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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE
COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE
COMMITTEE OF THE REGIONS**

**ON THE EU SUPPORT FOR DEMOCRATIC GOVERNANCE,
WITH A FOCUS ON THE GOVERNANCE INITIATIVE**

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1. INTRODUCTION

The Council Conclusions of 18 May 2009 *Support to Democratic Governance — towards an enhanced EU framework* requested the European Commission to provide ‘a comprehensive report on the implementation of the October 2006 Council Conclusions, focusing on the EU support to democratic governance, managed by the Commission in all regions, including the Governance Initiative and the Governance Facility’.

This Report presents some key policy documents relevant to governance, and takes stock of the Governance Initiative (GI) for the African, Caribbean and Pacific (ACP) countries and the Governance Facility for countries covered by the European Neighbourhood Policy. It then draws lessons from the implementation of the geographical and thematic instruments through which the EU supports democratic governance. This report does *not* cover assistance to the countries in the enlargement zone, where even stronger emphasis is put on good governance as part of the political accession criteria.

2. RECENT POLICY DEVELOPMENTS

There has been a strategic shift in EU development policy towards stronger conditionality in terms of human rights, democracy and the rule of law, the role of civil society and other elements of good governance.

Two Joint Communications¹ from the European Commission and the High Representative of the EU for Foreign Affairs and Security Policy have been issued in response to the changing environment in the EU Neighbourhood. The new approach is based on mutual accountability and a shared commitment to respecting universal values, human rights, democracy and the rule of law. In essence, the ‘more for more’ principle provides for differentiation based on reform performance. This represents a substantial change in the EU’s relationship with those countries that commit to measurable reforms.

The Commission Communication *Increasing the impact of EU Development Policy: an Agenda for Change*², recognises that good governance, along with human rights, democracy and gender equality, is one of the two³ main priority areas of EU development policy. EU support for governance should henceforth figure more prominently in all of the EU’s partnerships. The *Agenda for Change* underlines the need to provide incentives for results-oriented governance reforms and to support interventions that strengthen actors and processes at local, sectoral and national level.

¹ *A Partnership for Democracy and Shared Prosperity with the Southern Mediterranean*, COM(2011) 200 and

A new response to a changing Neighbourhood, COM(2011) 303.

² COM(2011) 637, endorsed by the Council on 14 May 2012.

³ Inclusive and sustainable growth is the other priority

EU general budget support is also linked to the governance situation and political dialogue with the partner countries.⁴ In the Communication on *The Future Approach to EU Budget Support to Third Countries*, the Commission underlined that it will ensure that ‘EU budget support is consistent with the overarching principles and objectives of EU external action (Article 21 TEU) and development policy (Article 208 TFEU)’.⁵ In addition, budget support as an instrument of EU development policy will be based on performance assessment and mutual accountability.

Moreover, the recent Joint Communication on EU support for sustainable change in transition societies⁶, sets out a number of concrete measures to improve the way in which the EU supports emerging democracies to achieve lasting reforms. It draws lessons from the EU’s experience in supporting democratic transformation processes and highlights the importance of tailor-made responses based on partner countries’ needs. The Communication also proposes improved ways of sharing the knowledge and experience of the EU and its Member States.

Furthermore, a recent Communication on the *The roots of democracy and sustainable development: Europe’s engagement with Civil Society in external relations*⁷ seeks to revise our partnership with civil society organisations, based on the results of the world-wide *Structured Dialogue on the involvement of Civil Society Organisations (CSOs) and Local Authorities in EU development cooperation*⁸ (2010 – 2011). The Communication proposes an enhanced and more strategic approach in the EU’s engagement with local CSOs world-wide, with due consideration of country specificities. This strategic engagement with CSOs will be mainstreamed in all instruments and programmes, with an emphasis on enhancing the role of CSOs in democratic governance and accountability.

3. THE GOVERNANCE INITIATIVE FOR ACP COUNTRIES

3.1. Rationale and implementation

In 2006, the European Commission proposed the *Governance Initiative for ACP countries*⁹.

