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COMMISSION STAFF WORKING PAPER

**SUPPORTING DEMOCRATIC GOVERNANCE THROUGH THE GOVERNANCE
INITIATIVE: A REVIEW AND THE WAY FORWARD**

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1. INTRODUCTION – PURPOSE OF THIS REPORT

The Council conclusions of 17 October 2006 welcomed the Commission's Communication¹ and initiatives regarding: the "Governance Initiative for the ACP countries and the strategy for Africa" and requested the Commission and Member States to engage in a joint review process on the proposed Governance Initiative, with regular expert-level cooperation, and produce a report by the Commission to the Council in 2008.

The Council also provided guidance to frame and deepen the debate on the links between democratic governance and EU development policy.

Poverty reduction and the Millennium Development Goals (MDGs) will not be achieved without decisive progress in democratic governance. MDGs can not be achieved by financial resources alone. Governance is critical for building an effective developmental state because it strengthens the consensus on how we are governed. The Commission Communication on Governance (2003)² provides for a holistic approach to governance and development in its policies and programmes. The EU Consensus on Development sets out the EU Approach and contribution to addressing enhancing governance through identifying good governance, democracy and respect for human rights as internal to the process of sustainable development and as major objectives of EU policy. The EU provides substantial assistance to governance through the European Development Fund (EDF), as well as, through the geographic and thematic programmes of the EU Instruments for external assistance under the EU-budget such as the Development Cooperation Instrument (DCI), the European Neighbourhood Policy Instrument (ENPI), the Instrument for Stability (IfS), the European Initiative for Democracy and Human Rights (EIDHR), etc.

The Governance Initiative provides for an evolution of this approach to governance by emphasising dialogue and incentives rather than sanctions by constructing an agreed 'contractual' relationship with the Governance Action Plan (GAP). This report draws the first conclusions 24 months after the adoption of the Council conclusions, the setting-up of the governance profiles, the launching of the governance incentive tranche under the 10th European Development Fund (EDF) and the allocation of €2.7 billion to this instrument. It assesses the technical aspects of the process and its impact on the way in which the European Commission (EC) and the EU support partner countries' efforts on the path to democratic governance.

2. EU SUPPORT FOR DEMOCRATIC GOVERNANCE

Concept and approach

The EU approaches governance from many angles, including political, economic, environmental, cultural and social aspects. Democratic governance spans a broad range of issues, such as respect and promotion of human rights and fundamental freedoms, democratisation and citizens' involvement in the political process, the rule of law and access

¹ "Governance in the European Consensus on Development– towards a harmonised approach within the European Union" – COM (2006) 421 final of 30.08.2006

² "Governance and Development COM 2003, 615 final of 20.10.2003

to justice, gender equality, human security, access to information, management of migration flows, access to basic public services, effective, transparent, responsive and accountable State institutions, sustainable management of resources and promotion of sustainable economic growth and social cohesion. All levels of governance – local, national and international – are relevant. All these aspects are interlinked and must be addressed in a holistic, balanced and comprehensive way. Democratic governance processes cannot be reduced to one specific component.

There is no magic recipe to promote democratic governance other than partner governments' and public/private institutions' commitment to reform. The central issue is not that donors classify the governance situation in a given country as “good”, “bad”, “weak” or “strong” and allocate aid accordingly. It is more important to focus the discussion on methods and approaches to support governance processes. Promoting democratic governance and supporting partner countries' efforts are an integral part of cooperation strategies. Respect for ownership, dialogue between partners and a focus on incentives for result-oriented reforms are the main principles of EU support for governance.

Incentives

In order to put this approach into practice and build on existing support, the European Commission launched the “Governance Initiative for ACP countries and Africa” in 2007 and an ENP “Governance Facility” for countries neighbouring the EU.

The Governance Initiative for ACP countries and Africa is two-pronged:

- First, it is a new incentive mechanism that gives ACP partner countries access to additional funding, based on their commitments to achieve tangible results in their democratic governance reform programmes. €2.7 billion from the 10th European Development Fund were reserved for such incentives: the “governance incentive tranche”³.
- Second, under the Governance Initiative, the EU will also continue to provide political and financial support for the African Peer Review Mechanism (APRM), with due regard for the African countries' ownership of the process. The EU is providing support for the process and the reforms it generates at national level.

