel because of the focus on one crisis rather than the bigger picture over the longer term.
- Third, the Communication on the comprehensive approach has not suggested breaking down barriers to working in a more integrative fashion as it essentially leaves all institutional firewalls fully intact.
- Fourth, the Communication has little to say on the longer-term engagement in fragile states that the EU also has to offer as a conflict prevention response.

For these reasons, it is simply not credible to cite the Communication alone as the answer to a better EU response to violent conflict and fragility. Nor is the proposed Action Plan for the Communication a solution if it does not address the issues outlined in this chapter.¹⁷

Past experiences and difficulties encountered by the EU to acting more comprehensively in practice must be understood if any new approach is not to suffer the fate of previous 'good on paper but patchy in implementation' initiatives. Any new leadership would do well to view the Communication on the comprehensive approach and any Action Plan as a base to build upon - and not consider them either a ceiling that cannot be breached, nor a job already done.

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EU member states' interaction with EU institutions

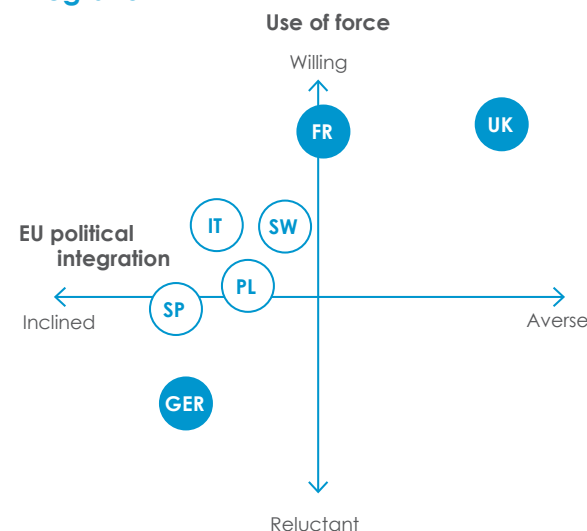
There is a recognition that an EU policy dealing with external conflict and crisis is ineffectual if it cannot combine its efforts to prevent conflict or stabilise a post-conflict situation with complementary political and military back-up by member states. This includes situations where, if required, the

military lead is taken by member states, or by other actors that sanction or undertake military action, such as the UN, AU or NATO. This point is even noted in the recent Communication on the comprehensive approach.

Nevertheless, there has been ambiguity over whether the EU is powerful enough to mobilise

member states to provide this sort of back-up. Some of the ambiguity is wilful and political, but wider foreign policy positions and domestic concerns of member states often dominate the discussion. Recent research from the UK, Sweden, Spain, Poland, Italy, Germany and France on their respective readiness to work more comprehensively on the nexus between security, stabilisation, recovery and development highlights the complexities that EU decision-makers, but also

Figure 5: Member states' willingness to use force vs. their attitude towards EU political integration



Source: Santopinto and Price (2013)

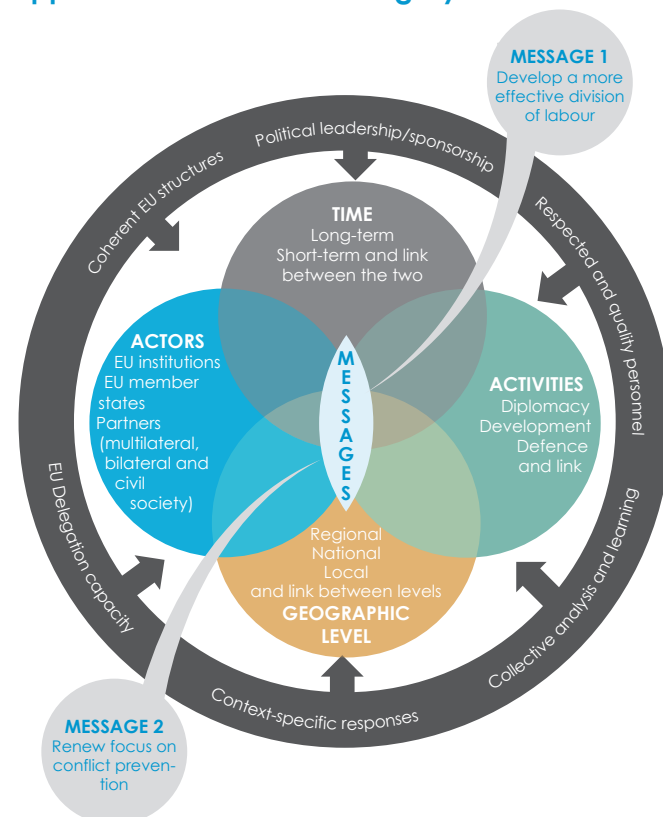
their counterparts from EU member states, need to consider.¹⁸ This all plays itself out in concrete settings such as the Sahel.

Readiness is determined, first, by the member states' willingness (or political ability) to use force, or – as one can label it differently – their 'strategic culture'; and second, by their readiness to integrate politically within the EU. Placing each member state against these respective axes (Figure 5) shows the differences in positioning vis-à-vis more comprehensiveness and gives an idea how challenging it is to direct the respective member states and the EU institutions more comprehensively into the same direction.

As for the strategic culture, the positions among the three big countries (France, Germany and the UK) are no secret. France is relatively quick to use force, while Germany's willingness to use force – explained by Berlin from a historical perspective – clearly differs. Germany's position towards NATO actions, which it has supported with military interventions, is positive, compared to EU military combat interventions that it has so far refused. Thinking appears to be shifting, as suggested by the recent agreement to send a European mission to the Central African Republic (CAR) – the second mission of its kind – following a series of speeches made by Germany's President and Minister of Defence in early 2014 urging EU countries to cooperate more deeply on defence and for Germany to play a bigger military role abroad, including in support of European missions. Yet, there is no willingness to carry out a larger-scale military mission with one of the EU combat units agreed and set up following a protocol appended to the Treaty of Lisbon. The UK's strategic culture is different. It engages with troops in third countries, but does this under NATO command and not under any EU lead. The UK is opposed to the creation of any autonomous European structure that could exercise military command and control. As such, it is different from the other states researched that fully recognise the need for an operational headquarters in Brussels.

The readiness to integrate politically within the EU is a second dimension that has an influence on member states' engagement in CSDP operations. The biggest differences exist among the three big states while the smaller states tend to find themselves somewhere in between these three positions. For Germany, CSDP integration is a strategic goal in itself and a step forward in the European integration process. It puts a stress on using soft power and is relatively open to contributing to civil CSDP missions. France tends to see the European defence policy more as an instrument to pursue well-defined national interests and as a tool to coordinate European nations' joint military power outside the continent. European integration comes second. The last French White Paper¹⁹ specifies that the country needs to uphold its capacity to enter first into a conflict area, ahead of other EU member states and the EU – a practice that was exercised in 2011 in Libya and Mali and in France's engagement in the CAR. The UK's position is determined by its willingness to use force but its unwillingness to operate under

Figure 6: Widening and deepening the EU's approach to conflict and fragility



Source: Own elaboration

an EU military structure. This focus on soft power in terms of the EU's comprehensive action reflects Germany's strategic culture, refraining from hard power use as far as possible, as shown above.

The EU institutions can provide leadership in some geographic areas when responding to conflict where there is a clear demand and added value.

putting multi-dimensional conflict prevention back at the top of the EU political agenda. The EU needs to recognise that given what has happened in the neighbourhood, the Ukraine, Africa and in the Middle East, its current approach

3.3 What the EU should do

The EU's approach to conflict and fragility can be more of the same or something different, with renewed leadership and better decision-making that is collective with a clearer and creative division of labour. More of the same would mean some worthy things are undertaken and there may even be the odd success. Yet the EU responses would continue to be less than the sum of its part with suboptimal results.

Presented in Figure 6 is a model of a truly integrative approach to conflict and fragility, which is what the EU should be aiming for. The costs of a suboptimal approach would be difficult to bear and defend either bilaterally or multilaterally. Analysis has shown that well-targeted conflict prevention is significantly cheaper than 'cure'.²⁰ The EU's leadership should take note of this.

An EU locked into cycles of fragmented, ineffectual and increasingly costly crisis management will hamper its own global and internal credibility. The idea that Europe should expend political capital and diplomatic energy to enable it to impose peace through military action is not only conceptually flawed but is a distraction from where it can most usefully add value. Hence, the need for the EU to clarify what it can do in conflict situations and where it is clear that it should support others to act.

There are two priorities.

- First, renew the focus on conflict prevention.
- Second, develop and implement a more effective 'division of labour' on conflict and fragility among the EU institutions and between the EU institutions and member states.

A renewed focus and prioritisation on the lost art of conflict prevention is key. This means

has failed. Crisis management alone is insufficient and costly as well as damaging to its own fundamental long-term interests. The EU has often talked about and even committed to prioritising prevention, but now is a good time to act. It has even taken steps to increase the financing through the Instrument for Peace and Stability, and could offer something unique on showing leadership in tackling the global drivers of conflict and fragility. It would mean working with the President of the Council to hold a summit on conflict prevention that also involves the EU's major global partners. Indeed the key actors in preventing conflict are the major conflicting parties themselves. This best supporting actor approach could also be enhanced by the EU's own successful but at times

very difficult internal experience of managing conflict and transition from authoritarianism to democracy non-violently. Moreover the EU can also show leadership globally. For example by continuing to push for conflict and peace-related issues to be

clearly reflected in the post-2015 MDG framework. Addressing better the global drivers of conflict and fragility could also be a key contribution.

An effective division of labour between EU member states and institutions and the wider partners is probably the biggest arbiter of the EU's success or failure in this area. This means some pooling of powers rather than the reflex of protection of competences. The EU institutions can provide leadership in some geographic areas when responding to conflict where there is a clear demand and added value. These are most likely to be in the neighbourhood, yet if there is a clear demand for the EU to lead, as there was in Aceh in Indonesia, it should. In most cases globally, the EU collectively should be looking to play and further develop its role of 'best supporting actor'

In most cases globally, the EU collectively should be looking to play and further develop its role of 'best supporting actor' while living up to international norms.

while living up to international norms. This would mean being clearer over when others are better placed to act and deepening its partnerships with other actors whether they be the UN, NATO or civil society organisations. A pragmatic yet clear approach should be taken as regards the role the EU is to fulfil in each instance – including ceding or giving space to member states to shine. Once the approach is agreed, member states should also respect the role of the EU institutions and not undermine them as they have done in the past. There is no getting away from the fact that new High Representative will have to be prepared to fight and negotiate to make this happen effectively. A ‘unity of purpose’ will constantly have to be forged through creative leadership.

In practical terms, there are six steps the EU should take.

1. Leadership. Conflict prevention and responses to fragility have lacked leadership at the political level or the most senior officials of the EEAS and Commission. Crisis management has been the order of the day. This lack of leadership has left creative action mainly to middle-level and junior officials, many of whom have done well, but this is no longer sufficient. Political sponsorship in language and action is needed from the HR/VP, the Commission President, and at times the President of the Council. In specific circumstances, leadership will also be required from member-state foreign and development ministers. Creative leadership is required to bind and negotiate a clear unity of purpose between the different EU actors. The commitment to leadership in this area from EU institutional contacts needs to be clearly tested in any hearing before the Parliament.
2. Build on emerging good practice and resources and view the Communication on the comprehensive approach and the Action Plan as the floor not the ceiling. This means using and investing high-level political energy in i) the new system for early warning and ii) the guidance on conflict analysis more systematically – and linking it to decision-making. This includes having clear multidimensional country

strategies. It also means having flexibility and seeking opportunities, engaging in mediation and dialogue early, aligning firmly behind global norms and initiatives like the New Deal and its five Peace-building and State-building Goals^x, respecting and building on existing partnerships, and drawing on the people and units with expertise (often working at the meso level) within the institutions and also beyond. It would be catastrophic for any new leadership within the EU not to utilise and build on emerging good practice from inside the institutions.

3. Quality people in quality positions. In order to constructively interact with EU member states, the EU institutions must have quality people in quality positions up and down the hierarchy. This means an HR/VP who commands respect from EU member states but thinks and acts long-term. Moreover, the most senior officials in the EEAS and Commission need to be credible on the issue of conflict prevention and overcoming fragility, and not just crisis management or development. If they are not, it will be very difficult to make an effective link between what the EU institutions and the member states are doing. The quality, competence and creativity of individuals matter in this area as studies have consistently shown that where the EU has done well it can often be traced back to a number of individuals making the system work for results, often by taking calculated risks. EU institutional human resources systems need to be further adapted and directly addressed to ensure this is the case as they are still not fit for purpose.
4. Take context as the starting point for division of labour, but clarify and agree on it. In Ukraine, Mali or Syria, different member states have a stake and bring different things to the table – as do the EU institutions. The specific region/country division of labour needs to be explicitly agreed and clarified in Council conclusions, within the EU institutions and the EU member states collectively or individually. The EU also needs to ensure that its ‘best supporting actor role’ is also clarified with regards the UN, OSCE, civil society and continental/regional organisations such as

x New Deal for engagement in fragile states, see: www.pbsbdialogue.org/

the AU or the Economic Community of West African States (ECOWAS). Much more honesty and clarity is needed in terms of what the EU cannot or will not do in relation to conflict and fragility in specific contexts. Desisting from engaging in unhelpful competition for position or visibility will require a degree of humility from the EU and its leadership – inviting EU member states to do the same – while not losing a sense of ambition.

