
Governance in the European Consensus on Development

Towards a harmonised approach within the European Union

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INTRODUCTION

Poverty reduction and the Millennium Development Goals (MDG) will not be achieved without decisive progress in the areas of economic, social, environmental and political governance. Development, human rights, peace and security are indivisible and mutually reinforcing. In an increasingly globalised and interdependent world, peace and security hang to a great extent on the political will and ability of governments and institutions to pursue policies geared to the rule of law, the protection of human rights, democratic governance, eradicating poverty, promoting sustainable development and reducing the inequalities that lie at the root of the main challenges facing the world.

The European Consensus on Development sets out the EU’s approach and contribution to this approach, identifying good governance, democracy and respect for human rights as integral to the process of sustainable development and as major objectives of EU development policy. The substantial increase in the volume of aid expected over the next few years demands the establishment of governance that will guarantee the efficiency and effectiveness of this new EU aid. The MDGs cannot, however, be achieved by financial resources alone.

Community policies, each having an external dimension, need also to contribute to good governance. Means that the EU has at its disposal are various, including political dialogue, conflict prevention measures, cooperation with regional and international organisations, thematic programmes, electoral observation, as well as national development programmes, subject to multi-annual joint programming.

The political dialogue and development aid programming addressed in this communication are two pivotal moments in EU relations with developing countries; they provide an opportunity together to take stock of the situation and the need for reform, to encourage change and to adopt the requisite support measures. They also serve to highlight governance issues with international implications.

The principles on aid effectiveness adopted in March 2005’s Paris Declaration and approved by the Council in April 2006 must be applied fully to governance. The Community and the Member States must therefore work with each other and with the other donors and international organisations to provide complementary and harmonised support for the partner countries’ efforts in this area.

Accordingly, the Commission proposes that the Community and the Member States agree practices and principles for dialogue and cooperation with developing countries on governance. The objective is gradually to develop a coherent common approach to promoting all aspects of democratic governance. This will reinforce the concept of governance, which was the subject of a communication and Council conclusions in 2003, and give it a new place

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1 COM(2003) 615 “Governance and Development”. Governance concerns the state's ability to serve the citizens. Governance refers to the rules, processes, and behaviour by which interests are articulated, resources are managed, and power is exercised in society. The way public functions are carried out, public resources are managed and public regulatory powers are exercised is the major issue to be addressed in that context. Governance is a basic measure of the stability and performance of a society. As the concepts of human rights, democratisation and democracy, the rule of law, civil society, decentralised power sharing, and sound public administration gain importance and relevance, a society develops into a more sophisticated political system and governance evolves into good governance.
in development policy. The Commission is also proposing innovative implementing arrangements for cooperation with the ACP States, reiterating a number of priorities proposed for the Caribbean and Pacific countries and launching a special initiative for Africa, as announced in the European Council’s conclusions of December 2005, “The EU and Africa: Towards a strategic partnership”, to which the Member States are invited to sign up.

This communication is divided into three parts. The first sets out the ways of approaching governance and supporting the processes of democratic governance in development cooperation. The second outlines their application in Africa and in the ACP countries. The third describes the Community's approach to democratic governance in the cooperation with other countries and regions.

The communication takes account of the conclusions and recommendations of an evaluation report, finalised in March 2006, on European Community support for good governance, which deserves to be widely debated with a view to improving Community action in this area².

It adds to work under way on, for instance, the EU’s approach to promoting democracy in external relations and could be followed up by other initiatives, such as the establishment of a framework of action for good financial, fiscal and judicial governance in the EU’s external action.

1. A STRONGER, INNOVATIVE APPROACH TO DEMOCRATIC GOVERNANCE

1.1. The many facets of governance

Governance has become a priority in many donors’ development policies and aid programmes. It lies at the heart of many partner countries’ development strategies. Achieving the MDGs calls for proper delivery of public services and sustained economic growth based on the development of the private sector; these things are possible only in a climate of good governance. At a time of rising aid budgets, commitments to ensure the effectiveness of international aid and growing economic and financial interdependence, the emergence in the developing countries of a level of governance commensurate with the expectations of their citizens and the international community is now high on the agenda.

There is a growing consensus on the relevance of a broad approach to governance in development cooperation, an approach based on the universal principles and objectives and the common aspirations that must inform the main functions of government, all areas of state intervention and the interaction of public institutions and citizens.

A broad approach

There is no particular institutional model for democratic governance, which simply affirms the rights of all citizens on the road to sustainable development. It includes: respect of human rights and fundamental freedoms (including freedom of expression, information and association); support for democratisation processes and the involvement of citizens in choosing and overseeing those who govern them; respect for the rule of law and access for all to an independent justice system; access to information; a government that governs transparently and is accountable to the relevant institutions and to the electorate; human security; management of migration flows; effective institutions, access to basic social services, sustainable management of natural and energy resources and of the environment, and the promotion of sustainable economic growth and social cohesion in a climate conducive to private investment.