Meanwhile, under the European Neighbourhood Policy (ENP), which also covers certain North African countries, a Governance Facility has been in operation since 2007. This Facility provides additional financial support to certain neighbouring 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 the “core” governance issues: democratic practice, respect for human rights and fundamental freedoms and the rule of law. It is thus in line with the European Consensus on Development and, while adapted to the specific ENP tools – the ENP Action Plans - has an approach which is consistent with the Governance Initiative. The ENP Governance Facility, based on Articles 2(1) and 7 of the European Neighbourhood and Partnership Instrument⁴, provides funding, in addition to national allocations, to those partner

³ For details see Annex 1.

⁴ Regulation (EC) No 1638/2006 of the European Parliament and of the Council of 24 October 2006 laying down general provisions establishing a European Neighbourhood and Partnership Instrument

countries which are assessed to have made the most progress in implementing the governance-related objectives of their agreed reform agenda as set out in their ENP Action Plans (which contain both general and specific commitments on governance-related reforms).

Dialogue

The 2006 Council conclusions on governance and the Governance Initiative stress the importance of regular political dialogue between the EU and partner countries in all regions. This should cover every aspect of democratic governance in order to facilitate mutual understanding of the reforms needed and also to guide possible support measures. The Governance Initiative aims at creating incentives for a deeper political dialogue focused on governance.

Strengthening the framework

The EC approach to democratic governance builds in part on the experience gained from launching the first large-scale operation in the field, based on a “contract for reform and good governance” with partner countries supported by additional financial resources.

Democratic governance requires a State that is capable of delivering key functions, accountable to its people and, lastly, responsive to the needs and express wishes of its people. It can be seen at many levels from the national to the community. Local authorities and civil society are key drivers to make the state more accountable. Poverty reduction and long-term development are best promoted within a framework of democratic governance: a method which promotes inclusive decision-making. Democratic governance is not determined by any specific set of institutions but is characterised by an agreed set of principles – rule of law, accountability, fair representation and effective participation and voice as well as a set of values which recognise the individual and collective human rights.

Accordingly, it would be appropriate to agree the principles of how to promote democratic governance. This would consolidate and enhance the concept of governance, which was the subject of a Commission Communication in 2003 and Council conclusions in 2006. The importance attached to EU development policy should translate into: (i) a harmonised political approach, at EU level, to democratic governance and (ii) additional coordinated support for partner countries’ reform efforts (depending on the credibility of the reform process). This harmonisation of the political approach will need to be pursued at EU level.

3. THE 10TH EDF GOVERNANCE INITIATIVE

3.1. The review: scope and method

The main steps of the process can be summarised as follows:

- A “governance profile” (GP) has been established by the European Commission in association with EU Member States for each ACP country. It is an analytical tool that gives

an overview of nine areas of governance⁵ and helps to identify the main weaknesses, the priority areas and the needs for reform.

- The conclusions drawn from the profile are shared, as appropriate, with the partner government in the programming dialogue. The partner country is encouraged to give relevant, ambitious and credible commitments to reform and to put forward a “Governance Action Plan” (GAP).
- A qualitative assessment of the GAPs presented by partner countries, focusing on their relevance in the light of the main weaknesses identified in the GP and on their ambition and credibility, determines allocation of this financial incentive, which is integrated into and tops up the overall country allocation.
- The GAP is attached to the Country Strategy Paper in order to formalise in a “contract” this “incentives based on commitments” approach.

An amount of €2.7 billion has been set aside for this instrument, of which €2.22 billion has been allocated to 70⁶ ACP countries. The funds were used to “top up” the existing financial commitment earmarked under the A envelope rather than identified separately as a specific allocation.

This section assesses the allocation process and its main steps, with particular focus on the tools (governance profiles, programming dialogue, Governance Action Plans and the incentive tranche itself) and how they are used in practice.