5. Strategic use of and more capacity in the EU Delegations. These have a key role to play in building consensus from the bottom-up. The EU Delegations now have stronger roles in sharing analysis with EU member states, chairing EU heads of missions' (i.e. ambassadors of EU countries) meetings and producing heads of mission reports. EU Delegations can be the best of both worlds – offering the long-term approach embodied in the Commission instruments, as well as the political and security expertise and knowledge of the EU member states. Investing more resources in the EU Delegations and allowing them to act more 'bottom-up' than top-down will not only foster a more effective response but also offer potential for EU-wide consensus-building close to the ground. There must be significant investment in EU Delegation capacities. This includes getting the right heads of delegations

Having a balance of people with genuine expertise on conflict and fragility and also on the country or regions concerned within the EU Delegations is vital.

as well as the heads of both the political and operations sections. Having a balance of people with genuine expertise on conflict and fragility and also on the country or regions concerned within the EU Delegations is vital.

6. Dare to challenge the incoherence of EU structures. The current institutional infrastructure is inhibiting collective and more strategic engagements. The incentives to think and act in silos consistently trump more collective action. While some firewalls are understandable and entirely necessary (e.g. humanitarian aid, and ensuring that development spending does not get diverted for stabilisation or counter-terrorism), others should be scrutinised. A thorough and frank review as to whether the current EU institutional structures inhibit or incentivise effective cross-institutional or cross-thematic thinking and action in responding to conflict and fragility should be undertaken, to check what reform is necessary. Ideally, this would be undertaken by looking at recent unpleasant experiences, such as Ukraine but also the CAR, as well as at existing knowledge and undertaking a full and frank analysis of dysfunction. While building on the EEAS review allows some scope for this, the remit should be wider, with active buy-in from all the institutions at the start of the mandate of the next Commission and also the member states.

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4 A world where citizens speak out: supporting democratic change and promoting human rights

4.1 The challenge

At a global level, there is growing agreement that 'effective, open and accountable institutions' are both core elements of well-being and critical to achieving other development goals.ⁱ There is also increasing demand from citizens around the world for responsive governance and respect for human rights, as can be seen in the results of the multi-country consultations on the post-2015 development framework organised by the UN.ⁱⁱ However, the gap between such citizen aspirations and a widespread lack of democracy and human rights in many parts of the world is still enormous. Freedom House classifies a total of 41 countries as 'not free' and 51 as 'partly free' among the 133 nations that receive EU aid.ⁱⁱⁱ

Democracy and human rights are central to the EU's identity, as well as to the values it seeks to project internationally. The EU has long recognised both the intrinsic and instrumental reasons for promoting democratic governance and human rights as part of the broader development project. It has an important role to play in taking this agenda forward. Indeed the next couple of years will require the EU to significantly raise its game in response to critical democracy and human rights challenges.ⁱⁱⁱ These include: the need to ensure robust governance commitments in the post-2015 agenda; the fact that struggles over democracy

Democracy and human rights are central to the EU's identity, as well as to the values it seeks to project internationally.

are increasingly taking place on the EU's own doorstep; and the pressure to live up to the EU's recent promises to become a stronger and more effective champion of democracy and rights.

Democracy and human rights principles are embedded across the policy framework for EU external action, from areas such as trade and security to development. However, in recent years, there has been growing recognition both of the frequent gap between the EU's principles and its actions on democracy and human rights, and of the fact that when the EU does act to promote democracy and human rights, this often has limited impact. The weakness of EU approaches to democracy and human rights has been starkly highlighted by recent upheavals in the Arab world. In some cases, such as Egypt, EU principles have been continually side-lined in favour of strategic interests, resulting

in a loss of credibility. In others, such as Algeria, EU activities to support democracy and human rights have not helped to propel meaningful reform because they have focused on technical measures rather than on addressing political barriers to reform. Beyond the EU neighbourhood, contexts such as Ethiopia and Rwanda – recipients of EU aid that are undemocratic but relatively technocratically well-governed, making strong progress towards meeting the MDGs – demonstrate the difficulties that the EU frequently

i See: www.worldwewant.org

ii Under the European Development Fund, the ENP instrument, the Development Cooperation Instrument, the Pre-Accession Assistance instrument.

iii See the recommendations of the Thematic Evaluation of European Commission support to respect of human rights and fundamental freedoms, 2011.

Box 5: The strengthened EU policy framework for promoting democracy and human rights includes:

- EU Communication on 'Empowering Local Authorities in partner countries for enhanced governance and more effective development outcomes' (2013)
- EU Communication on 'The roots of democracy and sustainable development: Europe's engagement with civil society in external action' (2012)
- EU Strategic Framework and Action Plan on Human Rights and Democracy (2012)
- EU Communication on 'EU support for sustainable change in transition societies' (2012)
- Council conclusions on the future of EU budget support to third countries (2012)
- Joint Communication by the HR/VP and European Commission on 'A New Response to a Changing Neighbourhood' (2011)
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- EU Communication on 'Human rights and democracy at the heart of EU external action – towards a more effective approach' (2011)
- 'A New Response to a Changing Neighbourhood: A review of European Neighbourhood Policy' (2011)

faces in reconciling its support for poverty reduction and development objectives with the promotion of human rights and democracy.

Recognising these problems, the EU has renewed its commitment to place democracy and human rights more centrally within external action and has developed a range of new policies and strategies to do this (Box 5). This strengthened focus on democracy and human rights is welcome. However, some of it has been a rather hasty response to events rather than based on: lessons from the EU's past experiences and emerging knowledge on political change processes; a realistic assessment of the EU's added value and limitations in accompanying political change processes in third countries; an understanding of which contexts provide opportunities for EU engagement on democracy and human rights; or any overall strategic vision of what the EU can and should do.

Political change processes are highly complex and essentially domestic driven. They can follow diverse and non-linear paths and – even when they lead to the adoption of democratic political institutions – can be subject to reversals or stagnation. It is therefore important that EU actors seeking to promote democracy adopt a broad definition based on relations of accountability, transparency and responsiveness between state and citizen, rather than a particular set of

institutions and rules.^{iv} It is also important that EU actors recognise that political change – including a deepening of democracy – is fundamentally an outcome of complex bargaining processes between state and society over the nature of the social contract.

The context for democracy and human rights is also changing and it is important that EU democracy support takes account of these changes. One such change is that pathways of transition are increasingly complex, varied and dependent on a wider range of factors.² Recent events in Europe's southern and eastern neighbourhood have underlined how difficult it is to predict how political change will happen, how little is understood about the roles outsiders can play, and the complex mixes of democratic and undemocratic features that can emerge from political change processes.

Indeed, while most countries are now formal, electoral democracies, in fact 'hybrid regimes characterised by adherence to democratic forms rather than substance have become the most common political regime type in the developing and post-communist world'.³ These hybrid regimes vary widely in nature but frequently feature violent conflict, a contested political settlement, state-society relations based on clientelism, a politicised civil service, and competition for power driven by short-term, personal interests.⁴ Examples range from

iv Milja Kurki argues that the EU's definition of democracy is particularly vague. 'Reflecting political pluralism within the Union, the EU's ideas about what kind of democracy it wishes to support have remained fuzzy and uniquely non-committal' in Kurki (2012).

large, middle-income countries that are strategically important for the EU but where it has very limited influence, such as Pakistan or Nigeria, to poorer states, such as Zambia or Malawi, where the EU is an important development partner.

The EU has the ability to add unique value by leveraging its weight and influence as a trading block in support of democracy and human rights.

Moreover, many of these hybrid states, especially in Africa, are simultaneously engaged in democratisation, state-building and struggling with serious development challenges, which can create tensions between different priorities (e.g. between strong central leadership and diffusion of power through democratisation or decentralisation). Supporting state-society bargaining that deepens democracy in such contexts requires a long-term and gradual approach, high tolerance of risk and coordination between state-building, democracy and development agendas.

The ways in which citizens participate in state-society bargaining are also changing. There have been transformations in the types of citizen movements and networks, a growth in grassroots activism around specific rights and accountability issues (such as social or environmental rights) and the use of new media to connect and mobilise citizens in new ways. The emergence of new types of citizen activism was most clearly demonstrated in the Arab revolutions, but can also be seen, for example, in anti-corruption movements in India or growing internet-based activism in China. However, autocratic minded governments – from Zambia to Cambodia – are also clamping down on citizens in new ways and seeking to block support for them, including by erecting legal and logistical barriers that prevent external assistance to civil society. This reality of a ‘severely shrinking space for CSOs to operate in many countries’ is recognised in the *Annual Report 2013 on the European Union’s Development and External Assistance and their Implementation in 2012*. While the EU has developed some initiatives (such as its ‘No Disconnect’ strategy used during the Arab Spring), it has not as yet developed a strategic

response to this growing problem.

Traditional sources of EU leverage to promote democracy and human rights through aid, trade or inclusion in EU legal and economic space are being

reduced (although there are questions as to how effective these were anyway). Economic growth in developing countries is marginalising the influence of aid, while emerging powers offer alternative approaches to cooperation and new sources of investment and trade. There has been much concern at the negative impact of some emerging economies and regional powers (notably China, Russia, Iran and Venezuela) on governance in third countries.

However, some democratic emerging powers, such as India, Brazil, South Africa, Indonesia and Turkey do sometimes play a positive role in external democracy and human rights promotion. The approach of these rising democracies tends to be very different to that of the EU, with more emphasis on balancing their commitments to democracy with respect for sovereignty, as well as the need to protect regional stability and further regional economic and security interests.⁵ There are also clear differences of approach among these rising democracies.^v Emerging powers therefore present not just challenges to EU influence, but also potential opportunities for collaboration on human rights and democracy agendas, which the EU has yet to explore.

4.2 The EU’s added value and track record

The EU has a comparative advantage in support for democracy and human rights because of its long history of external engagement in this area, as well as its own experiences of democratisation, from which it can draw useful lessons. In addition, the EU’s commitment to support a broad range of rights – including women’s rights, minority rights and economic, social and cultural rights, alongside

^v For example, India supports multilateral activities on democracy such as the UN Democracy Fund and the Community of Democracies although it regularly blocks multilateral action on human rights at the Human Rights Council. Brazil has promoted human rights through the regional body Unasur, South Korea and Indonesia articulate a more direct commitment to supporting democracy although their activities are limited, while Turkey focuses primarily on conflict contexts.

civil and political rights – its own experience of progress on these rights, and its commitment to integrate all these rights into its engagement with third countries, gives it the potential to add value

The EU's impact has been limited because it has suffered from varying levels of political commitment and leadership.

in promoting a genuinely integrated approach to human rights. Moreover, as the EU supports democracy, development and state-building through its external action, this makes it well placed to link up work across these areas in ways that add value in complex transition contexts. Critically, the EU has the ability to add unique value by leveraging its weight and influence as a trading block in support of democracy and human rights.

The EU's renewed commitment to democracy support in recent years, combined with a growing appetite among certain member states (e.g. Poland or the Nordic member states) for a more political approach, creates the potential for the EU to become a politically effective player in support of democracy and human rights. Moreover, the creation of the EEAS and the strengthened political mandate of EU Delegations mean the EU is now better placed to adopt such a political approach. Beyond the EU institutions, the very diversity of member state approaches to democracy and human rights promotion can add significant value to collective EU efforts, as long as these act to

support a common EU agenda.

The EU's democracy and human rights principles are important starting points in seeking to exercise influence.

Yet the EU has to move beyond

stating its principles or seeking to transfer its institutional models, to examine how it can best support the positive evolution of state-society relations within a given context, including through: sustained, long-term, context-sensitive and flexible engagement; providing targeted support for potential reform actors and at critical junctures; and fostering 'bottom-up and top-down reforms [that are] harnessed in a more mutually reinforcing fashion to alter the underlying structures of state-society relations'.⁶ This must involve adopting both overtly political goals and politically smart methods.⁷

EU support for democracy and human rights in its external action has had some successes, most notably in neighbouring countries seeking greater ties with the EU. However, in general its impact has been limited because it has suffered from varying levels of political commitment and leadership; it has been too focused on rules, technical blueprints and state or elite actors; it has been restricted by inflexible, bureaucratic mechanisms; and it has offered ineffective incentives for reform.

Box 6: Contextualising democracy support within knowledge about political change

Knowledge of political change dynamics and democratisation processes is key to effective democracy support. The EU has the potential to be a powerful generator, broker and facilitator of such knowledge and the 2012 OECD-DAC Peer Review encouraged the EU to make knowledge a corporate priority. However, EU institutions struggle with this agenda because of a lack of internal leadership and incentives. While commitments to improve political analysis and evidence-based policy and programming are standard rhetoric in EU policy documents, they are frequently not implemented because organisational incentives do not encourage analysis and learning, or the feedback of new knowledge into planning, programming or re-adjusting strategies. Prioritising and incentivising systematic political economy analysis and iterative learning, as well as generating commitment to a more qualitative approach, is critical if the EU is to develop democracy support strategies and programmes that are built on evidence and experience and that are responsive to local realities.

The EU could play a particularly important role as a knowledge broker on political change and democratisation by bringing together learning generated by the EU member states and civil society. Together, the EU and member states have access to a wealth of evidence and analysis – including on a particular member state's own experiences of transition – that can inform EU external action on democracy issues. Following the 2012 joint communication on EU support to sustainable change in transition societies, initial steps have been taken to maximise the potential of transition experiences. EU Delegations are particularly well-equipped to do this and support a more hands-on knowledge-based approach in the field, ensuring the uptake of relevant research findings in policy and practice at local level.