The different levels of governance (local, national, international) are also important. The key role that local authorities can play in achieving the MDGs has to be underlined. But account must also be taken of the cooperation expected at international or regional level to resolve global problems.

Governance is more than just tackling corruption

Good governance means more than tackling corruption. Though the EU takes an extremely firm stance on this matter, viewing corruption as a major obstacle to achieving development goals, it nevertheless sees it as a symptom of poor governance and of a lack of transparent, accountable management and control systems. Tackling corruption must not be addressed in isolation but integrated into development and poverty reduction strategies and into support for the processes of democratic governance. This means strengthening the role of civil society and the media, protection for multiparty democracy and electoral competition, a transparent

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3 These principles have been developed by the adoption by the international community of a considerable number of international conventions and normative acts.
system for financing political parties and support for parliamentary oversight and for other public and judicial institutions.

**The multidimensional nature of governance in cooperation programmes**

Democratic governance is to be approached holistically, taking account of all its dimensions (political, economic, social, cultural, environmental, etc.). This multidimensional nature must be reflected in development cooperation practice. Accordingly, the concept of democratic governance has to be integrated into each and every sectoral programme⁴.

A compartmentalised approach to governance must be avoided: political, economic, social and environmental factors are often very tightly interwoven. For instance, good governance by government institutions, especially those responsible for public finances, and respect for the rule of law help create an environment conducive to sustainable economic growth and private investment. By the same token, poor governance of natural and energy resources in countries with resources such as diamonds, oil, timber and fish can lead to violations of human rights and the rule of law and, ultimately, to armed conflict. Efforts to promote decent work, especially through social dialogue and the effective implementation of ILO conventions, are often accompanied by measures facilitating access to essential social services and have a positive impact on social cohesion, economic performance and poverty reduction.

The staff working paper contains specific examples of governance support programmes⁵: support for electoral processes, civil society, parliaments, decentralisation, judicial reform, the security sector, the management of public finances, etc.

**1.2. Ownership, dialogue and measuring progress**

The European Community supports the processes of democratic governance under a partnership-based approach, through dialogue with partner countries’ governments and, as a donor, through its various financial instruments. To maximise its impact, it needs to combine the means of action available to it more effectively and thereby strengthen its role as an agent for change, with due regard for the principles of partnership and ownership.

**New opportunities for enhanced dialogue on governance**

New opportunities have arisen in the dialogue between development partners. There is now a political desire for change in many countries.

There is also a growing awareness on the part of all donors that they need to promote innovative and more effective cooperation methods, even in fragile states, and to coordinate their approaches better. The importance attached to democratic governance in the broad sense itself demands new methods and practices, changes in “aid governance”, based on the concept of mutual commitments.

Lastly, as states grow ever more interdependent, dialogue on the consequences and responsibilities arising from interdependence must help identify the impact on a country's

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⁴ The principle of mainstreaming governance, democracy and human rights is enshrined in the European Development Consensus.

partners of its policies in, for instance, the financial and fiscal spheres, where the degree of interdependence is high.

Ownership rather than conditionality

The processes of democratic governance based on the universal principles cited above cannot be imposed from outside. In relations between the partner country and donors, it is vital that ownership of the reform processes be respected. Only the countries concerned can decide and implement their reforms. If there is no political will inside the country, outside support is unlikely to deliver results. The donors do, however, have an important role to play by developing incentive-based approaches.

Respecting this ownership also means respecting the pace and schedule of reform processes, which are intrinsically complex and long-term, as they go to the very heart of the organisation of a state and a society. However, this can never justify non-compliance with international agreements and acts ratified on “essential elements” or a lack of ambition or credibility in the achievement of the expected reforms.

Dialogue rather than sanctions

Dialogue must be the preferred means of encouraging countries to embark on reforms. Unilaterally imposing new conditions must be avoided. Dialogue must have a substantial preventive dimension and permit the discussion of often politically sensitive issues such as respect for human rights, democratic principles and the rule of law, the reform of security systems, economic and financial governance, the management of natural and energy resources and matters of social governance. Sanctions may nevertheless prove necessary in serious cases. In such instances incentive approaches must also be developed to remedy the problems identified.

The EU must enhance the performance of its various mechanisms for dialogue and current guidelines by tightening their operational relationship with programming, monitoring and dialogue on cooperation programmes.

Assessing governance

The dialogue must cover the evaluation of governance and the progress made, along with appropriate action in the event of bad governance. The main purpose of assessing the state of a country's governance is not to establish a ranking but chiefly to help identify the most appropriate reforms and support measures.

All development partners must be able to assess the quality of governance in a country and gauge the ambition, relevance and credibility of a government’s reform commitments on the basis of suitable indicators. The indicators must be adaptable to the specific circumstances of fragile and post-conflict states. For support to be effective, the local context and political systems need to be analysed in depth and factors and agents for change identified.