The findings and conclusions are the result of the work of a Joint Commission/Member States reference group supported by a team of consultants who carried out a survey based on responses to questionnaires by a broad range of stakeholders⁷. Workshops with representatives of civil society and with experts from the European Commission and from EU Member States and discussions with other stakeholders and development partners also provided relevant input.

3.2. The governance profile

The Commission, Member States, partner governments and development partners perceive the governance profile as comprehensive and rigorous in design and robust in content. It generally provides a relevant and accurate analysis and, therefore, is a useful diagnostic tool, which helps to identify priorities for reform that the Commission and EU Member States can discuss with partner governments. Member States generally consider that their involvement in preparation of this first set of governance profiles was adequate.

⁵ (1) Political governance: human rights, fundamental freedoms, electoral process, constitutional democracy; (2) The rule of law: judicial and law enforcement system; (3) Control of corruption; (4) Government effectiveness: institutional capacity, public finance management; (5) Economic governance: private-sector/market-friendly policies, management of natural resources; (6) Internal and external security; (7) Social governance: decent work, gender, HIV/AIDS; (8) International and regional context: regional integration, involvement in regional initiatives, migration; (9) Quality of the partnership: political and programming dialogue.

⁶ 70 CSPs which were adopted, 3 do not include a GAPs, Bahamas, Côte d'Ivoire and Somalia.

⁷ See details on methodology in Annex 2.

A number of process- and content-related issues will need to be addressed in the future:

- The guidance for preparation of the governance profiles from Commission headquarters was considered insufficient by Commission Delegations and Member States. The timeframe for preparation of the profile has been insufficient and the allocation of human resources to this task has not been optimum. This, combined with limited or unsystematic information from EU Member States' capitals to their embassies and field offices in partner countries, has complicated European Commission Delegations' task of consolidating an EU governance analysis in some partner countries. Based on this experience, the European Commission and EU Member States should compile a comprehensive manual on how to prepare and update governance profiles, along with the relevant awareness-raising tools and training material.
- Some of the questions integrated into the governance profile could be reformulated or expanded and specific questions could be added to assess the underlying causes of weak governance, to sharpen the focus on informal institutions, enhance a focus on international obligations and to give a better picture of the dimensions of fragility (conflict, peace, security and State-building) and of the links between governance and security. The sources of information and links provided in the template to facilitate completion of the profile need to be updated, integrating internationally used sources but also access to local indicators and governance assessments. This revised guidance will draw on the work being done by the Commission on the elaboration of sector governance assessments.
- Joint work by European Commission/EU Member States experts on these issues seems necessary to consolidate the profile as the EU analytical tool, to improve its quality and robustness and to facilitate the potential use of the profile for analytical purposes in non-ACP partner countries and regions.

There has been substantive work done recently by OECD/DAC on Governance Assessments in light of the rapidly increasing production and use of these tools. This will be used in the revision of the guidance on the governance profile to highlight its value added to other existing and ongoing governance assessments in and by the partner countries and on how it has been aligned to such national processes and assessments.

3.3. The programming dialogue

The governance incentive process rewards political will for reforms and is therefore intended to facilitate dialogue on governance. This should, in turn, result in better integration of governance into cooperation strategies, based on the analysis provided in the governance profile and the willingness for reform demonstrated in the Governance Action Plans.

The review shows a strong focus on governance throughout the 10th EDF Country Strategy Paper (CSPs). Compared with the 9th EDF, there is an incremental increase in governance as a focal sector and better understanding and use of governance diagnostics in the programming by EC staff, both in the field and at headquarters. In cases such as Cameroon, Rwanda, Ghana, Angola and Guinea-Bissau, the findings of the governance profile and the commitments in the Governance Action Plan are mainstreamed well in the relevant Country Strategy Paper, both in the decision on whether or not to make governance a focal sector and in the specific governance activities proposed. In other cases (Senegal, Papua New Guinea and Sierra Leone) this integration is less visible. In the case of Democratic Republic of

Congo, the incentive tranche process has contributed to more consistent programming between EU, bilateral and other donors.