The main component of the Governance Initiative (GI) was an incentive mechanism offering ACP partners additional funding, depending on their commitment to democratic governance. A total of €2.7 billion from the 10th European Development Fund (EDF) was reserved for this ‘governance incentive tranche’. These funds were integrated within the programming cycle of the EDF for the relevant countries as well as in their respective National Indicative Programmes (NIPs).

The initiative was based on the following underlying principles:

- Ownership rather than conditionality;
- Dialogue rather than sanctions;
- Identifying the most appropriate reforms and support measures, rather than ranking good and bad performers;

⁴ *The Future Approach to EU Budget Support To Third Countries*, COM(2011) 638 final.

⁵ Ibid, p. 2.

⁶ JOIN(2012) 27, issued on 3 October 2012.

⁷ COM(2012) 492 final.

⁸ Structured Dialogue:

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

⁹ *Governance in the European Consensus on Development – Towards a harmonised approach within the European Union*, COM(2006) 421

- Participation of local stakeholders;
- Tailoring of governance support to each country's situation, notably in the case of fragile states.

The other component of the GI was continued political and financial support for the African Peer Review Mechanism (APRM), a self-monitoring mechanism created by the member states of the African Union to promote high standards of governance. The 2006 Communication on Governance in the European Consensus on Development¹⁰ regarded continental and regional initiatives as signs that governance is being taken seriously, and indicated it was time to support the African continent in pushing forward its own initiatives.

There were several stages in the GI process. First, a Governance Profile was produced and shared, where appropriate, with the partner countries. The profile provided an overview of governance in nine areas, on the basis of quantitative and qualitative questions. Partner-country governments were then requested to put forward a Governance Action Plan (GAP) detailing the ongoing and planned initiatives to address the priorities identified in the Governance Profile. The GAP underwent a qualitative assessment by the Commission on the basis of three criteria: relevance, ambition and credibility. This assessment was the basis for allocation of additional funds to the NIP of the country in question. Finally, the GAP was attached to the Country Strategy Paper. In all, approximately €2.3 billion was then allocated to 70 ACP countries during 2007-2009.

Support for the African Peer Review Mechanism (APRM), the second component of the GI, consisted of a €2 million contribution to the UNDP-managed APRM Trust Fund. A contribution agreement was signed to that end between the Commission and the UNDP in December 2008. Some improvements have been recorded, namely the increasing number of participating countries, the revision of the questionnaire and the improved capacity of African countries to advance APRM implementation. Nevertheless, the absorption capacity of the Trust Fund remains weak. The contribution agreement was extended twice, expiring in December 2012.

3.2. Follow-up of the Governance Initiative

3.2.1. The review of the Governance Initiative of 2009

The initial review was circulated in 2009 as Staff Working Paper *Supporting democratic governance through the Governance Initiative — A review and way forward*.¹¹ It indicated that the GI had laid the foundations for most ACP countries to commit to governance reforms. The GI was seen as coherent with overall EU support for democratic governance and as having potential to promote reforms owned by partner countries and to facilitate political dialogue. The Paper also indicated that the GI had contributed to 'an incremental increase in governance as focal sector [in the CSPs of the 10th EDF] and better understanding of the use of governance diagnostics in the programming exercise by EU staff, both in the field and at headquarters'.¹²

The main shortcomings of the GI, as assessed in 2009, was that in many cases its tight timeframe did not permit proper and full implementation and did not provide for the highest level of ownership by ACP countries, nor allow for consultation with national parliaments and civil society. Moreover, it did not sufficiently provide for development of a methodology to monitor progress. Furthermore, the financial incentive remained 'modest' and the allocation

¹⁰ COM(2006) 421 final.

¹¹ 19.1.2009/SEC(2009) 58 final.

¹² Ibid.

process had been criticised by many stakeholders for its ‘lack of transparency’ and for ‘leading to a purely political process’. The analysis showed that, despite expectations, the GI tools had ‘not yet led to enhanced donor coordination, joint action, joint monitoring or joint dialogue’.

Focusing on the shortcomings identified, the 2009 Staff Working Paper proposed a number of ‘next steps’ to improve the implementation of the GI. These included updating the implementation tools, better monitoring and enhanced political dialogue.