Varying commitment and leadership on democracy and human rights

EU leaders consistently state their commitment to democracy and human rights principles. This commitment is certainly reflected both in the range of policies that prioritise human rights in external action and in EU funding patterns. EU funding for democracy and human rights support has been maintained despite the economic crisis and in some areas has increased.^{vi} The EU's commitment on these issues is also visible in its perseverance in highly challenging governance contexts (for example funding a new series of rule-of-law projects in Azerbaijan⁸), in the 2012 appointment of an EU Special Representative on Human Rights, and in the elaboration of the 2012 'EU Strategic Framework and Action Plan on Human Rights and Democracy' that seeks to bring together its different strands of work on human rights in a comprehensive way.

However, all too frequently, the EU's commitments to democracy and human rights are overridden by strategic interests, as demonstrated in contexts from Egypt to Ethiopia. In addition, lack of shared vision and coordination between EU member states (including member states undermining EU-level conditions or sanctions) frequently undermines EU democracy goals.

At a multilateral level, the EU plays a leadership role on democracy and human rights issues, notably at the Human Rights Council. Likewise, in relation to the post-2015 agenda the EU has been vocal in calling for the inclusion of human rights, democracy and the rule of law and gender

equality in the new framework.⁹ Bilaterally, the EU coordinates relatively effectively with other western actors on these issues but has failed to systematically introduce them into bilateral relations with non-western powers. This is despite commitments to do so, including in the 2012 Action Plan which states that the EU will place human rights 'at the centre of its relations with ... strategic partners'.

An overly technocratic approach to democracy and human rights promotion

The EU's democracy and human rights support has traditionally comprised a combination of political dialogue and technocratic support to institution-strengthening that has focused primarily on state actors and elite driven reforms and has taken insufficient account of local context. This support has been based on the assumption 'that relatively technocratic governance support can help in an incremental process of democratisation in which small steps accumulate... into far-reaching and meaningful change in the essence of a political regime'.¹⁰ There has been much less focus on supporting domestic drivers of change – including non-state actors – in their efforts to address political barriers to reform. This is in part due to the primarily EU-to-government approach, but also reflects a weak understanding of the political economy of state-society relations in partner countries. A 2008 evaluation found 'major gaps between European Commission policy commitments towards civil society and actual implementation practices'.¹¹

Box 7: The Cotonou Agreement

The Cotonou Agreement is a comprehensive partnership between the EU and ACP countries, which includes a package of measures across policy domains (political dialogue, trade and development) aimed at gradually improving governance and contributing to democratisation.

To date there is limited evidence regarding the impact that Cotonou has had on governance in ACP countries and more systematic evaluation is required. However, some studies raise concerns that conditionality mechanisms related to democracy and human rights within the Cotonou agreement have not been applied consistently, with more strategically important countries such as Ethiopia, Kenya and Nigeria avoiding sanctions despite anti-democratic trends. Other studies suggest that the political dialogue on human rights within the Cotonou framework needs to become more strategic and structured in order to have real impact. However, despite its limitations in practice, Cotonou is widely perceived as an ambitious, comprehensive and inclusive approach to integrating democracy and human rights into the EU-ACP partnership.

vi Of the total EU aid budget of €13 billion in 2012, €2.5 billion were spent on 'government and civil society'.

In recent years, there has been increasing recognition of these flaws. The new policy framework commits to broadening and deepening democracy assistance and adopting more political aims and tactics (e.g. the focus on human rights, democracy and governance in the Agenda for Change). This more ambitious framework has so far had limited impact on practice. However – in the eastern neighbourhood at least – there is growing evidence that the EU has ‘turned over a new leaf in its support to democracy through civil society development’, although implementation challenges remain.¹²

The EU has been a global leader in seeking to leverage trade relationships in the promotion of human rights. Since 1995 it has included human rights clauses in all its economic agreements. Moreover, the breadth of human rights covered in these clauses is far wider than that used by other actors like the US. The GSP system is the EU’s trade arrangement with the strongest human rights component. It has only been withdrawn on a handful of occasions (Myanmar and Belarus both had the GSP withdrawn, while Sri Lanka had GSP+ withdrawn). There is little available evidence regarding the impact of such withdrawal on human rights situations.

However, as GSP+ is replaced by FTAs with a number of countries (such as with Colombia, Peru and six Central American states), there is concern that these new FTAs contain significantly weaker human rights commitments and provisions than the GSP.¹³ This may be partly inevitable because the EU unilaterally provided the GSP while FTAs are negotiated. However, it is a trend that is in direct divergence with the EU’s commitments to strengthen the integration of human rights into its trade relations, as expressed in the EU Strategic Framework and Action Plan. Overall there is a serious lack of evidence about how the EU’s trade-related conditionalities and sanctions impact democracy and human rights in partner countries. The EU needs to invest more in this type of analysis if it is to learn from and improve its use of trade as leverage for promoting democracy and human rights.

Rhetoric on gender equality is not matched by action, the Action Plan is not being effectively implemented and women’s rights continue to remain a low priority within EU external action.

The EU’s main framework for promoting women’s rights externally is through its 2010–2015 Action Plan on Gender Equality and Women’s Empowerment in Development. This outlines a three-pronged approach in which women’s rights are advanced through political and policy dialogue, gender mainstreaming and specific actions to promote gender equality. However, there has been significant criticism that rhetoric on gender equality is not matched by action, that the Action Plan is not being effectively implemented, and that women’s rights continue to remain a low priority within EU external action. Indeed, the 2014 Council Conclusions on the implementation of the Action Plan noted that implementation is slow and requires greater leadership and commitment from EU institutions and member states.

Poor programming and funding mechanisms for democracy and human rights

EU programming and funding mechanisms for democracy support are largely inflexible, cumbersome, risk-averse and unfocused. Mechanisms to support civil society have been particularly problematic, with burdensome requirements making it difficult for non-elite CSOs to access support and funding being allocated in highly unstrategic ways. This is epitomised by the European Instrument for Democracy and Human Rights (EIDHR), which for a large share of the instrument issues very complex calls for proposals; is largely accessible only to actors that speak ‘donor language’ and can meet complex bureaucratic requirements; generally funds organisations with a limited human rights rather than broader political democracy agenda; and spreads funding so widely that it cannot easily demonstrate a cumulative impact.

Recognising these weaknesses, over the past years the EU has significantly invested in refining its engagement strategies, exploring innovative funding mechanisms and adapting existing EU delivery mechanisms and procedures in order to better respond to local CSOs’ needs. The Commission Communication, ‘The roots of

Box 8: Gender equality and women's empowerment: a fundamental of development

Gender equality and women's empowerment are key contributors to progress in developing and developed countries alike; integrating gender analysis in policy-making has positive repercussions at the individual and collective level. First, gender equality is a basic human right applicable to all, irrespective of a person's sex, age, ability, ethnicity, caste, etc. It provides individual women and men with a right to equal opportunities, for example, to assets, resources, employment, and the freedom to choose how to live their lives. Second, gender equality and women's empowerment have positive spill-over effects on economic efficiency and the achievement of other key development outcomes generating benefits for society as a whole.

In spite of this, the promotion of and support for gender equality and women's empowerment tend to be an after-thought in most development policies and practice. This is both illogical, as it undermines the quality and results of development efforts, and unfair, as it excludes a large number of women and men in poverty from benefiting fully from development assistance. Available data shows that women and girls are more likely to be in a situation of poverty, that they have reduced access to health and education, that they are more prone to being victims of violence, that they have less say and are underrepresented in political affairs, that they have fewer rights (e.g. land rights), and so on. This has negative effects not only for the personal development of those women and girls; it also hinders the economic, environmental, political and social development of their societies.

Resolving this failure should be a priority for the next EU leadership. In times of financial constraints, donors are expected to spend every euro to its fullest. Without development policies and practice which fully integrate gender analysis, and commit to promoting gender equality and women's rights, the full potential of development cooperation will not be met. Making the transition towards understanding gender power relations as intrinsic and fundamental elements of development assistance will require changes in terms of staff capacity, interest and knowledge of gender issues and robust monitoring mechanisms to measure progress. With a strong leadership pushing for this agenda, great advances can be achieved. European development assistance can be made more effective and reach a greater number of people in need. Moreover, the ongoing discussions around the design of the EU's Gender Action Plan's successor, due to come into effect after 2015, provide a timely window of opportunity for change.

Sources: World Bank (2012) and O'Connell (2013).

democracy and sustainable development', published in 2012, is the cornerstone of an increasingly strategic approach towards support to civil society. It calls on the EU to promote a conducive environment for CSOs in partner countries and to support the structured participation of CSOs in domestic policies, in the EU programming cycle and in international processes. With the development of country roadmaps for engaging with civil society, EU Delegations are already adopting a more sophisticated approach. New programming and mainstreaming mechanisms include the development of country human rights strategies, and the establishment of human rights and democracy focal points in all EU Delegations and CSDP missions. In addition, in 2014, the Commission launched the 'EU tool box for a rights-based approach, encompassing all human rights for EU development cooperation'. This is intended to provide guidance for staff on what constitutes a rights-based

approach and how it can be applied. While such a tool is certainly needed, there are some concerns that it does not give sufficient weight to economic and social rights.

4.3 What the EU should do

Despite these limitations, today's increased political commitment and enhanced policy framework do offer an important opportunity for the EU to make a step change in the way it addresses democracy and human rights in its external engagement, and more effectively to translate its principles into action. The EU must use its new framework as a basis to develop a politically smart and contextually relevant approach to democracy promotion. This

should be based on a strategic and realistic vision of the EU's role in supporting political change through its external action. Doing this requires an understanding of a) the complex nature of political change processes and the potential roles that the EU – as

The starting point for the EU's future engagement on democracy must be an understanding that political change emerges from bargaining processes between state and society.

Box 9: Incentives, conditions and sanctions

The EU uses a wide variety of incentives, conditions and sanctions to encourage democratic political reform and respect for human rights.

Historically, the possibility of EU membership has been the EU's greatest incentive to encourage political reform in neighbouring states. However, even within its neighbourhood, 'in the absence of an accession carrot, EU promises of a stake in the internal market and visa facilitation [have been] weak incentives for undemocratic rulers to reform'.¹

Meanwhile, beyond the neighbourhood, initiatives to introduce governance-related incentives and conditions into EU development assistance have had limited impact. For example, the Governance Initiative (GI) for ACP countries, which was launched in 2006 and provided incentives for partner countries to carry out their own reform agendas, had very little impact. This was both because incentives were allocated on the basis of commitments to reform rather than actual change and because the plans for reform that the GI generated lacked any local ownership. As the EU's new policy framework includes a strong emphasis on conditionalities to encourage governance reforms, it is important that lessons are learned from previous experiences.

The EU has greatly increased its use of sanctions in recent years, from 22 sanctions decisions in 2010 to 69 decisions one year later. While it is difficult to attribute causality, some analysis suggests that EU sanctions have been most effective when: they have been focused on achieving a limited and realistic goal; when they are consistently implemented by all EU member states (which is often not the case); when their purpose is communicated effectively to the public and opposition of the targeted country; when they are loosened or lifted as a reward for steps towards compliance; and when they are applied in coordination with other international actors.

In deciding how to use incentives, conditions or sanctions, it is critical that the EU takes into account the domestic costs of and incentives for compliance for the targeted regime – if costs are too high or incentives too low its measures will have little traction. Likewise, EU decisions about conditions and sanctions must also be based on an analysis of both the existence and acceptability of other external sources of support for the targeted regime. For example, sanctions against Burma contributed to change because they placed Burma in a position of complete dependence on China, which was not acceptable to the regime. On the other hand, sanctions against Belarus have been undermined by the support the regime receives from Russia.

¹ Shapovalova and Youngs, op. cit.

an external actor – can play within such processes, and b) how the changing global context affects the EU's influence, options and ability to add value. It is also vital to learn lessons from the EU's previous track record on democracy and human rights support.

The starting point for the EU's future engagement on democracy must be an understanding that political change emerges from bargaining processes between state and society. The EU's new policy framework on democracy – in particular the commitments to working more politically, being contextually relevant, promoting deep democracy and greater support to civil society – could provide the basis for an approach that focuses on supporting the positive evolution of state-society bargaining processes. This requires a better understanding of the locally specific nature of these processes and the actors involved in them, as well as the development of engagement

strategies that respond to local realities and that 'work with the grain'.^{vii} It also requires recognising that external actors can only play a very limited role within local political change processes and that this role will be highly different in different contexts.

Given this starting point, there are a number of areas for action that the EU should prioritise (while bearing in mind that these cannot be 'one size fits all' recommendations that are relevant in every context). These relate to how the EU engages both with states and with society. There are two priorities:

1. Politically smart and contextually relevant engagement with states.
2. Stronger and more strategic support for citizen voice within state-society bargaining.

Politically smart and contextually relevant engagement with states

The EU's engagement with states needs directly to address the political barriers to and drivers of

vii For an elaboration of this concept, see the work of the African Power and Politics Programme (APPP) (www.institutions-africa.org). APPP Director David Booth argues that 'institutional innovations work when they build constructively on what already exists. Pre-existing institutions need to be treated as a potential resource for reforms' (Booth, 2011).

reform. It must take into account the local and international context that shapes these and the entry points for EU influence.