Stronger coordination in this matter will be ensured in the future, by further linking the outputs and processes of the Governance Initiative (Profile, Action plans, joint monitoring, political and programming dialogue) with those of the geographic and thematic programmes of the EU Instruments for external assistance (DCI, ENPI, IfS, EIDHR etc.).

3.4. The Governance Action Plan (GAP)

Integration of the GAP into the CSP can be conceptualised as a “contract” between the EC/EU and the partner country.

The review found that the Governance Action Plans are usually relevant to the problems identified in the governance profile and are viewed as a constructive basis for reform. However, the quality of the Plans is variable and some lack specific action, indicators, timetables and means of verification. The majority of the Plans are based on existing national policy documents, although some include new measures. Key documents, such as the Poverty Reduction Strategy paper (PRSP) or African Peer Review Mechanism (APRM) Plan of Action, are sometimes perceived as not adequately reflected in the GAPs. There are also several cases where the Governance Action Plan has been drafted in addition to pre-existing donor/government processes for discussion and joint monitoring of governance reforms. Existing policy and governance strategies should be used by the Government to formulate the GAPs. In the case of APRM plans of action, while the number of countries is at present limited, there is a need to use this as the basis but not substitute for the GAP.

Involvement of in-country civil society and development partners in identification of the reforms to be put forward in the Governance Action Plans has been limited, often due to time constraints, but also because preparation of the Governance Action Plan was not well integrated into preparation of the overall CSP, where civil society is consulted and involved. Issues related to the limited capacity of partner governments to prepare Governance Action Plans were noted: in practice many governments have found the process burdensome, difficult and time-consuming, particularly in cases where existing reform plans had to be summarised into the indicative template proposed in the guidelines. Capacity constraints will be of crucial importance in the implementation phase and support through EC and other donor’s programmes will maximise chances of success.

3.5. The tranche – differentiation and financial incentive

The level of incentive tranche per country was determined by a qualitative assessment of the Plan. This qualitative assessment was double-checked by a quantitative assessment (scores for the relevance, ambition and credibility of each commitment or group of commitments). Qualitative assessments of every Governance Action Plan were prepared by Commission headquarters and sent to Delegations for discussion with EU Member States’ representatives in the country. After this assessment was agreed in the country, it was presented and discussed in the EDF Committee and the incentive tranche was added to the draft CSP which, in turn, was presented to the EDF Committee for its opinion and then signed between the Commission and the partner country.

The overall result of this allocation (excluding specific “APRM” bonuses and/or “functional cross-country cooperation on governance”) for the 67 countries that have presented a Governance Action Plan is as follows:

- 5 Plans – 10% incentive tranche;
- 12 Plans – 20% incentive tranche;
- 47 Plans – 25% incentive tranche;
- 3 Plans – 30% incentive tranche.

Individual assessments and the amount of incentive tranche allocated to each country have not been made public. The Governance Action Plans assessed are attached to the CSP and, therefore, are public documents.

This process has been criticised by many stakeholders during the review process, in particular for lack of transparency and because it leads to a purely political exercise. Many stakeholders feel that the financial result of the exercise reflects this dominant political dimension and that there is not enough differentiation between countries, reflecting the underlying quality of the Governance Action Plans. The difference between levels of incentive tranche (10/20/25/30%) is often considered too small.

The incentive nature of the financial allocation is also questioned. Comparison between the size of the additional tranche and national income and total aid receipts clearly shows that the financial significance of the governance incentive tranche is modest. For nearly all the ACP countries the incentive tranche is equivalent to less than 0.5% of gross national income (the average figure is 0.29%). Expressed as a percentage of official aid, the governance incentive tranche is slightly higher.