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6 EU guidelines on human rights dialogue, adopted by the Council in December 2004 (doc. 15810/104). Structured dialogues (with China and Iran), dialogues based on the Cotonou Agreement (Articles 8, 96 and 97), association agreements with Mediterranean countries, trade and cooperation agreements (e.g. Philippines, countries of the Caucasus and Central Asia) and ad hoc decisions (e.g. Russia, Vietnam, Pakistan and India).
This analysis and the indicators used must be the subject of a regular, transparent dialogue in order to track trends and developments.

Measuring progress in democratic governance has recently proved to be feasible. This development, which must not lead to a mechanistic approach, is politically important in that it permits the development of useful indicators to help identify the reforms needed and compare countries at international level. Having both national and international/global indicators is useful because they serve different purposes. The international indicators permit comparison at world level. National indicators help establish national standards based on the country’s priorities for improving governance. The indicators developed by the partner country itself have a greater incentive effect in that they encourage politicians to be accountable to citizens and institutions and enable civil society and the media to get involved in a monitoring process. The different types of indicator must not be seen as competing but as a set of complementary tools to be used according to the situations or problems that arise.

**Encouraging participatory evaluations**

It is important to encourage governments, politicians, independent public bodies and civil society to develop their own tools and capabilities for identifying the reforms needed and for gauging the situation and the progress made. These national indicators must comply with the principles of ownership, participation and transparency and permit the necessary reforms to be identified\(^7\). This approach is likely to stimulate demand for reform and thereby reinforce the processes of democratic governance.

**Gradual approaches**

Support for governance must be tailored to each country’s situation. Faced with problems of bad governance or analysis showing a need for reforms, the EU’s approach must be progressive, proportionate, transparent and dialogue-based with a view to raising standards gradually. This applies not only to the political and institutional\(^8\) elements but also to the social, environmental and economic aspects of governance.

1.3. **Addressing the dual problem of political legitimacy and capacity building**

Many developing countries need a lasting solution to the gap between the lawfulness of the state’s institutions and their legitimacy in the eyes of the citizens. Whereas democratic lawfulness depends on free elections, legitimacy hinges above all on the government’s capacity to keep its election promises and meet citizens’ needs. In this context, the internal processes of dialogue and interaction between the different stakeholders in partner countries are crucial. The EU is backing the gradual establishment of participatory approaches by governments when they design their development strategies. Promoting the active involvement of a broad range of civil society stakeholders (associations, grassroots organisations, non-governmental organisations, media, employers and trade unions), political movements and institutions representing citizens (parliaments, local and decentralised authorities) applies the principles of democratic governance and favours the viability of reform programmes.

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7 The METAGORA project described in the working paper illustrates this process.

8 The dialogue on the essential elements of the Cotonou Agreement is described in Annex 1 to the working paper.
Budget support, a preferential arrangement

A fairly extensive range of development cooperation instruments can be used to deliver appropriate responses and the requisite support to partner countries’ efforts to reform. The growing trend towards instruments based on dialogue and led by the partner countries’ demands (programme approach/SWAp, general or sectoral budget support) opens up real scope for promoting democratic governance.

Alignment on the partner countries’ development strategies and increasing use of budget support reinforce the role of the national democratic institutions, e.g. parliaments, directly involved in the relevant decision-making processes under national law. Due account must also be taken of decentralisation strategies when implementing these instruments, otherwise they might lead to further centralisation.

The international community should also give greater thought to more predictable aid mechanisms, permitting long-term support for change, which are particularly relevant in this context. Regular, coordinated monitoring of developments in governance processes must be based on the sharing of information, evaluations and analyses, which must in turn be underpinned by transparent dialogue between partners on the priorities for reform. The processes and criteria for allocating aid according to developments in the governance situation must be transparent for the partner country.

A preventive approach to fragile states

New, complementary approaches must nevertheless be explored, especially in fragile states.

In fragile states, especially difficult partners, a lack of political legitimacy is often compounded by very limited capacities. Addressing governance in these states demands a step-by-step approach aimed at gradually raising standards. Many countries must first achieve basic stability and a minimum of institutional development before they can start implementing a long-term development policy. If EU aid to fragile states is to be made more effective, lessons must be learned from past mistakes: “stop and go” financing decisions based on a government’s short-term performance leading to fluctuations in aid flows and uncertainty as to future financing; the imposition of conditions linked to past performance in matters of governance; inadequate harmonisation between donors; the marginalisation of certain fragile states; a lack of coherent external action in matters of governance, security and development.

Post-crisis situations also call for integrated transition strategies to rebuild institutional and administrative capacities, infrastructure and basic social services, increase food security and deliver lasting solutions with regard to refugees and displaced persons and, more generally, the security of citizens. The need to prevent states becoming fragile and a concern not to marginalise the most vulnerable countries and peoples are an integral part of the EU’s approach; this is as much in the interests of solidarity as of international security and aid effectiveness.

1.4. Harmonising approaches within the EU and with other international players

Today most donors consider governance a priority. It is important that each should share its analytical tools with the others and avoid engaging in one-on-one dialogues with the partner
country in unilateral, uncoordinated support of certain reforms. The Paris Declaration on aid effectiveness and the Council conclusions on the same subject\(^9\) must be applied fully to governance. The Member States and the Commission have pledged to move towards joint programming, to develop operational principles for applying the principle of complementarity and division of labour and to facilitate cofinancing operations.