In this regard there are three main recommendations:

- *Harmonise external action with democracy and human rights goals*

The Arab Spring highlighted the trade-offs made by the EU and member states between their democracy and human rights agendas and other external action goals. To be credible, the EU must take democracy and human rights out of their cooperation silo and make these integral elements of external action. This requires recognising and addressing such trade-offs, developing coherence between democracy goals and other areas of external action and examining how the cumulative impact of all EU

It is important to recognise that aid conditionalities or incentives alone have little traction.

external action – across multiple policy areas – influences the space for state-society relations at country level. Indeed the 2012 'EU Strategic Framework on Human Rights and Democracy' stresses that the EU will promote these goals in all areas of its external action, such as trade, environment, technology and CSDP.

Beyond ensuring that all engagement with individual states is in line with democracy principles, the EU can also use its collective weight to promote global rules that support rather than undermine the development of democratic and accountable states across a wide range of policy areas: for example, in relation to illicit financial flows, transnational organised crime, migration, the arms trade, natural resource management, or environment.

- *Adopt a more realistic approach to incentivising reform through conditionalities and sanctions*

The EU's new policy framework has an increased emphasis on governance-related incentives and conditionalities (e.g. Agenda for Change, 'More for More', 2012 Council Conclusions on Budget Support, planned governance contracts). If such incentives and

conditionalities are to have impact, these need to be closely linked to existing state-society bargaining processes and domestic political agendas, even if these do not fit neatly into the EU's normative framework. They also need to target realistic opportunities for reform, seek to incentivise reform-minded state actors and take into account the cost of compliance.^{viii} Finally, they need to be based on precise, transparent and negotiated criteria and be linked to actual performance and results rather than just commitments to reform.

The EU also needs to take greater account of the global context and international drivers or barriers to reform when designing its conditionalities and incentives, including

the role of regional powers. Cases such as Sri Lanka have demonstrated how EU conditionalities and sanctions

have little impact where regional powers are willing to provide support to anti-democratic governments. Critically, the EU and member states must coordinate better on conditions, something that has been a major challenge.

It is important to recognise that aid conditionalities or incentives alone have little traction. These must therefore be backed by stronger diplomatic engagement and aligned with other areas of EU external action, so that incentives or sanctions across aid, trade, economic, cultural and other fields enhance each other. This requires finding 'more innovative ways ... of intersecting incentives and pressure between the "silos" of different policy domains'.¹⁴ Indeed the 2013 Council conclusions on the report from the Commission on EU support for democratic governance, with a focus on the governance initiative noted that 'an incentive-based approach works best when ... allocations form part of a broader strategy of EU engagement'.¹⁵

- *Seek engagement with emerging powers on democracy and human rights promotion*

The EU needs a better understanding of

viii Dietrich and Wright (2012) argue that conditionalities must be based on an understanding of the degree of threat to power-holders in complying with conditions.

emerging powers' agendas in relation to democracy and human rights and the impact that these powers have on political change processes in third countries as well as their positions in relation to governance issues within global agendas. This will allow it to identify entry points for increased engagement and potential cooperation with democratic emerging powers in relation to external democracy and rights promotion, and to integration of these issues into global frameworks, such as the post-2015 framework. Cooperation with democratic emerging powers could add significant value to democracy and rights promotion efforts, combining the regional knowledge, credibility and influence that emerging democratic powers often bring with the greater experience of external democracy promotion and larger funds of the EU. Given this potential, the EU should place democracy more centrally in its relations with democratic emerging powers, for example through strategic partnership dialogues, at multilateral level, and at country level where opportunities emerge (e.g. with India in Afghanistan). However, in doing this the EU must tread sensitively and 'acknowledge the distinct challenges faced by these democratic emerging powers and adhere to commonly held democratic standards and principles'.¹⁶

Beyond seeking opportunities for cooperation with democratic emerging powers, EU strategies for democracy and human rights promotion must also take greater account of the fact that both democratic and non-democratic emerging powers frequently offer alternative trade, investment and aid packages to third countries that undermine democracy and rights agendas. The EU's response to this must be to ensure that its own democracy and human rights promotion strategies are part of an attractive overall cooperation package that can 'compete' with those of emerging powers. It must also focus its democracy and rights promotion activities in such contexts on strengthening local oversight, accountability and transparency in relation to external investments.

Stronger and more strategic support for citizen voice within state-society bargaining

The EU's new policy framework seeks to promote a vibrant civil society as a pre-requisite for democracy. It has therefore developed a range of new policies and mechanisms to improve its support to civil society (e.g. Communication on EU engagement with civil society, European Endowment for Democracy, country roadmaps for engagement with civil society). The EU now needs to implement this framework in a way that reinforces the capacities of citizens to act collectively and engage with the state as a force for political change. In some contexts, this could include support to political society – particularly political parties – more effectively to channel and represent citizens' interests.

In this regard there are three main recommendations:

- *Link policy frameworks and support mechanisms for civil society in a coherent and strategic manner*

The EU must ensure that its new policies, funding mechanisms and programming tools to support civil society work together in a coherent way with existing policies and instruments to form a unified, strategic approach to foster citizen engagement in state – society bargaining. Roadmaps for engagement with civil society will be a central tool for this, but investment in stronger knowledge on civil society at country level is also needed. Moreover, funding for grassroots organisations through the European Endowment for Democracy (EED), as well as funding to actors making accountability demands on single issues such as health or environmental rights or to women's rights or minority rights campaigners, should be coordinated with funding for larger non-governmental organisations (NGOs) through other mechanisms. This can help create links between professional and grassroots civil society, as well as between civil and political rights activists and those working on specific economic, social, labour, gender or minority rights issues, thereby drawing a broader range of voices into political debates.

Strengthened EU support for civil society must take account of the shrinking space for external democracy support in many countries. This includes ensuring consistent, timely and forceful pressure on governments attempting to restrict space, and leading coordination by multiple donors. An example of such a strong and coordinated international response can be seen in relation to Cambodia's proposed NGO law in 2010.

- *Develop more strategic and systematic engagement with civil society*

EU actors should engage with civil society in a more systematic, structured and sustained way, not just by providing funding, but also through greater dialogue. Such engagement can strengthen EU transparency and accountability to broader society in which it operates, create accountability feedback loops from EU support programmes with the state to non-state actors, and help to inform EU dialogue with the state. Wherever possible, the EU should promote the participation of civil society representatives in some elements of EU-partner country bilateral dialogue, as well as involve civil society in negotiations on issues such as aid priorities and conditions and association agreements. The protection and development of civil society could feature more centrally in EU agreements (for example, as it did in the controversial EU–Ukraine agreement).

- *Engage strategically with local authorities*

When provided with the necessary legal mandate and autonomy to pursue local development strategies, local authorities can be instrumental in delivering better development and governance outcomes at a local level. They also have the potential to represent the interests of local people vis-à-vis national and international actors. The Commission's Communication on 'Empowering Local Authorities in partner countries for enhanced governance and more effective development outcomes' (May 2013) fully recognises that local authorities are key actors for development.

Many consider it to be a major step towards a more integrated multi-actor, multi-sector approach to development. Decentralisation is no longer seen as a technocratic issue, but rather a complex process of political bargaining intricately linked with the notion of democratic citizenship. Implementing this ambitious policy will require the EU to apply a higher degree of political finesse to working with local authorities, and to step up efforts to allow the use of innovative funding modalities that facilitate flexible, transparent and cost-effective access to resources at the local level.

- *Strengthen understanding of and engagement with political parties*

Political parties can potentially be important channels for expressing collective voice and aggregating citizen interests. However, the EU and member states have shied away from engaging with political parties, or have done so in a way that does not take account of their problematic nature in many developing contexts (as power brokers for ruling elites, based on clientelist relations, personalised around leaders etc.).¹⁷ The EU needs to strengthen its work with parties, recognising both their importance and their frequently problematic nature. Indeed the European Parliament, in its report on EU external policies in favour of democratisation (June 2011) stressed the need to 'strengthen the organization of political parties, particularly those that promote democratic values, without taking sides'.¹⁸ Engaging with political parties requires being prepared to take risks, use a broad range of tools, and accept uncertain outcomes. It also requires new forms of engagement, including high-level political engagement, brokering, convening and facilitating dialogue processes. EU institutions must decide whether they can manage such highly sensitive work directly, or if an arm's-length approach of working through other actors (such as political foundations) is more effective.

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5 'A world in which no one is left behind': leading the fight against global poverty and inequality

5.1 The challenge

Progress has been made on reducing poverty worldwide, but this has been geographically uneven. While the 2015 Millennium Development Goals' (MDGs) target of halving the incidence of extreme poverty was achieved by 2010, a very large proportion of this reduction was achieved by China. Furthermore, a very large number of people still live in poverty: 1.2 billion people were living in extreme poverty (on \$1.25 a day) in 2010, down from 1.9 billion in 1990; and the number of people on \$2 a day poverty has hardly decreased – 2.4 billion in 2010 compared to 2.6 billion in 1981.ⁱ In terms of the hard-to-reach, up to half a billion people are estimated to be chronically poor.¹ The scale and scope of inter- and intra-national inequalities has also attracted increasing international attention since the onset of the economic and financial crisis in 2008, affecting both developed and developing countries.ⁱⁱ

Discussions on progress towards the MDGs and a new global agenda and framework for development post-2015 have rekindled the debate on how best to tackle poverty and inequality. The post-2015 framework is likely to propose common but differentiated responsibilities: while eradicating extreme poverty may be the primary responsibility of developing countries, developed countries

have a responsibility to support them in terms of aid, trade and climate-related frameworks.

Extreme poverty and deprivation are likely to remain at the core of the post-2015 development framework, though with more emphasis on vulnerability and inequality than under the MDGs. There is a continued focus on human development, with concerns both about the quality of, as well as access to, public services.

Several low-income countries (LICs) have recently become lower middle-income countries (LMICs) – often the trigger for reductions in aid, and changes in aid modalities as well as in other policy areas such as trade and investment regimes.

Economic growth has, however, left large numbers of people living fractionally above the poverty line in these countries. The arbitrariness of country classifications means that there has also been a shift in the geography of extreme poverty, now concentrated in LMICs, several of which are also fragile states.

Projections suggest that, by 2030, today's LICs and fragile states will contain the large majority of the world's extremely poor people. Today's high number of poor people in middle-income countries (MICs) is expected to diminish somewhat by 2030ⁱⁱⁱ, though this may be too optimistic a projection for some countries.²

Projections suggest that, by 2030, today's LICs and fragile states will contain the large majority of the world's extremely poor people.

i See: www.worldbank.org/en/topic/poverty/overview

ii The revision of the Purchasing Power Parities (PPP) in 2014 is important in comparing poverty across countries. The new 2011 PPP from the International Price Comparison change the understanding of the size and location of extreme poverty and suggest that (i) the goal to end poverty within a generation is eminently achievable and (ii) that greater focus should be given to low-income countries, sub-Saharan Africa and fragile states, as this is where the share of global poverty has risen compared to previous estimates. However, these findings should be treated with caution, as discussed by Basu (2014), since revisions to PPP imply changes in the international poverty line itself and rural/urban price differentials. Chandy and Kharas (2014) show that the number of poor people on \$2 a day has hardly shifted in recent decades, suggesting that this group will need to become a stronger focus of policy, beyond geographical considerations.

iii See: Chandy et al. (2013), Edward and Sumner (2013), Ravallion (2012).

A recent report by Oxfam shows that almost half of the world's wealth is now owned by just 1% of the population and seven out of ten people live in countries where economic inequality has increased in the last 30 years.³ Other sources show the poorest 5% of the world's population have seen their incomes or consumption increasing well below the global average since 1988⁴; and the poorest 20% have made little progress in terms of, for instance, access to land, women's access to education and marriage rights when compared with people in the middle of the distribution.⁵

Evolving patterns of poverty and inequality are clearly linked to issues beyond income levels alone, notably also relating to national politics and conflict in particular countries, and interacting with the way they are integrated into the global economy.

Beyond the specific figures in terms of Gini coefficients, there is a growing realisation that the current wave of economic globalisation is advancing without a matching social contract of the sort that has been at the base of the European

social, economic and political achievements of the last century. In this regard, the importance of supranational and global forms of taxation able to address rising inequality cannot be understated, as pointed out by Piketty.⁶ Otherwise, the seeming return of 'patrimonial capitalism' where wealth and inheritance will progressively continue to increase their income share may, he warns, lead to a new 'gilded age' of growing power for inherited wealth.