3.6. Governance and political dialogue (Article 8 of the Cotonou Agreement)

The Governance Initiative is intended to encourage political dialogue, provide the diagnostics for key governance issues and enhance the political will for reform. The review indicates that the Governance Initiative is viewed positively by the Commission and the EU Member States in terms of its potential impact on the political dialogue. The contribution made by the Governance Initiative to the political dialogue is seen as a potential benefit rather than one that has already been reaped. Practice and procedures for political dialogue vary greatly. In most cases governance is part of the political dialogue when such a dialogue exists. If terms of reference are agreed, governance issues feature as high priorities. It would be opportune to develop a further standard methodology for regular assessment of Government commitments and the incorporation of results of this exercise into political dialogue.

3.7. Contribution to aid effectiveness

The Governance Initiative is also linked to the application of the Paris Principles on Aid Effectiveness and the harmonisation of Member States’ policies on governance. This is achieved both by creating incentives for dialogue on governance to enhance ownership and alignment with the aid of the Governance Action Plans and by using the tranche allocation to bolster the reforms identified as priorities of the government and thus an enhanced focus on results. In many countries the Initiative has improved discussion between EU donors on

governance issues and led to clearer diagnosis and a sense of greater shared understanding of the main challenges. Some EU Member States have indicated that their own country strategies had drawn on insights from the governance profile. But apart from information sharing and joint analysis, in general discussion of the governance profile and Action Plan has not yet led to enhanced donor coordination, joint action, joint monitoring or joint dialogue.

3.8. Next steps

Assessment and analysis

On the basis of the review the guidelines for preparation of the profile, GAP and other stages should be updated to provide greater clarity, inclusiveness and transparency, as well as, more focused content. Secondly, guidelines should be drawn up on how the profile and Governance Action Plan should be monitored and included in the annual, mid-term and end-of-term reviews. And, thirdly, political dialogue on governance issues should be stepped up, be more systematic and regular and be seen in a more strategic long-term perspective.

Mid-term review

The 10th EDF provides for a mid-term review in 2010 and an end-of-term review of the Country Strategy Papers in 2013 (Cotonou Agreement, Annex IV, Article 5). Governance needs the same visibility and integration in the monitoring process as in the programming process. The guidelines which the Commission will draw up for the monitoring process will, firstly, identify governance as a separate and strongly weighted dimension of performance. Secondly, they will use an integrated assessment of the governance situation, including progress on the political dialogue, the trajectory of the governance situation and implementation of the “contract”, i.e. the Governance Action Plan. And, finally, with governance being the key to aid and development effectiveness, it is important to monitor governance aspects in relation to other aspects of development performance.

4. CONCLUSIONS AND LESSONS LEARNED

- “The Governance Initiative for ACP countries and Africa” has laid the foundation for most ACP countries to commit themselves to implement governance reforms in different areas. For Africa in particular, this approach has furthermore led to an enhanced Africa/EU dialogue on governance issues in the framework of the Joint Strategy and Action Plan for 2008-2010.
- The Governance Initiative (the process, the instruments and the tools) is innovative and well adapted to the EU policy approach to supporting democratic governance. The European Commission does not claim to have found the “magic recipe” leading to “good governance everywhere”, but, more modestly, to have launched an initiative that has good potential to promote reforms owned by partner countries and to facilitate dialogue between partners.
- The incentive tranche was allocated over a period of less than 24 months between mid-2006 and mid-2008. In such a relatively short time, the Commission has led an EU process which has developed a system producing extensive outputs, including substantial improvements in European Commission/EU analysis of governance challenges, with an

impact on programming and dialogue on governance. It is obviously too early to assess the outcome of the Governance Action Plans.