The aim is not to impose standardised approaches. This would be neither realistic nor desirable. All donors should nevertheless be involved in an open dialogue with the country concerned and agree on operations and responses to priority issues in the matter of governance. External support must be founded on national priorities and programmes and make use of existing national or regional structures. The drafting processes for poverty reduction strategies, joint assistance strategies and the African Peer Review Mechanism can provide a springboard in many countries.

**Emerging players**

A dialogue on governance in development cooperation should also be initiated with emerging political and financial players\(^10\). This issue could be raised in the bilateral dialogue between the EU and the countries concerned. It should also figure prominently in efforts to involve them in the multilateral agenda for aid effectiveness in the relevant organisations and forums\(^11\).

2. **Governance Initiative: the ACP Countries and the Strategy for Africa**

2.1. **ACP countries: dialogue on governance and aid programming**

The EU expects ACP partners to embark on the reforms necessary for development aid and international cooperation to bring lasting benefits. Though governance is already systematically included in the regular political dialogue with the ACP countries, it will play an even more strategic role in the future, especially when programming the 10th EDF. A new incentive-based approach will be followed. An in-depth dialogue will be established; structured around parameters for gauging progress and performance, it will include the Member States and other donors. The tools developed for analysis and dialogue in the programming process - tools which include the political dimension of partnership while addressing the many facets of governance - should in their turn inform political dialogue under Article 8 of the Cotonou Agreement.

**€3 billion for governance**

When preparing new cooperation strategies with the ACP countries, the Commission will propose granting additional financial support to countries adopting or ready to commit themselves to a plan that contains ambitious, credible measures and reforms.

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\(^9\) GAER Council meeting of 11 April 2006.

\(^10\) BRICS: Brazil, Russia, India, China and South Africa.

This innovative approach translates into operational terms the principles set out in the first part of this communication; based on dialogue and incentives, it is aimed at bringing real change and decisive progress in democratic governance.

Part of the financing allocated to ACP countries under the 10th EDF will be set aside for incentives. A sum of €2.7 billion has been earmarked for this purpose in the national packages; there will also be regional funding. Access to these incentives will depend on the outcome of an enhanced dialogue between the Commission and the country concerned on that country's governance plan.

The governance profile presented in the staff working paper is aimed at facilitating this dialogue and detailed assessment. On the basis of a series of simple questions, it provides an overview of the situation in a partner country for the purposes of guiding dialogue on current or planned reforms, identifying the main difficulties or weaknesses and facilitating the identification of areas for cooperation. It addresses governance from the political, economic, institutional, financial, fiscal and judicial standpoint and in terms of the management of natural resources and of migration flows. Aware of the need both to avoid creating new aid conditions and to harmonise donors’ approaches as far as possible in the obvious interests of effectiveness, the European Commission has based the profile on existing indicators and studies, complementing them with certain components specific to EU policy, and in particular components derived from the political dialogue with partner countries on human rights, democracy and topics such as security and migration.

Considering the value and the importance of the evaluation processes conducted by the countries themselves under participatory and transparent approaches, the Commission will take account of any such “self-assessments” that may exist. Where, for instance, peer reviews have been carried out under the APRM, the resulting reports will be used as a basis for the profile.

Six steps for determining access to the incentive reserve and monitoring of results

1. Assessment of the state of governance and trends

The situation will be assessed on the basis of (i) indicators identified in the profile and their trend over time and (ii) international indicators. These two sets of indicators will inform a discussion between the Commission and the Member States present in a given partner country in order to reach a quantitative assessment of the state of governance in that country and the trend. The international indicators provide a benchmark in that any significant deviation from the profile must trigger an in-depth discussion for the purposes of explaining and justifying the deviation observed. There is no pre-established weighting of the different indicators used: all nine categories identified in the profile have to be taken into account.

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12 The 10th EDF totals €22.6 billion for the period 2008-2013.
14 Especially the governance indicators monitored by the World Bank Institute for 204 countries since 1996.
2. Assessment of the main weaknesses

The Commission and the Member States present in the country will use the set of indicators in the profile to identify weaknesses calling for reforms. The relative importance of these weaknesses will also be assessed.

3. Programming dialogue and identification of government’s main reform commitments (the country’s governance plan)

In the dialogue initiated, the government will be invited to present its plan of current and future reforms. This plan will be discussed in the light of the weaknesses identified in the profile shared with the government. This dialogue is intended to encourage the government to commit itself to taking the measures necessary to remedy the weaknesses identified. The list of commitments given by the government in the wake of this dialogue will be annexed to the CSP.

4. Assessment of the government’s commitments: relevance, ambition, credibility

The Commission and the Member States will assess the extent to which the commitments given by the government address the main weaknesses identified and are relevant, ambitious and credible. The aim is to avoid unrealistic promises and partial measures that fail to address the problems raised.