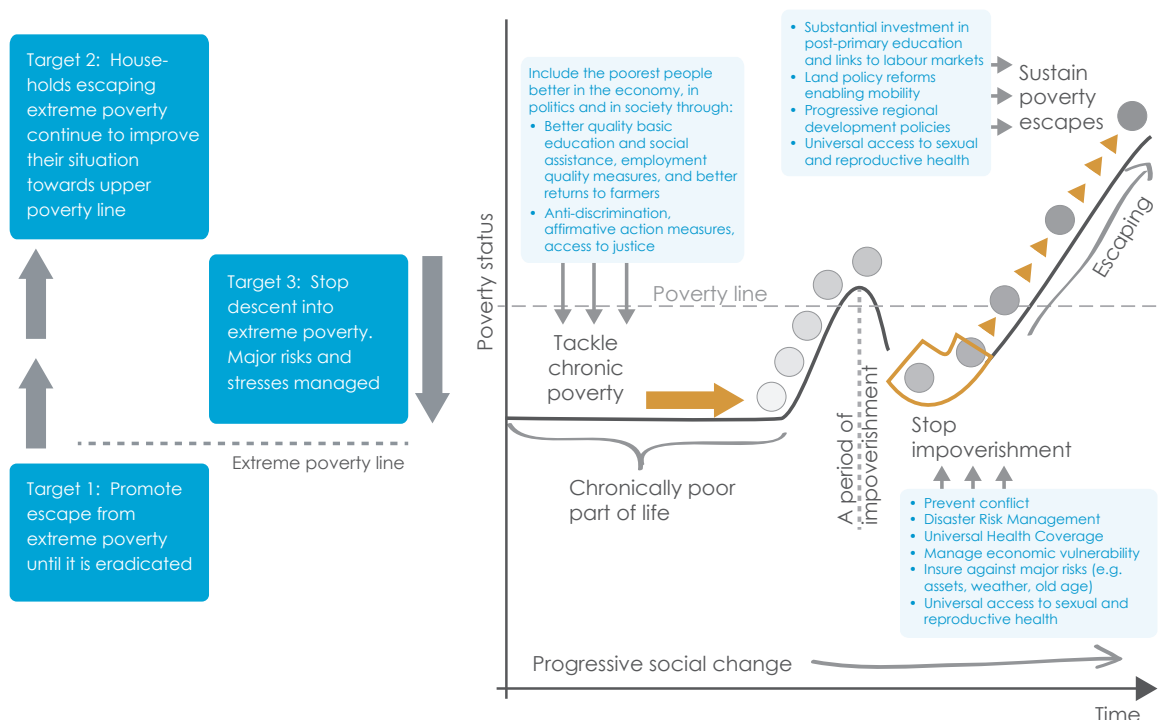
There is a growing realisation that the current wave of economic globalisation is advancing without a matching social contract of the sort that has been at the base of the European social, economic and political achievements of the last century.

A dynamic approach to poverty and inequality

Reducing and eliminating poverty requires improving 'poverty dynamics' and tackling the drivers that keep people in extreme poverty, namely by: tackling chronic poverty, stopping impoverishment, and sustaining escapes and upward trajectories from poverty. This approach,

also called the 'poverty tripod', can help the EU to frame and balance policies to tackle poverty and inequality in different country contexts, as illustrated in Figure 7. Poverty eradication policies need to work on all three legs of the tripod.

Figure 7: A dynamic post-2015 goal to eradicate extreme poverty, and policies to match



Source: Chronic Poverty Advisory Network (2014)

Poverty and inequality are inextricably linked ways of describing the distribution of economic and social welfare in a society. Inequality is generally taken to refer to income inequality – while this is certainly not the only measure of inequality, it does stand in direct comparison to poverty estimates. However, it is worth noting that, while present inequality figures at country and global level do not seem to show substantial increases, these are mostly based on consumption aggregates obtained from household surveys. By definition, these do not capture income and, in practice, this is even less the case for the top earners, precisely those that seem to be substantially increasing their share, as shown by Piketty. The implication is that income inequality is far higher than is shown by the consumption surveys used to estimate it.^{iv}

Income inequality is known to be associated with the inter-generational transmission of capability deficits, which in turn puts a brake on the rate of poverty reduction. Unequal access to economic opportunities in the current generation leads to deprivation in human development in the next generation.⁷

Projections show that reducing income inequality and improving governance would improve human development outcomes significantly. This implies that it would be possible to get close to zero absolute deprivation in terms of child deaths, stunting, education and access to safe water by 2030. As such, reducing income inequality brings a big dividend in terms of enhancing the impact of growth on poverty reduction, but also on interrupting inter-generational transmission of poverty through allowing greater investment by households in education and health – that is, increasing equality of opportunity. Reducing income inequality is thought to be feasible.⁸

The most intractable poverty is where there are intersecting inequalities (or multiple disadvantages) affecting particular social groups and certain categories of people (e.g. women) within those groups in particular.⁹ This is often founded on

persistent historical patterns of discrimination. Chronic poverty is often linked to specific inequalities in opportunities – education/labour market links, land, gender inequality.¹⁰ Tackling such socially embedded inequalities will be a priority on the road to zero extreme poverty and deprivation. This can be done, though it may involve processes of political and constitutional change.¹¹

Certain inequalities provide a basis for conflict. These are often 'horizontal inequalities' between social groups, effectively leaving some identity-based (ethnic, caste, religious) groups out in the cold politically and in terms of development progress. Achieving *political settlements*^v that address these inequalities will help crisis (fragile) states to become more resilient and avoid conflict.¹² A developmental political settlement (that emphasises measures needed to tackle poverty and deprivation) will enable resilient states, which have avoided conflict but where poverty has not really been tackled, to move on and eradicate extreme poverty.

Box 10: Policies to tackle poverty and inequalities

The United Nations Research Institute for Social Development's 2010 report on Combating Poverty and Inequality lists the following as policies to combat inequalities:

- Providing the poor (differentiated by gender, ethnicity and other relevant characteristics) with greater access to productive assets, such as land.
- Investing in social infrastructure to reduce the drudgery of domestic work.
- Pursuing affirmative action policies for disadvantaged groups within a framework that incorporates all citizens in national development and welfare provision.
- Stimulating investment in rural infrastructure, creating public works programmes and increasing access to credit.
- Pursuing fiscal reforms that improve tax administration, prevent tax evasion, and limit opposition to progressive taxation and redistribution.
- Creating a stable global economic environment that responds to the needs of low-income countries.

iv Indeed, this may be an important explanatory factor of why 60% of the World Bank's developing partners seem to present higher average growth for the bottom 40% of the distribution than growth in the mean, as estimated in World Bank (2013).

v A political settlement is the relationship between power and institutions in a country. It refers to the way in which organisational and political power is organised, maintained and exercised, as well as to how the state relates to its citizens.

The view (often held by policy-makers) that there is a trade-off between growth and redistribution needs to be challenged: there is now substantial evidence to support the argument that growth reduces poverty faster and more sustainably where equality is greater, or if inequality is also reduced.¹³ Recent work shows that redistribution does not need to hamper growth¹⁴, and that inequalities can indeed be tackled.¹⁵ Policies required to achieve improved poverty dynamics are virtually the same as those required to reduce inequality, but are focused on the bottom of the income (or endowments) distribution. Box 10 provides examples.¹⁶

Inequality is not all about the bottom of the income distribution. People at the top of the distribution have often seen massive increases in incomes and need to be part of the solution to growing inequality and to poverty eradication.

An empirical evidence review by the IMF found that, on average, redistributive fiscal policies reduce inequality in advanced economies by one-third while in developing countries social expenditure tends to be regressive and disproportionately benefits the better-off. In order to design an efficient redistributive policy it is necessary to i) ensure it is consistent with macroeconomic objectives; ii) jointly evaluate the impact of tax and spending policies; iii) carefully design it to balance distributional and efficiency objectives; and iv) take into account administrative capacity. The review concludes with the key elements of efficient fiscal reforms for both developing and advanced economies.

5.2 The EU's added value and track record

The EU is committed to reducing and eradicating extreme poverty and inequalities worldwide. Article

There is now substantial evidence to support the argument that growth reduces poverty faster and more sustainably where equality is greater, or if inequality is also reduced.

21 of the Lisbon Treaty states that the EU's external actions shall be guided by principles that inspired its own creation, development and enlargement. Key principles noted include equality and solidarity. Furthermore, Article 208 states that the primary objective of

the EU's development cooperation is the reduction and (in the long term) eradication of poverty.^{vi}

European public opinion continues to support aid to developing countries, despite the austerity of recent years.¹⁷ However, the recent growth of Eurosceptic and populist parties across the EU could negatively impact member state commitment to mobilise funds for development efforts post-2015 and erode the EU's commitment to the values of solidarity and social justice. This means that as a whole, the EU will have to prove and communicate its added value even more than before.

In an inter-dependent world, it is in the EU's own interest to tackle poverty and inequality worldwide. Greater equality contributes to economic growth, investment and governance in developing countries. Greater social cohesion through reduction in inequalities is associated with greater economic growth, and there is some evidence that it promotes investment and innovation capacity, governmental effectiveness, the quality of public policies, and the predictability of the policy environment.¹⁸ This would offer opportunities and assurances for European enterprises to invest more in developing countries, and potentially to bring some recovery to the post-crisis decline in EU outward FDI.^{vii}

Greater equality beyond Europe also contributes to achieving EU security and migration and asylum policy objectives. The World Economic Forum's Outlook on the Global Agenda 2014^{viii} notes rising income inequality as one of the top trends to be addressed in the coming years. Research shows that horizontal inequalities increase the likelihood

vi See the full text of the Lisbon Treaty at: http://europa.eu/lisbon_treaty/full_text/index_en.htm

vii See: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Foreign_direct_investment_statistics#FDI_flows_return_to_decline_in_2012 and: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Foreign_direct_investment_statistics#FDI_flows_return_to_decline_in_2012

viii See: http://www3.weforum.org/docs/WEF_GAC_GlobalAgendaOutlook_2014.pdf http://www3.weforum.org/docs/WEF_GAC_GlobalAgendaOutlook_2014.pdf

ix See Stewart, Brown and Langer (2007); Stewart (2010).

of a country experiencing violent conflict.^x The linkages between inequalities and human and international security have received more attention in Europe in recent years,^x particularly now that such tensions are surfacing in the EU's own 'backyard' – the eastern and southern

neighbourhood. Reducing inequalities in Europe's neighbourhood and beyond could reduce the immediate security risks for EU member states as well as numbers of asylum-seekers^{xi} and irregular migration flows.^{xii, 19}

Tackling inequalities has been at the heart of Europe's own peace and security project.²⁰ Disseminating the EU's welfare model is a key driver of the European Foreign Security Strategy (2003) that advocates for 'a world seen as offering justice and opportunity for everyone [which] will be more secure for the European Union and its citizens'.^{xiii}

Following the Second World War, European countries created welfare states to protect citizens in case of severe economic crisis based on the principles of solidarity and social cohesion. Collective bargaining, collectively funded social protection systems and equal access to public services were granted. Combined with progressive income taxation, these measures put a floor to incomes and consumption. The policies and practices of the European social model, and the principles underpinning them, have been part of the EU's fabric for a long time and permeate the tools it has deployed to address poverty and inequality both within and beyond its borders for several decades. This section takes stock of the EU's experience and achievements with these instruments and programmes.

Reducing inequalities in Europe's neighbourhood and beyond could reduce the immediate security risks for EU member states as well as numbers of asylum-seekers and irregular migration flows.

Despite recent trends in poverty and unemployment, the EU's experience in reducing inequalities and extending social protection is remarkable.

What has the EU achieved internally?

The European social model has played a key role in promoting inclusive economic growth, high living standards and decent working conditions across the EU. However, some argue that these achievements are being

progressively eroded by short-term adjustment reforms, shifts in public policies and cuts in public social expenditure. Yet, and despite recent trends in poverty and unemployment, the EU's experience in reducing inequalities and extending social protection is remarkable. It is a source of inspiration for emerging economies; its half a billion population enjoys the highest standards of living on the planet.²¹ Although there are cross-country differences in terms of efficiency and equity²², generally speaking all member states have well-developed

social security systems. Income inequality in Europe lies well below levels in other regions in the world, despite recent increases in some indicators (including the Gini coefficient).^{23, 24} EU member states also account for around

40% of the world's public social protection expenditure, spending approximately 25% of their GDP on social protection compared to the world average of 14%.^{xiv}

The values of social justice and protection, solidarity and economic, social and territorial cohesion^{xv}, are enshrined in the 2009 Lisbon Treaty. With the Lisbon Treaty, member states have committed to the objectives of full employment, a social market economy and social progress, giving priority to basic social rights over market freedoms.²⁵ The Lisbon Treaty also seeks to strengthen the EU's economic, social and territorial

x See Chalmers (2008); Oxfam (2014).

xi See: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Asylum_statistics and http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Asylum_statistics

xii See also the Common Foreign and Security Policy (CFSP) and Global Approach to Migration and Mobility (GAMM).

xiii See: <http://www.consilium.europa.eu/uedocs/cmsUpload/78367.pdf>

xiv In the mid-2000s public social expenditure (including health care) accounted for around 25% of GDP in the EU28, while it reached 19% in the OECD and around 15% in the whole world. Figures and table extracted from Bontout et al. (2013).

xv Lisbon Treaty, article 2.

xvi Lisbon Treaty, Art. 147. See also 'EU Cohesion Policy 1988-2008: Investing in Europe's future', InfoRegio, No26, June 2008, EC DG Regio.

cohesion, to spread the benefits of integration as widely and in as balanced a way as possible in geographical terms.^{xvi} This 'spatial equalisation' objective is underpinned in both Europe 2020, EU's strategy for smart, inclusive and sustainable growth, and in the EU's Regional and Cohesion Policy. The EU has been likened to a 'convergence machine', integrating poorer countries to raise their living standard and supporting their transition to high-income economies.²⁶ Furthermore, the EU has specific instruments for achieving greater economic, social and environmental cohesion: the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund.²⁷

Structural funds, had at least up until the financial crisis, helped poorer EU member states to catch up with the rest in an unprecedented example of cross-country solidarity efforts.^{xvii} For example, between 1995 and 2005, Greece reduced the gap with the rest of the EU 27, moving from 74% to reach 88% of the EU's average gross domestic product per head. By the same year, Spain had moved from 91% to 102%, and Ireland reached 145% of the EU's average starting from 102%. The relevance of the EU's cohesion policy has further increased with recent enlargements.^{xviii}

However, income inequality and unemployment in Europe has increased in recent years, with the top 20% earning 5.1 times as much as the bottom 20% on average in 2012; and the unemployment rate rising from 7.1% in 2008 to 10.9% in 2013. Between 2009 and 2012, the number of people at risk of poverty and social exclusion in the EU increased from 114 million in 2009 to 124 million.^{xix}

What has been achieved in partner countries?