- The main shortcomings of this Governance Initiative process lie in the uncertainties and changes in the method in the months immediately after the process was launched. When the allocation methodology was decided, the programming process had already been launched: in many cases, the timeframe did not allow proper implementation of every aspect of this method. This did not provide for the highest level of ownership by ACP countries nor allow in all cases for consultation with key actors including parliaments or civil society. Further, this did not provide for sufficient development of a methodology and process to monitor and assess progress in commitments. This has had a direct impact on the challenges related to ownership, the alignment and harmonisation with other existing governance assessments in the respective partner country and inclusion of all stakeholders concerned.
- These problems must be avoided in the next stages of the work, which consist of preparation and adoption of the method for monitoring implementation of the Governance Action Plans with a view to integrating governance into the 10th EDF mid-term review.
- The public consultation confirmed that the credibility of the Governance Initiative depends heavily on actual implementation of the Governance Action Plans. A sound methodology needs to be prepared to ensure proper monitoring and “standard, objective and transparent” (European Consensus) performance assessment, within the framework of the relevant provisions of the Cotonou Agreement, combining regular political dialogue between partners with the review mechanisms provided for in the Cotonou Agreement. Member States will continue to be consulted on this issue. For performance assessments to be results-based, Member States and ACP partners will be consulted on the development of appropriate indicators. The credibility of the plans may be increased by associating all democratic actors in the countries concerned, in order to institutionalise proposed reforms further into the national political debate. This would include regular political dialogue between partners and the review mechanisms foreseen in the Cotonou Agreement, which includes consultation of in-country Civil Society.
- The Governance Initiative process should further develop its potential for contributing to a comprehensive approach to aid effectiveness, donor coordination and harmonisation of EU Member States’ policies, strategies and programmes to support democratic governance. The tools available offer a good opportunity to go well beyond “information sharing” and engage in joint analysis and joint responses in the areas of governance, within donor-wide coordinating mechanisms where these exist.
- The Governance Initiative process was launched one year before the Commission Communication and Council conclusions on an EU response to situations of fragility. Although the incentive tranche method integrates fragility into the assessment of Governance Action Plans, the particular governance challenges in countries facing situations of fragility could be better reflected in the profile, which should focus more on security and institution-building in order to develop its potential for shaping the EU response to fragile situations where State-building is of primary importance.
- The governance incentive process and the APRM must jointly develop more intensive interaction. EC support for the APRM has focused on the process and on the reforms

generated at country level. The European Commission has tried to provide “neutral” support for the process. This has included a contribution to the UNDP-managed Trust Fund for operation of the APRM Secretariat and support for national structures in African countries reported by some Commission Delegations (Tanzania and Ghana). An extra 5% under the incentive tranche was allocated to countries that had completed the APRM process (Ghana, Rwanda and Kenya). The European Commission has been observing developments in the APRM and has adapted the method accordingly, so that the incentive tranche can be distributed in a way that reflects the state of play of the APRM and provides balanced support for it. Ways to develop a “continental” dimension to the incentive tranche should be explored within the Joint Africa/EU Partnership on Democratic Governance and Human Rights. Lessons learned in this respect could be replicated in the Caribbean and Pacific regions.

- The incentive created by the tranche is primarily political: encouragement for the partner country to engage in a political dialogue on governance and to formalise its political commitment for reform in a “contract”. The European Commission will continue working with EU Member States, so that they can adhere more explicitly to this political dimension of the incentive tranche process, the governance profile can become the EU reference for the governance analysis and the Governance Action Plans can become the EU reference for the regular dialogue on governance reforms. The political dialogue on governance issues should be stepped up, be more systematic, inclusive and regular and be seen in a more strategic long-term perspective. The EU should set clear objectives which it wishes to achieve via the political dialogue on governance issues. The profile and GAP have the potential strongly to influence the content of the political dialogue and also to help with defining the objectives of the dialogue in a donor-wide context. However, this conclusion on the incentive nature of the Initiative is still tentative as the Annual Operational Reviews in 2009 (AORs) and Mid Terms Review (MTR) in 2010 of EDF 10th have not been completed. The methodology for the AOR and MTR will provide for an assessment of the fulfilment of the commitments as well as a positive trajectory of change on democratic governance.
- The “financial incentive” offered by the 10th EDF Governance Initiative alone remains modest. In order to reinforce this dimension, EU Member States should explore more actively the relevant proposals formulated in the 2006 Communications. These include (i) an increase in bilateral programmes in coordination between the Commission and Member States and (ii) extra funding added to the NIPs and disbursed within the framework of the NIPs managed by the Commission.
- The European Commission and EU Member States have developed a very constructive working relationship at expert level. Joint work on governance must continue, not only to fine-tune existing tools (governance profile) or discuss ways of integrating governance within the 10th EDF methodology for the MTR, but also with a view to both expanding joint work to regions other than the ACP countries and including other development partners and stakeholders. This would be developed on the basis of the assessment of the impact of the Governance Initiative and the lessons learnt from the implementation of the existing ENP Governance Facility.
- Implementation of the Joint Africa/EU Partnership on Democratic Governance and Human Rights provides good opportunities for closer cooperation, including the ongoing work within the relevant EU Implementation Team (co-chaired by Germany and Portugal) and