5. Decision on access to the incentive tranche

The decision to grant access to the incentive tranche and the ratio of this tranche to the initial allocation will be based on the assessment of the situation and the reform commitments given in the dialogue. The incentive effect and the encouragement given to reforms are paramount, without penalising (in relative terms) those countries that have already achieved satisfactory standards of governance. Corrective factors will be taken into consideration as a country’s absorption capacity or specific situations as in the case of post-conflict countries.

6. Monitoring of performance

The governance profile and commitments will be monitored regularly and the actual results of reforms analysed by the Commission, the Member States on the ground and the partner country. On the basis of this analysis and in line with the revised Cotonou Agreement, a country’s allocation may be increased annually in the event of outstanding performances. Allocations may also be increased or decreased at the time of the mid-term review (2010) and the end of term review (2012). The governance profile and commitments, which are the foundation of a new contractual approach, will thereby be taken into account at every stage of the programming cycle.

The governance profile, which will be tested during the first stage of programming the 10th EDF for the ACP countries, could be improved and adapted in the light of experience.

2.2. ACP countries: governance priorities and programmes

In the Community’s country programmes, governance could be identified as a focal area or non-focal area, especially for support for institutional reform, for capacity building or for
establishing the requisite conditions for budget support. In all countries, governance will be mainstreamed in focal and non-focal areas.

The Community is already active in a wide range of areas\(^{15}\) with a view to promoting processes of democratic governance through dialogue and financial support. In the case of the ACP countries, when the 9th EDF was programmed, governance was identified as a focal sector in some twenty indicative programmes, accounting for a total of €879 million or 10% of all programmable funding, including just over €200 million in aid to non-state actors. A proportion of general budget aid must also be viewed as support for governance, especially for economic and institutional reforms.

All these activities will be continued and stepped up. New practices will also be developed and implemented according to the principles of the enhanced approach referred to above, incorporating the conclusions and recommendations of the evaluation reports and taking account of the new provisions of the Cotonou Agreement (new Annex VII, amendments to the provisions concerning the political dialogue on the essential elements) and the regional strategies recently adopted for Africa\(^{16}\), the Caribbean\(^{17}\) and the Pacific\(^{18}\), which give considerable attention to governance.

The priority for Africa will be to support change and the implementation of governance reforms at local, national and regional level and to encourage the African countries to take part in peer-review processes. Boosting social and economic vectors at local level is a lever for economic growth and a factor for sustainable development, given the role of local authorities in providing access to services directly related to the MDGs (water and sanitation, etc.). Support for other democratic institutions, such as national parliaments, and capacity-building measures for the Pan-African Parliament will also figure among the priorities. For the Caribbean and the Pacific regions, the Community’s priority will be to promote good financial, fiscal and judicial governance. These regions need to rapidly implement OECD standards on transparency and the effective exchange of information for tax purposes and to eliminate harmful tax practices. Special attention will be paid to such problems as money laundering, organised crime and terrorist financing.

2.3. Africa: support to African mechanisms

The political will to reform and progress towards good governance is consolidating in the African partner countries. The EU has pledged to support good governance programmes in these countries and to help build the capacities of the African Union and of regional and national institutions in Africa and to support African efforts to improve and monitor governance through dialogue and consultation with its African partners\(^{19}\). Governance has

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\(^{15}\) For further details of programmes and projects, evaluations and reports on the implementation of Community development aid, see: [http://europa.eu.int/comm/europeaid/projects/index_en.htm](http://europa.eu.int/comm/europeaid/projects/index_en.htm)  


\(^{18}\) “EU relations with the Pacific Islands - A strategy for a strengthened partnership” - COM(2006) 248, 29.5.2006

now been mainstreamed in dialogue and cooperation between the Pan-African institutions and the EU.

The African Peer-Review Mechanism (APRM) offers real scope for encouraging reforms and mutual learning. Specific EU support for the APRM is proposed at three levels:

– at Pan-African level: support for the APRM secretariat, its reviews and missions;

– at regional level: support for involving regional organisations in disseminating the results of reviews (discussion of country reports, exchange and dissemination of good practice, promotion of membership of APRM, etc.);

– at country level: integration of aid for reforms identified by reviews into existing cooperation instruments (especially national indicative programmes). The national component of the specific aid for the APRM is aimed solely at supporting and facilitating the process in the countries (involvement of civil society, consultation and monitoring machinery); it is provided only if the country concerned requests it.

The Community contribution to the APRM should come from intra-ACP resources and be supplemented by contributions from Member States. The EU should be ready to respond to requests for financing and cover part of the APRM’s budget, thereby demonstrating firm political support for the process (and respect for the principle of ownership). The Community contribution should be aimed at covering the review process at the three levels cited above (regardless of support for reform in the countries via their national indicative programmes).

For non-ACP African countries, the Community approach is part of the Neighbourhood Policy (see section 3 below).

2.4. From Community to European level

The importance attached to governance in the EU’s development cooperation policy should translate into (1) a harmonised political approach at EU level and (2) additional coordinated support for partner countries' reform efforts, according to the results obtained and the credibility of commitments for the future.