3.2.2. *The Mid-Term Review of the 10th EDF*

In the Mid-Term Review of the 10th EDF in 2010, governance was one of the four areas examined, based on two questions:

- To what extent has the Governance Action Plan been implemented and the governance situation improved since the adoption of the CSP?
- Based on the governance profile (updated where appropriate), to what extent has the governance situation improved?

The assessment of the implementation of Governance Action Plans (GAPs) was fairly positive, despite their introduction at a later stage, hence the short period under consideration. Most EU Delegations assessed the GAPs as being implemented ‘more or less on schedule’. However, there were also cases where implementation was behind schedule, with a consequent impact on the governance situation. A positive correlation was noted between the quality of the initial GAP and its implementation. A number of reasons why the implementation of GAPs was not satisfactory have been identified, including lack of ownership, existence of other country-owned governance strategies, late signature of the CSP delaying the implementation process, and the lack of specific actions, indicators, timetables and means of verification. These constraints were in line with the findings of the 2009 Staff Working Document.

3.2.3. *The Governance Initiative Study of 2011*

At the end of 2010, the Commission commissioned an independent study¹³ to assess the GI and formulate recommendations for the future. The study focused on aspects such as:

- the process followed for the allocation of the governance incentive tranches to ACP partners under the 10th EDF, including its methodology, coordination and joint work with EU Member States;
- the actual and potential influence of the governance incentive tranche process on the political dialogue with partner countries and partner countries’ internal dynamics and debates on governance;
- the overall relevance of the tools used in the process and the integration of governance in cooperation strategies.

The evidence shows that many stakeholders welcomed the GI in its initial phase. It was a new, more prominent and sophisticated approach to supporting governance. This reflected an increasingly shared belief that governance is key to development. The GI was seen as a novelty with potential for a more harmonised EU governance analysis through the governance profile, and which could strengthen the focus on governance in the programming process and enhance political dialogue with the partners.

¹³ European Commission, ‘Support Study on the EU Governance Initiative in view of the preparation of a Report by the Commission to the Council in 2012 — Annexes to the Final Report’, December 2011, p. 4.

However, throughout the process, the GI encountered a number of obstacles that led to the diminishing of its influence in partner countries:

- *Limited ownership of the GI process.* In many cases the tight timeframe did not allow for proper implementation of every aspect of the allocation method. This did not ensure a high level of ownership by ACP countries nor allow in all cases for consultation with key actors.
- *Insufficient alignment between the GI and already existing governance processes and plans* in a given country. As a result, the GI was in many cases perceived as a ‘stand-alone’ instrument, not well integrated in other governance programmes of the EU or other donors.
- *Inflexibility of the tools.* Many stakeholders contributing to the review observed that the GI provided a rather static framework to deal with governance. It was not responsive enough to cope with the dynamic nature of governance processes, particularly in situations of fragility or in the event of a sudden deterioration of governance. Furthermore, the tools did not fit well with the governance dynamics within the country or with the time required to apply a qualitative ‘process approach’. The update of the GAP was discussed only during the Mid-Term Review, which did not allow for reaction to changing situations.
- There were political and institutional *capacity constraints* on both sides in managing a politically sensitive and innovative tool such as the GI in a professional and coherent manner.
- *Limited influence of the financial incentive alone.* It is important to stress that an incentive-based scheme linked to (limited) financing only, and not coupled with complementary policy offers and political dialogues, has proven ineffective. Other modalities, such as budget support, are perceived as more attractive.
- *Insufficient harmonisation within the EU.* The GI provided a window of opportunity for more joint EU work on governance. However, even though the Governance Profile did provide a good snapshot of the governance situation, it did not become a reference document as encouraged by the 2009 Council Conclusions, partially due to the existence of the governance assessments of other donors, including those done by EU Member States. There are a multitude of different approaches, instruments and assessment tools within the EU itself. This lack of harmonisation was not conducive to the effectiveness of the GI on the ground.

4. GOVERNANCE FACILITY

As announced in the December 2006 Communication on *Strengthening the European Neighbourhood Policy*,¹⁴ a Governance Facility for the European Neighbourhood area was set up in 2007. The Commission had planned to devote an amount of €300 million over the period 2007-2013 in addition to the national allocations already programmed for neighbourhood partners.