the future work of the Informal Joint Expert Group, involving African countries and institutions, EU institutions and representatives of civil society from Africa and the EU.

- The forthcoming informal Ministerial-level meeting on 29 January 2009 will be useful opportunity to continue the debates on options to support democratic governance within the framework of EU development policy and cooperation with developing countries.

ANNEXES

Annex 1 - Guidelines – Governance within the 10th EDF aid allocation criteria

The 10th EDF is significantly larger than the 9th. That makes it possible to ensure a minimum of **continuity and predictability** by allocating to each country a potential programmable amount which, on a year-on-year basis, will be not lower than the amount under the 9th EDF, while differentiating based on needs and performance.

The amount available for the A envelopes of the NIP (€13.5 billion) is allocated in **two phases: (1) initial allocation**, based on quantitative needs and performance criteria (€10.8 billion); **(2) governance incentive tranche**, based on the quality of the partner country's reform agenda, assessed in terms of its relevance, ambition and credibility (€2.7 billion).

Governance incentive tranche

The quantitative model does not integrate, in any comprehensive way, in-country democratic governance processes which are critical for aid effectiveness in fighting poverty. Introduction of a “governance incentive tranche” enables the ACP States to top up the initial allocation, based on their willingness to undertake reforms in this area.

First step

An analysis of the democratic governance situation in each ACP country is made, based on a detailed questionnaire allowing the Commission to establish a “**governance profile**” in close cooperation with the Member States represented locally. Democratic governance is defined broadly and encompasses nine areas⁸. The analysis covers both the current situation and recent trends. The Commission Delegations, in coordination with the Member States represented locally, identify the main weaknesses. In order to ensure a standardised process and comparable results, the analyses are then harmonised by the Commission at headquarters⁹.

Second step

The Delegation shares the outcome of the analysis, i.e. the main weaknesses identified and possible priorities for reform, with the partner country. In the context of the programming dialogue, the government is invited to draw up a list of commitments (a “Governance Action Plan”) to be attached to the Country Strategy Paper. These commitments can be based, at least partially, on existing reform plans, such as those included in the poverty reduction strategy papers or identified in the framework of the African Peer Review Mechanism or similar initiatives.

⁸ Political/democratic governance; Political governance and rule of law; Control of corruption; Government effectiveness (including public finance management); Economic governance (including investment climate and management of natural resources); Internal and external security; Social governance; International and regional context; Quality of the partnership.

⁹ As a reference point, the Commission used the composite “KKZ governance index” developed by the World Bank Institute, which provides useful information on the first six areas of governance.

The commitments in turn are evaluated by the Commission in cooperation with the Member States represented locally, based on the three following criteria:

- **Relevance:** do the proposed reforms address the principal weaknesses identified in the governance profile?
- **Ambition:** does the answer address the various dimensions of the problems identified or is it only limited and partial, reflecting weak political willingness to tackle the root causes of the problem?
- **Credibility:** are there intermediate and final, objectively measurable, results-oriented indicators and is there a precise timetable for implementation of the reforms which makes it possible to monitor the progress achieved? This criterion could possibly also include past performance and recent trends in governance in order to assess the political credibility of the proposed reforms and the political willingness to implement them.

Quantification of the incentive tranche

The qualitative assessment of governance is supported by quantitative elements, in the form of scores, again in order to standardise the process and to facilitate comparability across countries. Each of the main weaknesses identified and that should be addressed is given a country-specific weighting, reflecting its relative importance on the basis of the analysis of the situation. The level of relevance of the reform agenda of the partner country's Governance Action Plan can be assessed as basic, intermediate, high or exceptional. A similar evaluation can then be made for the ambition and credibility criteria.