In line with the above principle of harmonisation, the implementation of this approach cannot be left entirely to the Commission. There is a need to pursue EU-level implementation, which presupposes joint analysis and dialogue in the partner countries, and to work within a common programming framework. This harmonisation effort is obviously not confined to the EU: it must involve all donors and international organisations present in a given country.

Thus, at EU level the governance profile should be drawn up jointly and, in countries where joint programming is planned, serve as a basis for the joint analysis of governance issues. Where possible, Member States could also use the profile in bilateral relations with ACP countries.

In terms of financial support, the EU should collectively increase its aid for governance reform processes. There are a number of conceivable options, and these options are not necessarily mutually exclusive:

(a) an increase of bilateral programmes, i.e. of countries’ allocations, in coordination between the Commission and the Member States (joint analysis, shared criteria).
Furthermore, cofinancing and/or multidonor trust funds should be developed to channel these additional resources to back programmes in support of reforms.

(b) extra funding (from the increase in official development assistance) that would be added to the NIPs and disbursed within the framework of the NIPs managed by the Commission.

Whichever option is chosen, these increases would be decided both when fixing countries’ allocations and at the time of annual or mid-term reviews.

At regional and continental level the EU should consider contributing to trust funds to facilitate a coordinated approach to governance mechanisms and initiatives, especially the APRM described above.

3. DIALOGUE AND PROGRAMMES RELATING TO COOPERATION WITH THE OTHER COUNTRIES AND REGIONS

Governance is also a priority in EU relations with other regions, in political dialogue and in aid programming. Approaches to promoting democratic governance may vary from region to region and country to country, depending on their specific characteristics and the history of their relations with the EU, but all are holistic and take account of governance’s various dimensions. This is borne out by the European Neighbourhood Policy and relations with Latin America and Asia, the specific features of which are described below.

For political dialogue, for instance, a number of structures permit a privileged dialogue on human rights. The use of incentive instruments has already been piloted with the Mediterranean partners, including the non-ACP African countries. The Neighbourhood Policy has been specially designed as an integrated set of incentive instruments aimed at promoting reform and progressively increasing the scope of cooperation. As regards financial assistance for the next financial perspective, aid programming is already well under way for the Asian and Latin American countries and for the countries concerned by the Neighbourhood Policy. Programming is based on an in-depth analysis of a country’s situation, addressing, inter alia, political, economic and social issues. Though aid is not earmarked for governance from the outset, democratic governance is, depending on the country concerned, a focal or non-focal sector. The concept of governance as the sound management of public affairs is, moreover, a cross-cutting concern that determines the approach to cooperation in all sectors.

Cooperation between the Commission and the Member States is manifested in various ways, not just in formal political dialogues but also in, for instance, EU election observation missions. Coordination takes place during the programming process and continues in the identification stage of the project cycle, especially with regard to reforms of the security sector or the judiciary, which are the prerogative of the state. There are also the coordination and harmonisation arrangements between donors that accompany any budget support programme.

3.1. Governance and the European Neighbourhood Policy (ENP)

The privileged relationship with the EU’s neighbours (covered by the ENP) builds on mutual commitment to common values, principally within the fields of the rule of law, good
governance, respect for human rights, including minority rights, and fundamental labour standards, the promotion of good neighbourly relations, and the principles of the market economy and sustainable development. The degree of ambition of the EU’s relationships with its neighbours will take into account the extent to which these values are indeed shared. One prerequisite is, for instance, that an association or partnership agreement should be in force.

The partner countries’ priorities will be reflected by jointly adopted action plans. Governance in the broad sense is central to these action plans, which comprise seven chapters and focus on:

- strengthening democratic practices, respect for human rights and the rule of law, and tackling corruption;
- establishing sound economic management based on market-economy principles and transparency, and active policies aimed at promoting sustainable development, including action against poverty and inequality and dialogue on employment and social policy;
- introducing reforms in the area of trade, the internal market and regulation, including reforms in the area of competition policy, intellectual property, public procurement and action against customs fraud;
- cooperation in fiscal, judicial, police and border-management matters aimed at tackling fraud and tax evasion, money laundering, and terrorism;
- cooperation in the management of migratory flows, illegal migration and fight against trafficking of human beings;
- introducing sectoral reforms (transport, energy, information society, environment, etc.) in order to improve management and encourage the authorities to account for their decisions to those they administer;
- developing contacts between communities, developing human resources and strengthening civil society.

Action plans, which offer a policy frame of reference for bilateral cooperation by the Member States and other donors, are already being implemented with seven countries covered by the ENP; another five are in the process of being adopted. Their implementation is backed up by regular monitoring of the progress made in the various areas of governance. Dialogue with the partner country is conducted via sectoral subcommittees (democracy and human rights, judicial system, economic and trade issues, etc.), and progress is gauged at meetings of the association or partnership committees. Note that progress is measured against the objectives laid down in the action plans, not against international indices.