Between 2007 and 2009 the Governance Facility provided limited additional financial support to certain partner countries covered by the European Neighbourhood Policy (ENP), based on an assessment of the progress made on implementing the broadly defined governance aspects of the ENP Action Plans, with particular emphasis on areas such as democracy, human rights, fundamental freedoms and the rule of law.

¹⁴ COM(2006) 726, 4 December 2006.

The results of the review of the ENP carried out over 2010 and 2011, coupled with the Arab Spring events, led to a new approach to strengthening the partnership between the EU and its neighbours. *A new response to a changing Neighbourhood* provides for a more differentiated approach, not only in terms of funding, as was the case under the Governance Facility, but also encompassing the full spectrum of incentives proposed by the EU, including deeper market access and greater mobility.

As noted above, incentive schemes linked exclusively to funding without enhanced political and policy dialogue, such as the Governance Facility, have proven ineffective.

Reflecting this new approach to an incentive-based policy, the umbrella programmes *Support for Partnership, Reform and Inclusive Growth* (SPRING), for the Southern Neighbourhood, and *Eastern Partnership Integration and Cooperation Programme* (EaPIC), for the Eastern Neighbourhood, were set up in 2011 to channel a substantial part of additional EU funding in tandem with complementary policy offers. In line with the ENP Review Communication, a series of benchmarks are used to assess whether a country is genuinely engaged in democratisation and whether it can expect to benefit from additional funding: the holding of democratic and credible elections; freedom of association, expression and assembly; existence of a free press and media; the rule of law; the fight against corruption; reform of the security and law enforcement sectors; and respect for human rights.

5. STOCKTAKING OF PAST EU SUPPORT FOR DEMOCRATIC GOVERNANCE

Democratic governance is supported through geographic instruments such as the European Development Fund, the Development Cooperation Instrument and the European Neighbourhood and Partnership Instrument as well as thematic programmes financed by the European Instrument for Democracy and Human Rights and the Instrument for Stability. In addition to the programme-based approach, democratic governance is also supported through *specific* interventions in key governance areas and through the *mainstreaming of governance* in other areas of cooperation.

Lessons learned from the past experience of EU support in the area of democratic governance, include the following:

- *Support for democratic governance is to be embedded in local realities.* Governance reform is a gradual process entailing transformation of a society. Therefore, knowledge of the **local context** is key in designing interventions in these areas. For fragile situations, the EU is committed to the OECD *Principles for good international engagement in fragile states and situations*, which put the accent on fostering closer relationships with beneficiary countries that face problems of weak governance and conflict. As the experience of the Governance Profile and the Governance Action Plans suggests, understanding the local dynamics and adapting to country-specific situations is essential for successful interventions in the area of democratic governance. As regards the country context, the new Programme and Project Cycle Management (PPCM) guidelines call for *systematic context analysis*. Political Economy Analysis (PEA) is among the tools that can be used for better understanding how political and economic processes interact and how interests and incentives drive the behaviour of different actors over time.
- *The role of regional or continental initiatives on governance* such as the African Peer Review Mechanism (APRM) can be further explored in terms of reinforcing ownership. Processes at regional level allow the countries themselves to shape priorities and to strengthen domestic accountability. For instance, the Africa-EU

Partnership on Democratic Governance and Human Rights provides a forum for formulating shared governance agendas and recommendations. While paying particular attention to the ownership principle, experience can be shared with African partner institutions in order to jointly develop new strategies focusing on the main priorities of the African Governance Architecture, including the improved APRM process.