An examination of European Commission evaluations in the field of development cooperation and humanitarian aid reveals that,

whereas the overall objective (and therefore targeted impact) of EU aid is the reduction and elimination of poverty, it is sometimes difficult to establish the poverty impact of EU aid from the thematic and instrument evaluations. This section summarises the key points made by European Commission evaluations with regards to impact on poverty reduction and inequalities.

If these investments were placed under the three broad headings of tackling chronic poverty, stopping impoverishment and sustaining escapes from poverty, it appears that most aid has been under the first two categories, with the third falling somewhat behind. Work on education, social assistance, sustainable agriculture and food security, employment and social inclusion, and human rights should help tackle chronic poverty if correctly targeted; work on health, disaster risk reduction and conflict management should help prevent impoverishment. All of this is underpinned by budget support, work on decentralisation and tax collection.

Tackling chronic poverty

The EU's substantial work on education^{xx} has yielded good results in supporting pro-poor education sector reform programmes that have included safeguards to protect minorities. But, judging from the evaluations, it seems that the actual implementation of the safeguards has been largely left to NGOs, whether supported by the European Commission. This means that in many countries ultra-poor and hard-to-reach children have continued to be marginalised.²⁸ As yet there are no current policy commitments to change this beyond the Agenda for Change's broad commitment to spend at least 20% of all funds on social inclusion and human development.^{xxi}

The EU has a powerful 2012 Communication on social protection in EU development cooperation that argues that social cohesion is closely inter-

xvii Some studies indicate that structural and cohesion funds have reduced within-country regional disparities over the period 1995–2006, but that beyond some level of transfer intensity, the positive impact is potentially reversed. See Kyriacou and Roca-Sagalés (2012).

xviii All figures from EU Cohesion Policy 1988–2008 (2008).

xix Figures from European Commission (2014).

xx From 2000 to 2007, the European Commission contracted €1.9 billion for direct support to the education sector (2000–2007), excluding Vocational Education and Training and Higher Education.

xxi A staff working document ('More and better education in developing countries') has recently put emphasis on quality, access and equity concerns via country-level policy dialogue and programmes work.

related to efficiency in the fight against poverty, and that the European social model is worth promoting in developing countries.²⁹ It appears, however, that translating such an ambitious policy into practice will be more difficult in the context of sector concentration: only a few countries have selected social protection as one of their three priority sectors.

EU development policy and strategy gives high priority to Employment and Social Inclusion (ESI), as a means to achieve sustainable economic and social development and eradicate poverty, but such concerns are not yet adequately reflected in a stronger focus on specific results.³⁰ A 2011 thematic evaluation drew attention to two important weaknesses of European Commission development cooperation work: the informal economy is often overlooked, and labour market interventions and governance are weakly emphasised. Recently the EU has become better at linking private sector development in southern neighbourhood countries to employment, which could be extended to all its partner countries; and there is a cross-cutting project to strengthen the employment perspective in other areas of development such as private sector development, agriculture and energy through *ex ante* employment impact assessments.

A human rights-based approach to development holds significant promise for tackling chronic poverty. However, the impact of European Commission action in the field of human rights has in the past been severely reduced by a silo approach with insufficient use of high-level political leverage and leadership. As noted in the preceding chapter, the European Commission is now developing a toolbox to integrate human rights' principles into EU operational activities for development and stepping up efforts to assist partner countries in implementing their international human rights obligations.

Sustainable agriculture, including the safeguarding of ecosystem services and a focus on smallholder agriculture, is a priority of the 2012 Agenda for Change. Previous EU work on agriculture and food security has, however, not been particularly clear in terms of a specific intervention strategy for agricultural households that do not benefit from growth and remain marginalised. Likewise, the development of mechanisms to prevent the impact of agricultural commodity price volatility on smallholder farmers, including the poorest, remains an area where more could and should be done.^{xxiii}

Much chronic poverty is in underdeveloped regions. The EU's internal track record is attractive to other countries and regions confronted with regional disparities.^{xxiv} Some of the EU's strategic partnerships with prominent or emerging (middle-income) countries and regions in the world include policy dialogue on democracy, human rights, inclusive growth and development as part of the agreement. Addressing regional inequality has, however, not yet been a major focus of such agreements. Although strategic partnerships generally put an emphasis on trade and investment, several countries concerned by growing regional disparities (such as China and Brazil) have signed memorandums of understanding with the EU to share knowledge on regional policy and EU regional cohesion experience.

Preventing impoverishment

Direct support to the health sector has been substantial at €4.1 billion^{xxv}, and included a strong anti-poverty focus through increasing access and utilisation by reducing cost, and giving priority to underprivileged areas and communities. Overall European Commission health assistance contributed to progress towards health MDGs (maternal and child health, and HIV/AIDS, but also more broadly in terms of promoting better

xxii Thematic evaluation: human rights (2011).

xxiii Joint evaluation, EU cooperation with Niger 2000-2008; Country level evaluation, EC cooperation with Liberia, 1999-2008; Country level evaluation, EC cooperation with the Maldives, 1999-2009; Country level evaluation, EC cooperation with Malawi, 2003-2010; Country level evaluation, EC cooperation with Ethiopia, 2004-2008; Country level evaluation, EC cooperation with Nepal, 2002-2010; Country level evaluation, EC cooperation with Honduras, 2002-2009; Thematic evaluation of EC support to agricultural commodities in ACP countries, 2004-2012; Thematic evaluation of EC support to rural development and agriculture, 1995-2005.

xxiv Several countries, including Brazil, China and Russia have signed memoranda of understanding with the Commission on social policy learning.

xxv Thematic evaluation of the Commission support to the health sector (2012).

health outcomes, especially among the poor). By contrast, European Commission impact in health care finance and in human resources has been modest. With a few exceptions, the share of out-of-pocket expenses in total health spending remained high or increased. However, health is a low priority in most partner countries^{xxvi}, and it proved difficult to identify a coherent and focused European Commission strategy in health with clearly defined priorities. No overarching EU policy responses were identified, other than the Agenda for Change commitment noted above. Given the level of expenditure, the needs, and the slowness of even middle-income countries to invest adequately, this would seem a significant oversight.

Conflict prevention absorbed 10% of the total EuropeAid-managed budget by 2010. There is a strengthened policy framework and a wide range of instruments available. However, assistance was largely aimed at 'mitigating the consequences of root causes or at addressing development needs in a specific conflict context'^{xxvii} rather than resolving conflicts or addressing their root causes, which would have greater impoverishment prevention impacts. The policy toolbox is not yet adequate to bridge the gap between high-level political commitments and operations, and the alignment with national strategies has proved difficult.

During 2002–12, €400 million were invested in disaster risk reduction (DRR) through ECHO, mainly for rehabilitation and recovery and mainly at community level where ECHO's work has been strongest, as well as in shelter, water and sanitation, and community-level flood preparedness. The main achievement of this aid has been to establish local communities as stakeholders in DRR, though there has been more success with smaller-scale, cyclical disaster responses than large-scale events. DIPECHO (Disaster Preparedness ECHO) evaluations show that programmes have had considerable focus on very vulnerable populations and groups, missed by other humanitarian programmes – though it was not always easy to verify that the most vulnerable households and

individuals had benefited. There is a consensus that livelihood development work now needs to integrate DRR, but it has proved difficult to link DRR to Directorate-General Development and Cooperation (DEVCO) development programmes, because of a gap in financing mechanisms.^{xxviii}

Indirect support for poverty reduction

The EU's budget support operations all target poverty reduction, and sometimes, social inclusion. However, it is not clear from the numerous evaluations whether it provides sufficient opportunity for policy and political dialogue on pro-poor reforms, or whether Delegation staff adequately take up such opportunities. While there has not been a large amount of work to increase developing country tax revenues, there is now a 2010 Communication on Tax and Development.^{xxix} That proposes a comprehensive and consistent approach to European Commission support to taxation in developing countries. If implemented, it will attempt to help countries with low tax to GDP ratios to improve their revenue collection.

European Commission support to decentralisation seeks to achieve two major objectives: (i) poverty reduction through improved social service delivery; and (ii) governance reforms. But the thematic evaluation found no explicit focus on the impact of support to decentralisation on poverty/inequalities. A new Commission Communication adopted in July 2013³¹ provides policy directions on the key role that local authorities can play in promoting good governance at the local level, and contributing to sustainable development and equitable outcomes; however poverty reduction does not feature prominently in the Communication.

The deepest and most consistent cooperation within the strategic partnerships is taking place in the area of trade and economic matters – where economic diplomacy could have clear benefits for tackling poverty and inequality in partner countries. At present, not all partnerships with MICs have development objectives such as the MDGs

xxvi It is a sector that typically receives major investment late in the development trajectory.

xxvii 2011 Thematic evaluation, p. iii.

xxviii ECHO: DRR Mainstreaming Evaluation 2008; DIPECHO community-based DRR evaluations. Strategic evaluation on disaster reduction.

xxix Cooperating with Developing Countries on Promoting Good Governance in Tax Matters.

clearly embedded, nor should it be taken for granted that open and structured dialogue will lead to a shared position on sensitive issues such as inequality. As more countries enter middle-income status, and gain influence in their respective regions, strategic partnerships can challenge the EU to demonstrate its added value in bringing new knowledge, policy frameworks and instruments to bear for addressing poverty and inequality in the world.³² The EU continues to include commitments in the area of employment and the environment, including reference to International Labour Organization (ILO) labour standards, in its trade agreements. Most neighbourhood countries have signed association agreements that include employment-related commitments such as the ratification of ILO conventions.

A brief conclusion to this tour of thematic evaluations is that the EU has invested substantially in public policies which should help eradicate poverty, but there is little good evidence that this has yet been the effect, and little evidence about how this work is coordinated across sectors or themes in-country to achieve a sum that is greater than its parts. Furthermore, much of the work carries on without making explicit the links to poverty reduction the overarching goal.

What future direction for EU external policy on poverty and inequality?

The EU 'Agenda for Change'^{xxx} aims to maximise the impact of EU aid and ensure better value for money through a differentiated set of external relations instruments and country allocations, as

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The EU's differentiation policy is based on the assumption that MICs have the money, capacity, fiscal space and political commitment to fund their own poverty reduction and redistribution policies.

well as a clearer concentration on priority sectors.^{xxxi} EU aid will now target countries most in need, in particular the least developed countries, low-income countries and countries in crisis, post-crisis, fragile and vulnerable situations.^{xxxii} In terms of reducing global inter-country inequality, this makes sense.

However, the EU's differentiation policy is based on the assumption that MICs have the money, capacity, fiscal space and political commitment to fund their own poverty reduction and redistribution policies. But

this largely ignores the problem that the required tax burden for redistribution is prohibitive in most MICs,³³ and that political capture and vested interests block pro-poor national policies and budgeting in many MICs.^{xxxiii}

MICs will remain eligible for EU regional and thematic cooperation, but given the relatively small budget, the wide geographic coverage and the magnitude of needs, the impact that these instruments may have in reducing MIC poverty and inequalities will be limited, beyond project outputs. Thus, while there are good reasons for supporting differentiation, the debate on this topic is not yet over and fine-tuning may be necessary during the period of the next Commission.

The newly established Partnership Instrument (PI) reflects the EU's new approach to engage with strategic partners and graduated countries on the basis of EU interests and agenda, beyond conventional development aid, with the objective of implementing the external dimension of Europe 2020. The challenge will be to ensure that the PI effectively harnesses the external dimension of EU

xxx Council of the European Union (2012) Council conclusions 'Increasing the Impact of EU Development Policy: an Agenda for Change', 3166th Foreign Affairs Council meeting, Brussels, 14 May 2012.

xxxi Two priority areas are identified and targeted in the policy as part of the EU's effort for poverty reduction and eradication: (1) democracy, human rights and good governance; and (2) inclusive and sustainable growth. These sectors are broadly defined and clearly relevant for poverty reduction.

xxxii European Parliament Report on the proposal for a regulation of the Parliament and the Council, establishing a financing instrument for development cooperation, 6 December 2013, article 3.2.

xxxiii See for example ODI research at www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/827.pdf

Box 11: OECD-DAC discussion on revising the ODA definition

In 2012, the OECD-DAC agreed at a High Level Meeting to elaborate a new measure of external financing for development. The DAC therefore has the task to:

...explore ways of representing both donor effort and recipient benefit of development finance, investigate whether any resulting new measures of external development finance (including any new approaches to measure donor effort) suggest the need to modernise the ODA concept and establish, at the latest by 2015, a clear, quantitative definition of concessionality.^a

The aim behind this exercise is to improve the accountability and performance of ODA, and to consider ODA in the wider context of flows of development finance in which ODA is likely to become less prominent.^b One of the challenges at present is that donors self-report on their ODA expenditure on a voluntary basis.^c As countries have differing understandings of what counts as ODA, the data reported varies across the board. In 2008, the High Level Forum on Aid effectiveness in Accra took some initial measures to improve the transparency of financial flows targeted at development culminating in the launch of the International Aid Transparency Initiative. The initiative requires that donors disclose information on how much money they spend, when they spend it, where, how and what the expected results are. The aim of this initiative is to generate a more demand-driven debate about development assistance that is more purpose-driven and user-centric rather than provider-focused.^d

The DAC is now taking a further step by discussing the redefinition of ODA. Issues currently under consideration include: revising the list of countries eligible to receive aid, differentiating between recipient countries, focusing on the users of ODA flows, revisiting the conditions which make a loan qualify as ODA and expanding the definition to include new financial instruments (e.g. innovative financing mechanisms, loans, guarantees).