The priority areas for EC financial assistance identified in a country’s strategy paper are chosen on the basis of the action plans with a view to supporting improvements in governance in the broad sense: strengthening democratic practices, respect for human rights, tackling corruption, improving economic and sectoral management, strengthening the judicial system and encouraging the local authorities to account for their decisions to those they administer.
Such cooperation mechanisms as twinning, TAIEX and SIGMA\textsuperscript{21}, which were developed for the purposes of enlargement and extended to the ENP countries, are particularly geared to governance and make it possible, inter alia, to involve the Member States in cooperation and to support the implementation of the action plans.

One factor taken into account when determining the level of financial support allocated to a country is the degree of commitment and implementation of reforms figuring in the partner country’s action plan. Following the Commission communication of May 2003 on reinvigorating EU actions on human rights and democratisation with Mediterranean partners, a MEDA Democracy Facility was introduced in 2006. The aim of the Facility, which was a pilot project, was to support those partners that had made the most headway with democracy and human rights. Subsequently, as part of the European Neighbourhood Policy, the Commission is planning a Governance Facility to promote political and economic reforms in the countries covered by the ENP. The Governance Facility could take the form of additional financial support for neighbours that have made considerable headway with the implementation of action plans. The APRM will be taken into account in this context.

3.2. Latin America

Founded on a common heritage, shared values and broad agreement on the future challenges, the privileged relationship between the EU and Latin America naturally accords considerable importance to governance. This is expressed inter alia by the fundamental objectives of social cohesion and regional integration fixed by the two regions’ heads of state at the 2004 Guadalajara summit and the 2006 Vienna summit. Governance is intrinsic to each of these objectives and was indeed the object of particular attention in the Commission communication to the Council and the European Parliament\textsuperscript{22}.

The particularly acute social inequalities that continue to affect most Latin American countries erode democratic legitimacy and undermine the economic performance of these emerging countries. Without tangible social progress, the burgeoning disenchantment with democracy in the region would bring political instability. Tackling exclusion and all forms of discrimination and involving all stakeholders in the process should therefore consolidate democracy and governance. In pursuit of this objective, the Commission hopes to go on mainstreaming the objective of social cohesion in operations carried out in partnership with the Latin American countries.

The promotion of human rights, democracy and good governance is a feature of the different political dialogues initiated between the EU and Latin America, be it under the association agreements with Mexico and Chile, the political dialogue and cooperation agreements with Central America and the Andean Community or the cooperation agreement with Mercosur.

In a similar vein, the EU strives to help democratic institutions take root and gain credibility by sending election observation missions as and when necessary (Nicaragua, Mexico, Bolivia, Venezuela, etc.).


For cooperation with Latin America, the Commission plans to pursue a policy of active support for governance in most countries, contributing support for the modernisation of government in areas such as: the representation of all members of society in politics, cooperation with civil society, the promotion of dialogue between social partners, access to justice, strengthening the judiciary, capacity building in the security sector, promoting the security sector’s adherence to the rule of law, decentralisation and good governance, the responsible management of natural resources, tackling corruption and anti-impunity initiatives. Sectoral budget support programmes, which are the preferred option in a number of countries in the region, are also conducive to good governance (requiring reliable public spending, the strengthening of tax administrations and the implementation of long-term government policies).

The approach to governance obviously varies from country to country: it is a central issue in relations with Colombia and most of the Central American countries, which are structurally fragile, have highly unequal societies and are in many instances emerging from long civil conflicts. In these conditions, strengthening the rule of law, internal structures for dialogue or reconciliation and promoting participatory democracy are crucial areas of cooperation. Conversely, in stronger states like Mexico and Brazil support for governance is increasingly taking the form of a comprehensive dialogue and partnership in a number of sectors of mutual interest, including government reform.

Since it involves establishing and complying with common rules and international legal frameworks, regional integration is also a powerful vector for good governance (especially in economic and trade matters) and therefore a major strand in the European Commission’s policy towards Latin America.

3.3. Governance in Asia

With over half the world’s population, over two thirds of them poor, Asia’s great political, economic, social and cultural diversity is reflected in the highly disparate nature of its countries’ relations with the EU. The policy framework for EU cooperation with Asia reflects an overall commitment to supporting democracy, good governance and human rights. A battery of instruments are employed in pursuit of these objectives. They include political dialogue and other initiatives used to address human rights: all agreements with non-member countries include clauses on human rights. In some countries working parties on governance and human rights have been set up in the joint committees to ensure genuine political dialogue and cooperation on these issues. Dialogue is the foundation of relations with China and India, the world's most highly populated countries. Besides the structured political dialogue, relations with China take the form of more than twenty sectoral dialogues concerning economic governance and cooperation, the internal market, science and technology, the environment, etc. Over and above the sectoral policy dialogues, the key issues in dialogue with India are global governance, multilateral cooperation and peace and security issues. “IDEAS”\(^ {23} \) is a special initiative permitting cooperation with India as an emerging donor, dealing with governance in its turn.