- *Engagement with civil society* is essential to build stronger democratic processes and accountability systems and to achieve better development outcomes.¹⁵ This involves enhancing efforts to promote a conducive environment for CSOs in partner countries: promoting the meaningful and structured participation of CSOs in the domestic policies of partner countries, the EU programming cycle and international processes, and increasing the capacity of local CSOs to effectively perform their roles as independent development actors.
- *Developing and enhancing existing local capacities* helps promote effective institutions and improves the government's capacity to design and implement policies with the active engagement of all domestic stakeholders and to deliver services to final beneficiaries. New ways of supporting democratic governance, including innovative ICT tools, can have a significant impact on participation and information flows when paired with a strategic capacity development approach. Commission participation in the Busan High Level Forum on Effective Institutions can also for its part enhance the effectiveness of EU support in the area of democratic governance.
- *Rethink the incentives and conditionality.* Different EU external policy frameworks such as enlargement policy, the ENP and the Cotonou Agreement with the ACP countries offer different incentives and apply varying conditionality relating to the nature and extent of reforms undertaken. Past experience in these areas suggests that conditionality and an incentive-based approach work best, when a critical mass of funding is needed to generate significant results, where allocations are linked to objectives with clear indicators and benchmarks, accompanied by coherent political and policy dialogue. Such an approach is stressed for example in the 2012 Joint Communication *Eastern Partnership: A Roadmap to the autumn 2013 Summit*¹⁶ and its accompanying documents. The experience of the GI also indicates that incentive mechanisms work better if based on clear differentiation, actual achievements and regular performance monitoring. Monitoring is key in assisting reform, as it can also play a role in spurring partner countries to accelerate reforms. The impact of monitoring can be further increased by involving multiple stakeholders in the process, especially by recognising civil society's important role, and by greater transparency of the government's performance.
- In a field such as governance, results — in terms of changing the norms and practices of managing public affairs — are by definition not subject to a linear logic, nor quickly achieved. Therefore a system of results-based *performance assessment*, based on indicators, plays an important role. Selecting the most appropriate indicators and defining who should be assessing performance are also among the lessons that can be drawn from the GI. Moreover, there is a growing body of indicators and performance assessments in the governance domain, which could be tapped into while rethinking approaches to result-based systems of cooperation. As

¹⁵ COM(2012) 492 final.

¹⁶ JOIN(2012) 13 final.

for fragile states, work is on-going to develop sets of indicators specifically relevant to them as part of the International Dialogue on Peace-Building and State-Building.

- *Flexibility.* Increasing performance is also linked to the issue of inflexibility of the tools. In crisis-affected countries, the Commission has the possibility of adopting a so-called Crisis Declaration allowing for more flexible procedures to be used for the implementation of development cooperation. To date, several ACP countries have benefited from this procedure.
- *Strengthen harmonisation within the EU.* Building on the European Consensus for Development, the GI was to contribute to harmonisation and increasingly joint work on governance at EU level. The Governance Profile, for example, was seen by many as a useful tool for joint analysis of the governance situation on the ground. The Lisbon Treaty provides further possibilities to work together at EU and Member State level, both in assessing a country situation and in designing support. Joint analysis and joint programming as set out in the *Agenda for Change*, along with the key role of EU Delegations in conducting political and policy dialogue on the ground, can also foster such harmonisation at EU level.

6. CONCLUSION

Support for democratic governance remains a top priority in EU development cooperation. The new approach to budget support provides an important political signal in this context, as it aims to strengthen the contractual partnership on EU budget support between the EU and partner countries in order to build and consolidate democracies, pursue sustainable economic growth and eradicate poverty. The approach is based on mutual accountability and shared commitment to fundamental values of human rights, democracy and the rule of law, and calls for close coordination between Commission services, the EEAS and Member States, also as regards enhanced and coherent policy and political dialogue which should be closely linked to any incentive scheme or funding of governance reform in partner countries.

Fostering ownership is key to support for democratic governance. Country ownership calls for the involvement of all relevant domestic actors in defining the development path and required governance arrangements. The importance of ownership has been underlined in the Busan Declaration, which calls for implementing approaches that are tailored to country-specific needs. The political will of the authorities in partner countries at all levels and their genuine commitment to reform remain a prerequisite for successful reform, particularly in sensitive areas such as democratic governance.

In addition, working more strategically with CSOs is key in all sectors and themes. In line with the new approach to civil society, CSOs are currently recognised as fully fledged actors in governance at country, regional and global level. At country level, local CSOs and their role in policy making and accountability are at the heart of the new approach. Ensuring a consistent and strategic relationship with civil society at country level is facilitated if EU Delegations and Member States progressively develop roadmaps, with an emphasis on enhancing the role of civil society in democratic governance.

Finally, the Commission, the EEAS and Member States alike can make good use of the wealth of experience the EU has accumulated in the area of democratic transition. The implementation of the ideas in the recent Communication on EU support for sustainable change in transition societies would also be useful to this effect.