When assessing the Governance Action Plan, special attention must be paid to countries coming out of a crisis or in a situation of fragility. The scope and depth of the problems to address are so broad that numerous fields of governance can be considered relevant, even though some may deserve more attention than others. Although the ambitions of the Governance Action Plan may appear weak or intermediate in absolute terms, they may be high in relative terms, taking into account the particularly difficult and challenging environment, and therefore merit specific support. Similarly, while the internal consistency and credibility of the Governance Action Plan may appear disappointing, allowance has to be made for the context of structural fragility in which it will have to be implemented.

By combining the scores for the three criteria, four levels of incentive tranche have been set:

- An initial level of 10% for countries which, simply by accepting to attach a Governance Action Plan to the Country Strategy Paper, have confirmed their willingness to enter into a dialogue with the European Commission on this issue, even though the relevance, ambition and credibility of the Plan itself are of only basic or intermediate quality;
- A second level of 20% for countries whose Governance Action Plan is of high quality on at least one or two of the evaluation criteria, confirming that some of the issues identified as priorities are at least partially addressed;
- A third level of 25% for countries whose Governance Action Plans are of high or exceptional quality for all the criteria: the plans are relevant, ambitious and credible and can be used as a framework for the dialogue on and monitoring of the democratic governance reforms;

- A fourth level of 30% for countries whose Governance Action Plans are of exceptional quality for all the criteria.

Countries with second- or third-level governance plans that have taken additional measures to consolidate their governance agenda, such as completion of the African Peer Review Mechanism, qualify for a bonus, set at 5%. Similarly, countries that make additional commitments in functional cooperation arrangements between ACP countries on democratic governance may also qualify for topping-up of their incentive tranche, which may not exceed 5% and will be funded from the incentive tranche reserve.

This approach puts the entire weight of the allocation decision on the quality of the commitments, assessed by taking the present governance situation and the main weaknesses identified as the starting point, thereby confirming its incentive nature.

The incentive tranche is added to the initial allocation and, in principle, will be allocated to the sectors already identified in the NIP on the basis of the principles of unity of programming, of concentration and of complementarity between donors. Similarly, the monitoring will be integrated into the mid-term review, where possible reallocations will be based on a global assessment of various performance criteria (financial, sectoral, macro-economic and governance-related) and affect the consolidated A envelope and not the incentive tranche alone.

Annex 2 - Methodology for the support study by consultants and the review of the Governance Initiative

The review provides for an assessment of the tools and key stages for allocation of the governance incentive tranche (governance profile, programming dialogue, Governance Action Plans and allocation methodology). It analyses process-related issues (parties involved, ownership by partner countries, etc.) and the impact at various levels (alignment with the Paris Declaration, links with the PRSP, synergies with the regular political dialogue under Article 8 of the Cotonou Agreement, coexistence with the APRM, integration into the aid programming process and link with the Country Strategy Papers) plus possible options for integration into the review mechanisms for cooperation with ACP countries.

Issues linked to the governance incentive tranche process in this review have been addressed by the Commission in close collaboration with Member States' experts in workshops and an ongoing reference group of EU Member States.

Workshops with representatives of civil society, in-house seminars within the Commission and bilateral consultations with key development partners have provided very useful input to the review.

The review was supported by a survey based on questionnaires sent to EC Delegations, EU Member States' embassies and capitals, partner governments, representatives of civil society and international development partners. Over 139 responses were received, followed up by interviews of key respondents, to which 65 responses were received from EU MS embassies and country offices and 10 from EU MS capitals supplemented by responses from 39 EC Delegations, 9 international organisations, 3 non-EU donors, 5 civil society organisations and 9 partner governments. A study was undertaken by consultants which built on these results. This was supplemented by in-depth analysis of country case studies with a suitable geographic spread covering all ACP regions showing different levels of political stability and receiving different levels of allocation from the tranche.