- a Touchette, J. (2014) 'The OECD DAC responds to Eurodad's new report on concessional lending.' Eurodad blog, 28 January. Available at: <http://www.eurodad.org/Entries/view/1546138/2014/01/28/The-OECD-DAC-responds-to-Eurodad-s-new-report-on-concessional-lending>
- b Vanheukelom, J., Migliorisi, S., Herrero, A., Keljzer, N. and Spierings, E. (2012) Reporting on Development: ODA and Financing for Development. Maastricht: ECDPM. Available at: http://eudevdays.eu/sites/default/files/Reporting_on_Development_2012_0107452_final.pdf
- c European Parliament (2014) Modernising ODA in the framework of the post-MDG agenda: challenges and opportunities. Brussels: European Parliament.
- d Randel, J. (2011) 'Reflections on Busan'. AidInfo Blog, 9 December. Available at: <http://www.aidinfo.org/reflections-on-busan.html>

social and employment policies, by ensuring that poverty eradication, inequality and social justice features systematically in political dialogue, trade and investment deals, and knowledge exchange processes. The success of the PI will need to be measured against MIC progress in adopting pro-poor policies (e.g. the decent work agenda, social protection, strong support for improved access by the poor to quality health and education services beyond primary level, strong support for smallholder agriculture).

In addition to the Agenda for Change, the EU has published a number of Communications further specifying its intentions in specific thematic areas with clear linkages to poverty and inequality, including tax cooperation, social protection and new methods of doing budget support. The extent to which outcomes and recommendations from previous evaluations are taken up in these policy positions and subsequent programmes is however limited. There are many indications that the EU's overall institutional environment is not conducive to learning and to using effectively existing knowledge for policy-making. Like many

other donors, knowledge management is not a corporate priority in the European Commission. DEVCO human resources are under pressure to 'do more with less' and to focus on financial accountability, rather than on generating evidence on results and impact.³⁴

Beyond this, the EU's position on a post-2015 development framework ('A Decent Life for All') notes eradicating poverty as one of the most pressing challenges facing the world and that 'inequalities within countries have increased in most parts of the world'.³⁵ The EU promotes an integrated framework for poverty eradication and environmental sustainability, and promotes key elements for such a framework, including: finishing and moving beyond the MDGs (e.g. move from quantitative targets in health and education to consider quality, and also social protection); more qualitative goals for inclusive and sustainable development (including social cohesion); and more emphasis on equality, justice and equity, human rights, democracy and other aspects of good governance.

While discussion on the post-2015 framework for development has broadened the focus on poverty and inequality beyond the development policy area (including notably policy coherence with other areas such as trade, agriculture, environment, security, tax and migration), there are nevertheless few explicit notes or linkages

made to poverty reduction and eradication and inequality in policy proposals in these areas.

It furthermore remains to be seen how prominent poverty eradication will feature in the EU's (re-) negotiation of partnerships with strategic partners, including emerging economies and the ACP group in the run-up to 2020. This should of course remain a key issue beyond whatever the future of the Cotonou Agreement regulating ACP–EU relations will look like – as doubts about its life and shape past its 2020 expiry date remain unresolved.³⁶

It will also be important to take account of, and be consistent with, new definitions of official development assistance, currently under discussion in the Development Assistance Committee (DAC) of the OECD (Box 10).

5.3 What the EU should do

There is scope for a stronger focus on addressing poverty and inequality in EU external policy. Based on the opportunities and good practices offered by the EU's track record and future direction, suggestions and recommendations can be formulated on how poverty dynamics could be better addressed both in low- and middle-income countries in order to make significant gains in poverty and inequality during this next budgetary period (2014–2020) and beyond. These can be grouped as recommendations for: i) programmes and practices, ii) instruments and policies and iii) positions and politics. Of all these recommendations, the most significant is the development of groups

For the EU to adapt to the evolving patterns of poverty and inequality, and in order effectively to address their drivers, a better understanding of what is being targeted and what is being achieved is needed, and all development actions should be framed in the light of this better understanding.

of policies (and goals/targets) which relate clearly to tackling chronic poverty, stopping impoverishment and sustaining people's escapes from extreme poverty, based on a refreshed understanding of the nature of poverty dynamics both in the EU's own internal programming cycles, and in its dialogue with the international community on

the post 2015 framework and its implementation. This will have far-reaching effects.

Programmes and practices

Addressing extreme poverty and deep-rooted inequalities is inherently a political issue, yet there is some concern that EU external policies and programmes are insufficiently grounded in analysis of the dynamics of political change, including why some pro-poor policy reforms do not occur or are not implemented.³⁷ Policy reforms, no matter how technical, are above all domestic political processes³⁸ where donors have limited influence.³⁹ Our research suggests, however, that many donors are wary of or are not well-equipped to intervene in politically sensitive domestic issues to support change processes effectively^{40, 41}; and that, where they have provided support on such issues, the support has not been effective.⁴²

- The EU should invest in developing the capacity of DEVCO and EEAS staff in headquarters and EU Delegations to undertake and collaborate on professional political economy analysis to inform the identification and formulation of project and programme proposals and budget support operations. Such analysis should also guide implementation and future programming. While poverty eradication and removing inequalities are often taken as the overarching objective of aid projects and programmes, the precise linkages and effects are less well understood.^{xxxiv} For the EU to adapt to the evolving patterns of poverty and inequality, and in order

xxxiv The study on 'Legal Instruments and lessons learnt' commissioned by the European Commission Joint Evaluation Unit in 2011 further confirms that the development cooperation instrument (DCI 2007–2013) suffered from an evaluation gap: the majority of evaluations reviewed by the study could not find evidence on whether the results and impacts achieved contributed to the global impact goal of poverty reduction in the context of sustainable development.

effectively to address their drivers, a better understanding of what is being targeted and what is being achieved is needed, and all development actions should be framed in the light of this better understanding.

- The EU should ensure its policies and programmes adequately support tackling chronic poverty, stopping impoverishment and sustaining escapes from extreme poverty. It should do this by identifying suitable sectors of and programmes for aid intervention in partner countries, now or following the 2017 mid-term review of its aid instruments.
- The new leadership should develop a sound corporate knowledge management strategy, where evaluations provide an active foundation for evidence-based policy and programming decision-making and results management.
- The EU should evaluate in detail the impact of its aid and assistance on poverty and inequality in partner countries in time for the mid-term review of the EU's current arrangement of financing instruments for development cooperation in 2017. Furthermore, the EU should invest in assessing the effects of non-development policies on developing countries and on the drivers of poverty and inequality in particular.

The EU should draw on its experience of technical and expert facilities as well as its cohesion instruments to provide tailored support to overcome specific obstacles that prevent partner countries from addressing poverty and inequalities.

Instruments and policies

The EU's financial instruments for development cooperation are increasingly geared towards low-income countries and fragile states. Country income classifications should not be the sole determinant of the applicability of EU external cooperation instruments. In the EU's wide array of instruments, several can still be useful to address particular instances of poverty and inequality in more advanced countries. The EU's current differentiation policy is based on the assumption that MICs have the money, capacity, fiscal space and political commitment to fund their own poverty reduction and redistribution policies. But this largely ignores the politics of development (and how it can be financed): political capture and vested interests

block pro-poor national policies and budgeting in many middle-income countries.

- The EU should ensure that those countries in which aid is being phased out have a clear 'destination' of graduation – not all instruments (particularly aid and trade) should be withdrawn simultaneously.
- The EU should ensure that the programming and implementation of the PI targets outcomes that contribute to poverty eradication, in terms of, for instance, standard-setting for decent work through economic diplomacy with partner countries.
- The EU should be open to reviewing the list of countries to which it channels development aid, in the light of the above considerations, at the point of the mid-term review in 2017.

Due to the number of countries graduating from EU aid and to the limit of maximum three focal sectors per country, the indications are that fewer countries have chosen education, health and social protection as priority sectors for the period 2014–2020, compared to the previous budgetary period. Social protection – a new priority sector – is especially under-supported. Without support for these three policy areas, and without certainty that other donors will adequately cover them, it is unlikely that opportunities for poverty eradication will be maximised.

- The EU and its member states have a shared responsibility in ensuring coordination and complementarity of development cooperation efforts. The European Commission should maintain leadership in joint programming, with a focus on the 'poverty tripod' and on the key policies necessary to eradicate extreme poverty. Beyond the increased global leverage stemming from more and better collective action, a 2013 European Parliament⁴³ report highlights the potential benefits and savings that could be enabled by closer coordination among efforts to implement the Paris Declaration and the EU's Code of Conduct.
- The EU should more decisively pursue the streamlining of exercises like Joint Programming

while acknowledging member states' leadership there where they may hold comparative advantage.

The EU has an extensive track record of utilising financial instruments and facilities to reduce poverty and inequalities in its member states. While its aid instruments for partner countries also target specific institutions, organisations and regions, the EU's experience with instruments for targeted legislative and institutional capacity building as well as intra-national and inter-regional cohesion is not utilised. The EU should draw on its experience of technical and expert facilities as well as its cohesion instruments to provide tailored support to overcome specific obstacles that prevent partner countries from addressing poverty and inequalities.

With increasing public development funding used to leverage private funds in a successful way, the EU Platform for Blending in Development Cooperation created in December 2012 can potentially make a difference if key issues are given due attention. The Platform is tasked with reviewing the existing blending mechanisms and developing a common results-based framework to measure impact.

- While providing guidance and recommendations to those looking for financing and those ready to make it available, the EU should make sure this Platform, and blending facilities more generally, assure the pro-poor focus of these investments – particularly provided the general climate of constrained development budgets.

Positions and politics

Discussions on the post-2015 framework already feature extreme poverty and deprivation, and have brought more attention to vulnerability and inequality compared to the MDGs. They offer the EU the chance to promote a world vision based on the values and principles underpinning the Lisbon

Treaty and the Europe 2020 strategy, including those derived from the European social model.

- The EU should support proposals to frame poverty eradication goals and targets in the post-2015 development agenda in terms of addressing poverty dynamics (tackling chronic poverty, stopping impoverishment and sustaining escapes from extreme poverty) and the inclusion of an income inequality target (to be defined at national level). Furthermore, proposals should be supported to consider the gender, geographic and age distribution of outcomes on specific targets across the range of goals.

Engagement with emerging countries is becoming increasingly important for the EU, not only for its economic and security interests, but also to address global challenges, including extreme poverty and inequality. The EU needs to demonstrate the value of its social model in order to regain confidence in it as a model for countries and regions worldwide, particularly those facing social cohesion deficits.

- The EU should more explicitly share the positive elements and lessons from the European social model in exploring new and existing strategic partnerships with emerging countries, and better communicate the experience it has to offer, for instance to countries where social cohesion is an important issue.
- The EU should strive to include social principles and policies and experience-sharing in the areas of regional integration and social protection in its political dialogue with countries being phased out from development assistance, such as Thailand and South Africa.

Finally, an important goal of maintained cooperation with emerging economies as they climb the per capita income ladder is to keep and improve cooperation ties with a view to achieving alliances in larger, longer-term development objectives linked to global public goods.^{xxxv}

xxxv As in Koch (2012).

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Strengthening the EU's leadership in external action



In the previous chapters of this report, we have advanced the argument that the international agenda is changing and that a bold new approach to the management of the EU's external action is required if the five global challenges are going to be tackled effectively. Existing ways of working and organising EU external action have failed to deliver the 'step change' necessary. We therefore call for a more transformative approach to the way the EU does business and organises itself. This will not require Treaty change, but leadership, a change of attitude, and an investment in new ways of working.

Existing ways of working and organising EU external action have failed to deliver the 'step change' necessary.

The new challenges arise from the fact that:

- Global challenges (climate change, poverty, scarcity of natural resources, insecurity, migration and so on) are inter-related and complex. They impact on the national development, welfare and environment of all countries, regardless of their levels of income.
- Geopolitics is changing, and power is shifting towards a growing, heterogeneous group of middle-income countries, consisting not only of the increasingly powerful emerging economies (the BRICS) but also of the so-called 'middle- powers' (countries like Indonesia, Vietnam, Turkey, Nigeria, Egypt or Mexico). These countries are likely to gain more influence globally and widen the spectrum of emerging actors. The EU's leverage, on the other hand, is likely to decrease both at the bilateral and multilateral levels.

- There is a declining number of low-income countries, currently 34 and forecast to fall further.ⁱ Most of these low-income countries are characterised by weak state structures and a high probability of fragility and armed conflict.
- There is an increasing number of fragile and conflict-affected states, currently 51ⁱⁱ, posing specific problems that require multi-dimensional responses.

These trends successively dissolve the dividing lines between 'traditional' foreign and development policy and other external and internal policies when tackling intractable and

inter-related challenges, in countries and regions with complex collations of political, security and developmental problems.

The EU has begun to address these challenges, in particular with the Lisbon Treaty entering into force and the creation of the EEAS in 2009. The establishment of the EEAS was motivated by the ambition to have an increasingly effective, efficient, political and visible EU external action, and to address the increasingly evident incoherence of EU external policies. At an institutional level, the EU's external affairs were split between the intergovernmental CFSP and the CSDP on the one hand, and on the other, Community policies such as neighbourhood, development and external trade. These policies were developed independently of each other, resulting in weak coherence and coordination. The rationale for the EEAS was to bridge all fields of EU external action:

i See: http://data.worldbank.org/about/country-classifications/country-and-lending-groups#Low_income

ii See: www.oecd.org/dac/incaf/FSR-2014.pdf

at the global and regional level, structurally and in decision-making, and to promote a more coherent and results-oriented EU external action.