In Central Asia, regional and bilateral political dialogue is conducted through the various structures introduced by those partnership and cooperation agreements that have been ratified or, in Turkmenistan and Tajikistan, on a more ad hoc basis through the EU representatives on

\(^ {23} \) Indian Development and Economic Assistance Scheme.
the spot. In Central Asia, the dialogue on democratic governance and human rights is bolstered by the presence of a special rapporteur for the region. The EU has also developed a regional-level dialogue with the countries of South-East Asia: governance features in regional-level cooperation with regional bodies such as ASEAN (“APRIS II” – ASEAN Programme for Regional Integration Support) and in the informal dialogues of the Asia-Europe meetings (ASEM). The ASEAN Regional Forum also serves to promote trilateral cooperation.

When cooperation is programmed for the period 2007-2013, governance, the rule of law and human rights will be a focal sector for a number of countries, with adjustments to reflect their highly disparate needs. Cooperation with Afghanistan is a special case, distinguished by the scope of the EU’s commitment, the importance of the multilateral framework and the enormous challenges in terms of democratic governance and ownership by the country. Democratic governance is also an essential aspect of the EC’s work in other conflicts, notably in Indonesia (Aceh). Governance will also be a cross-cutting issue in all cooperation activities in the Asian countries, ranging from China to the EU-India joint action plan. In Central Asia, democratic and economic governance is a priority sector, ranging from support for civil society to judicial reform and the management of public finances.

**Specific projects** relating to governance and the development of democratic institutions reflect the great diversity of countries in the region. Examples include reforming and building the capacity of public bodies (judicial, prison, electoral), the creation of new democratic institutions (e.g. human rights commissions) and the development of local authorities. More direct efforts to strengthen democratic processes, and in particular political parties and the electoral process, are planned in a number of countries, as are measures to facilitate access to justice for vulnerable groups, especially women, children and minorities. Building the capacity of civil society is a constant concern, be it in the form of general education and information campaigns or issue-based campaigns, against child labour for instance. Depending on the country, support for administrative reform, sound management of public finances including fiscal transparency and sound management of natural resources, and social security reform are planned, as are specific measures to tackle corruption.

As in other regions, the trend towards global and sectoral **budget support** programmes is becoming a means of strengthening governance and institutions at both central and decentralised levels in Asia, including the Central Asian countries. These programmes call for the prior establishment of an appropriate level of democratic oversight, financial management and institutional development, thereby increasing transparency and accountability to stakeholders.

Given the number of “**difficult partnerships**” in the region, thematic instruments (e.g. the EIDHR) that can be used without the government’s agreement continue to play a major role in support for civil-society projects in support of democratisation and human rights. In such cases the EU can also rely on benchmarks in the area of governance, e.g. OSCE commitments. Issues relating to public management in such sectors as water, in connection with climate change, can also provide a springboard for governance dialogue, as exemplified by April 2006’s EU-Central Asia conference in Almaty.
CONCLUSIONS

A concerted approach is the only way for the EU to make itself heard in the international debate on governance. The EU must make a stand on this key issue of development cooperation, basing its position on the defence of a number of principles:

• While governance and capacity building should indeed be high on the development cooperation agenda, poverty reduction and the other MDGs remain the overriding objectives of EU development policy, as laid down in the European Consensus on Development. Good governance, though a complementary objective, is basically a means towards the ends represented by these priority objectives.

• The EU’s approach is based on a broad definition of governance, which it perceives as a process of long-term change, based on universal objectives and principles and common aspirations that must inform the main functions of government, all areas of state intervention and the interaction of public institutions and citizens. Democratic governance affirms the rights of all citizens, both men and women, and cannot therefore be reduced simply to tackling corruption.

• Democratic governance must be approached holistically, taking account of all its dimensions (political, economic, social, cultural, environmental, etc.). The processes of democratic governance will be supported more effectively by dialogue than by sanctions and conditions.

• Ownership of reforms by partner countries and a dialogue-based approach, encompassing capacity-building support and the prevention of state fragility, will bolster the processes of democratic governance and help legitimise institutions in the eyes of the citizen.

In order to increase the effectiveness of support for governance and to promote processes towards democratic governance in a harmonised manner, the Community and the Member States must agree practices in this area:

• Dialogue with individual partner countries on governance reforms should be conducted jointly by the Commission and those Member States represented on the ground. This dialogue should then be translated into coherent approaches to aid programming and coordinated support for governments’ reform programmes.

• Via its governance initiative for the ACP countries and Africa, the EU is creating a new incentive mechanism that will give partner countries access to additional funding according to their governance commitments. Some €3 billion will be reserved for such incentives. The EU will also provide political and financial support for the African Peer Review Mechanism, with due regard for the African countries’ ownership of the process.

This contribution to the design of a common EU approach to democratic governance must be viewed in the broader context of the EU’s external policies, the promotion of peace, security and sustainable development, and take account of the likely substantial increase in official development assistance and the desire to ensure the effectiveness of aid, which fully justify a deeper debate on governance in development cooperation.