Despite these reforms, the EU remains ill-equipped to deliver 'whole of government' approaches and to engage more effectively across internal and external policy fields for a number of reasons:

- The EU's capacity to manage the interlinkages between both different external policies and the external projection of internal policies remains underdeveloped. The HR/VP shares competences with the President of the European Council (in charge of CFSP/CSDP) and the President of the European Commission (in charge of all other external policies). Hierarchically speaking, s/he is neither under the political leadership of the Council nor of the Commission. This has resulted in unclear responsibilities and double structures. The mandate of the EEAS includes the coordination of foreign and security, development and neighbourhood policy, but not other policy fields such as climate, energy, trade, economic and monetary affairs or those formerly largely domestically oriented fields like agriculture and the environment, which nevertheless have important external implications. This is not to say that the EEAS should coordinate internal policies, but rather play a role in monitoring and challenging their impact on global affairs.
- Managing inter-linkages and overlaps of different European Commission Directorates-General remains challenging. The sheer number of Commissioners and the autonomous management of individual DG portfolios have led to a limited ambition in joined-up work and an embedded enclave mentality where inter-service consultation and inter-service working groups are more about protecting boundaries and turf than genuinely working together towards a common purpose. This has undermined the EU's internal capacity

The sheer number of Commissioners and the autonomous management of individual DG portfolios have led to a limited ambition in joined-up work and an embedded enclave mentality where inter-service consultation and inter-service working groups are more about protecting boundaries and turf than genuinely working together towards a common purpose.

to act coherently as well as its external profile and representation.

- Existing coordination mechanisms, like the established External Relations Group of Commissioners, have been fairly inactive.
- The EEAS, and in particular the HR/VP, have focused mainly on the EU's engagement in security issues and in the Neighbourhood. Both are important areas for the EU. However, the EEAS has contributed little towards strengthening the EU's profile on global development challenges, improving the effectiveness of EU representation at the multilateral level, and providing mid- to long-term oriented strategies of how effectively to address global challenges.
- Too often, the EU's responses to global challenges are instrument-led. The starting point for planning effective EU responses cannot be the financial instruments as that reinforces silo thinking and working.
- Technical and diplomatic forums for holistic approaches to key issues are absent – the Council and across Council working groups consider issues from their own perspective, and although the Foreign Affairs Council (including the twice yearly development cluster) is chaired by the HR/VP, the Council Working Groups that prepare the work on development (for example, the Development Cooperation Working Group – CODEV) are chaired by the rotating Presidency while geographic and other groupings (e.g. the Political and Security Committee) are chaired by the EEAS often without reference to each other.
- Although the European Parliament has budgetary control over the EEAS and requires regular appearances of the HR/VP to its plenary sessions, as well as information-sharing and reporting to relevant Parliamentary committees, the Parliament's work is organised in single-issue committees (though committees are able to offer opinions on each others' work), leaving it ill-equipped to handle cross-cutting issues. There is also a strong tendency between

committees to fight for the mandate for certain issues, neglecting the need to work closely together and to produce joint statements and resolutions. This is, of course, not unique to the European Parliament, as many national legislatures are similarly organised.

Delivering across a range of interlinked policy areas will require a stronger focus on external action (including the external dimension of internal EU policies) by the collective leadership groups in the Council, the College of Commissioners, the Commission Directorates, the EEAS, the European Parliament and the EU member states. The Commissioner for Development will have a crucial role to play.

In the future, the EU will need to:

- Engage much more effectively at the highest levels across its institutions and directorates, developing 'whole of government' approaches with a direct and clear political responsibility.
- Work more closely and effectively between EU member states and the EU institutions.
- Understand and be effective in delivering global deals.
- Demonstrate leadership in promoting multilateralism and managing the international system.
- Work more collectively, intensively and more smartly in difficult environments, including in fragile and conflict-affected states.
- Increase capacity to provide a sustainable development perspective on a range of issues.
- Be more honest and selective about where there is no EU added value in engaging in an issue and so stepping back – the EU does not need to be everywhere on all global issues.

Specifically, the EU will need to:

- *Develop an EU global strategy that links internal and external action and targets for sustainable development and global collective action*
- Europe 2020, launched in 2010, provided the EU

A global strategy also needs to include a rekindled view on multilateral governance and multilateral institutions, and on strategic partnerships, based on shared interests and concrete avenues for global collective action.

with a strategy for economic growth and job creation, but it was framed and driven by a domestic agenda. In the 2003 European Security Strategy and its 2008 review, the rest of the world was treated as either a threat (younger, more innovative, owning the resources we need) or an opportunity (mainly markets). There is little sense of common stewardship of the world, its resources and its people. Calls for a European global strategy have already been made, driven largely by four member states: Italy, Poland, Spain, and Sweden. Together they have called for a stronger strategic approach from the EU in its external relations and a global

strategy that covers all aspects of the EU's external action.ⁱⁱⁱ This need for an EU global strategy has also been supported by the recently published Court of Auditors review of the EEAS.^{iv}

We endorse the idea of a global strategy for the EU that tackles the five challenges identified in this report: responsible and inclusive growth; a sustainable, green economy; peace and security; democracy and human rights; and the fight against poverty and inequality. However, what has been largely missing in ongoing discussions is the need for a global strategy to be closely linked to domestic strategies, with specific targets as set out in the Europe 2020 strategy. For example, an ambitious climate policy without ambitious low carbon roadmaps for member states damages the EU's credibility; as does a strong projection of human rights abroad coupled with draconian refugee and asylum policies.

A global strategy also needs to include a rekindled view on multilateral governance and multilateral institutions, and on strategic partnerships, based on shared interests and concrete avenues for global collective action. A global strategy must also inform more tangible and more immediate guidance of priorities such as the Commission's 18-month

iii See: <http://www.euglobalstrategy.eu/>

iv See: http://europa.eu/rapid/press-release_ECA-14-27_en.htm?locale=FR

work programme, and the priorities agreed by the new College of Commissioners (in whatever format this comes).

- *Enable strong leadership across policy areas*

The new President of the Commission should structure the Commissioners into clusters – coordinated by Vice-Presidents (VPs). There should be an informal understanding that, although all Commissioners are of equal legal status, the VPs will coordinate the work of the cluster of Commissioners in their particular areas of responsibility. VPs would have two distinct responsibilities: first, an internal coordination function, supervising a ‘pool’ of Commissioners; and second, an external function, representing and enhancing the EU’s visibility in the respective thematic area. It would be essential for VPs in charge of Commission clusters to report their actions and policies on a regular basis to the President of the Commission and the College as a whole, as well as to the Parliament.

As the person responsible for overseeing all external action, the new HR/VP needs to further intensify his or her political leadership and ensure effective coordination of all external action – including monitoring and challenging the external projections of internal policies (such as climate, energy and migration). This would require giving new life to the External Relations Group of Commissioners, with a larger membership comprising Commissioners responsible for Development, Humanitarian Aid, Enlargement and Neighbourhood Policy, Trade, Economic and Monetary Affairs, Environment, Climate Action and Agriculture. The Group should also be used more proactively to build joint initiatives. This will require strong political leadership at the highest level (either from the

The new HR/VP needs to further intensify his or her political leadership and ensure effective coordination of all external action – including monitoring and challenging the external projections of internal policies.

President of the Commission and the HR/VP in person or by allowing external relations Commissioners to act as deputies of the HR/VP). Again, we see a crucial role for the Development Commissioner, as the key spokesperson and policy lead with a primary focus on developing countries.

From a global development perspective, it would be particularly important for Commission clusters outside those combined under external action to coordinate closely with the HR/VP. In addition, a new EU strategy would provide a common strategic orientation across the thematic clusters. Its implementation and progress would have to be guaranteed and overseen by regular meetings of the respective VPs. As we have consistently argued for highest-level leadership to bind in the member states and ensure ownership, the President of the Council has to link at least one EU Summit agenda specifically to the issues raised in this report.

- *Create task forces to develop high-level joint strategies and work programmes covering the five priority areas*

The HR should make full use of his/her power as VP, and seek to develop a task culture^v in the Commission that would enable a flexible and fluid approach, adjustable to circumstance, and nimble. Task forces could be created on the five priority areas, each led by a Commissioner with the strongest possible mandate from the HR/VP agreed with Commissioners. This would break down barriers, and incentivise learning and effective collective action towards ambitious targets to which all, including member states, will be collectively held accountable. Such task forces do not need to become permanent working structures but could be used to initiate joint action on issues that need to be solved and addressed across VPs and Commission clusters. A select

The HR should seek to develop a task culture in the Commission that would enable a flexible and fluid approach, adjustable to circumstance, and nimble.

^v A task culture, as described by Charles Handy, is characterised by close liaison between departments and sound means of communication and integration through which the organisation can anticipate and adapt to change rapidly.

number of pioneering initiatives (between and across policy fields) should be developed by the task forces. Above all, these task forces must be invested with strong and consistent

political sponsorship by the HR/VP and the Commissioners themselves (with the chairing of these meetings only undertaken by the political level or DG/SG themselves), lest they become exercises in bureaucratic filibustering between directorates offering lowest common denominator outcomes.

- *Enhance the necessary skills and capacities, both at EU Delegation level and at headquarters*
Working across areas will require some adjustments to existing capacities, including transversal and overview skills (i.e. the ability to work across specialist areas, a clearer understanding how different policy areas inter-relate, diplomatic and negotiating skills, and political and communication skills). It will also require speaking with one voice externally (i.e. political will/internal consensus-building capacities and international dialogue processes to build and maintain coalitions). Other areas for improvement include sharing knowledge and experience across institutions within countries, but also at the European level.

Implementation at the field level will require Heads of Delegation to have sufficient expertise in policy coherence issues.

The new HR/VP will also need to strengthen the EEAS' capacity and improve teamwork. This includes making better use of existing thematic expertise within the European Commission and existing technical expertise from member states. A good portion of Commissioners' cabinets should be appointed on the basis of whether they can demonstrate genuine competencies on the five challenges identified as priorities in this report.

- *Embolden EU Delegations and EU Heads of Delegations*

Working across areas will require some adjustments to existing capacities, including transversal and overview skills.

Heads of Delegations must have a 'whole of EU' approach firmly in mind while inspiring staff to take collective action when necessary.

Special joint committees could be established to enhance the scrutiny of issues that fall between more than one committee.

While the issues noted will require bold leadership and action from the top, they will also require an agile, responsive and creative bottom-up approach at the country and regional level.

Here there is a crucial enhanced role for EU Delegations. The EU Delegations need to adopt a long-term, 'whole of EU' approach to complement and work with the EU member states' diplomatic assets, rather than a disjointed technocratic approach increasingly influenced by short-term member states' political agendas. Heads of Delegations must have a 'whole of EU' approach firmly in mind while inspiring staff to take collective action when necessary. They must also be able to feedback tough messages about how top-down action in pursuit of progress on the five areas actually works at ground level and how it can be made more effective.

- *Re-organise the European Parliament to strengthen accountability*

Stronger parliamentary scrutiny should be built into any new arrangements, but without micro-management of budgets, and safeguarding the confidentiality of political reporting of the EEAS. Special joint committees could be established to enhance the scrutiny of issues that fall between more than one committee. This means that committees would co-lead on certain issues, without establishing a certain hierarchy in their mandates.

The test of any governance system is whether it can deal efficiently and effectively with the challenges it faces. In this case, the system needs to deliver a 'whole of government' approach, integrating internal and external dimensions, and helping to broker the global deals that are necessary to provide global public goods. The task is further complicated by the fact that the EU is not just a government system, but an intergovernmental system. As such, the EU responds to the pressures and demands

emanating from its member states as much as to those from its partner countries. To be able to deliver global public goods post-2015, the EU as a whole, member states and institutions, must work together more closely and effectively.

In light of the May 2014 European election results, member states will have to communicate even more persuasively to their own constituencies on the added value of the EEAS as a key institution of EU foreign policy that is able to defend EU interests globally and more effectively than member states can do alone.

The new HR/VP and member states will also have to step up efforts to improve teamwork particularly with regards co-location, sharing of infrastructure, and information exchange, at both HQ and field level, in multilateral and bilateral postings. There are many different models of organisation and path dependency is an important determinant of institutional design. Nevertheless, the EU needs to make necessary adjustments to be able to act effectively on the global stage.

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The key message of this report is that the EU's ambitions for its own citizens – for prosperity, peace and environmental sustainability – cannot be divorced from its global responsibilities and opportunities.

The authors identify five global problems that will shape the future of the EU and the world, make the case for EU action, and examine how actors in the EU system can work better together to make a positive contribution. The challenges for the EU are to:

- Develop and deliver a 21st century growth model that delivers jobs and sustainable livelihoods to the young people of Europe and to the billion people around the world living in absolute poverty;
- Work for an ambitious global climate agreement in 2015, and support the transition to a green economy;
- Tackle conflict and state fragility, not only in crisis mode, but in the longer term;
- Support human rights on a wider scale, whether these are political, social or economic.
- Tackle poverty and inequality within its own borders and in the developing world

The publication is the result of a collaboration between 26 researchers from four of Europe's leading think-tanks on international development. It stems from a shared commitment to international development, and a sense of urgency about the need to rethink strategy and approach for new and challenging times.



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