



EUROPEAN COMMISSION

Brussels, 7.9.2011
COM(2011) 541 final

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

**PROPOSAL FOR THE EU COMMON POSITION FOR THE 4TH HIGH LEVEL
FORUM
ON AID EFFECTIVENESS, BUSAN**

1. INTRODUCTION

Aid reform originated in the Monterrey Consensus on Financing for Development (2002), in which the international community agreed to more effective Official Development Assistance (ODA). Subsequent High Level Forums in Rome (2003), Paris (2005) and Accra (2008) added principles, concrete commitments and a monitoring framework to strengthen the reform.

The objective of the 4th High Level Forum, to be held in Busan from 29 November to 1 December 2011, is to assess progress against agreed commitments, review the aid effectiveness agenda and link it with the wider agenda on development financing. The focus is on supporting strengthened development results in the context of new global development challenges and partnerships, including the engagement of emerging economies. The Forum is not to duplicate the international agenda on Financing for Development but to focus on the added value of aid effectiveness in reducing poverty and achieving the Millennium Development Goals by 2015.

The purpose of this Communication is to propose the EU Common Position for Busan to be followed by the EU and its Member States (hereafter referred as the EU) participating in Busan. The Communication assesses progress in implementing the commitments and provides proposals on how to focus the aid effectiveness agenda and to extend its principles to other actors and sources of development finance. It also proposes streamlining the global governance structure and focusing on country level implementation.

2. EVIDENCE OF PROGRESS

For the first time, a wealth of information on aid reform and its impact on development results is available. The independent Phase II Evaluation and the Monitoring Survey of the Paris Declaration provide evidence of performance against the Paris and Accra commitments.

The evidence concludes that pursuing the aid effectiveness agenda has led to aid quality improvements through strengthening norms of good practice and better partnerships. This has contributed to achieving development results. Evidence confirms that among the five aid effectiveness principles country ownership has advanced furthest. Alignment and harmonisation have progressed unevenly, while the use of partner country systems has not increased despite improvements in those systems. Managing for development results and mutual accountability have advanced least. The trend in aid predictability has even gone into reverse compared to 2005. Overall, progress is slow on the part of both partner countries and donors as only two out of 13 targets have been achieved globally: coordinated technical cooperation and untying aid.

The performance of the Commission and 14 Member States¹ which participated in the Monitoring Survey is better than global performance overall. The EU Operational Framework on Aid Effectiveness has been instrumental in this. The Commission and 14 Member States perform well on three targets: on joint technical cooperation and in using country systems for

¹ In addition to the Commission, the Member States that participated in the survey are Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and United Kingdom.

public finance management and procurement. The performance of the Commission and 14 Member States has been less successful in predictability, use of programme-based approaches and joint missions. Aid fragmentation, which increased between 2005 and 2009, and transparency remain as challenges. The preliminary results of a study commissioned by the Commission² suggest that by implementing the Paris and Accra commitments more ambitiously the EU would gain €4 billion a year.

This table summarises global performance and the performance of the Commission and 14 Member States in 32 partner countries which took part in the 2005 and 2010 monitoring surveys.

	Global 2005	Global 2010	EU ³ 2005	EU ⁴ 2010	Target 2010
1 Operational development strategies	19%	52%	1)	1)	75%
2a Quality of public finance management	-	38%	1)	1)	50%
2b Quality of procurement systems	-	-	1)	1)	No target
3 Aid reported on budget	44%	46%	42%	51%	85%
4 Coordinated technical cooperation	49%	51%	40%	61%	50%
5a Use of public finance systems	40%	48%	48%	55%	55%
5b Use of procurement systems 2)	40%	44%	51%	66%	No target
6 Reducing parallel project implementation units	-	32%	-	49%	66%
7 Aid is more predictable: disbursement as scheduled	42%	43%	41%	49%	71%
8 Aid is untied 3)	80%	87%	81%	82%	87%
9 Programme-based approaches	43%	48%	47%	51%	66%
10a Joint missions	20%	22%	27%	32%	40%
10b Joint analytical work	41%	44%	49%	59%	66%
11 Results oriented frameworks	7%	22%	1)	1)	38%
12 Mutual accountability frameworks	44%	50%	1)	1)	100%

1) Indicator for partner countries

2) Global score 2010 for all 78 partner countries

3) Indicator 8 are unweighted averages

At global level, slow and varying performance can be partly explained by the fact that it takes time to reform practices. Evidence suggests that most commitments have lacked political support and that approaches to aid effectiveness have been too bureaucratic. In addition, the contents of the agenda have been too broad to keep the necessary focus.

The evidence suggests there is a need to identify key commitments to strengthen aid reform and provide a basis for future focus, in line with priorities identified by partner countries:

Ownership: Partner country ownership is fundamental for aid to achieve development results. It needs to be deepened to democratic ownership to address the importance of inclusive dialogue and strengthened capacities among local stakeholders and institutions.

Transparency and predictability: Reliable, well-communicated aid flows are fundamental to increasing partner countries' ability to implement development strategies. Transparency and predictability also strengthen democratic ownership and accountability. They enable donor

² See: http://ec.europa.eu/europeaid/how/ensure-aid-effectiveness/documents/aid-effectiveness-benefits_en.pdf

³ See footnote 1.

⁴ See footnote 1.

coordination and results reporting. The study suggests that the lack of predictability of EU aid costs around €1 billion a year⁵.

Alignment: Aligning with partner country priorities and using country systems are important in supporting partner countries' ownership and leadership. Use of country systems supports the overall capacity development of partner countries to provide effective services

Accountability for results: Supporting development results is the overall justification for the aid effectiveness agenda. Accountability for results, in turn, should be addressed by increasing capacity to monitor, measure and report results and use them for making subsequent decisions.

Reduced fragmentation and proliferation: Proliferation and fragmentation lead to duplication and unnecessary transaction costs. The EU could save more than €700 million a year by reducing aid fragmentation⁶.

Countries in fragile situations: Evidence shows that aid effectiveness principles are relevant to countries in fragile situations, but enhanced implementation of good practices, adaptations and flexibility are needed.

3. FUTURE AID EFFECTIVENESS COMMITMENTS

While reaffirming the Paris principles, the Busan Forum should prioritise and deepen the key policy commitments of Paris and Accra. The overall aim is to enable a high level of ambition to support development results. The Busan outcome document should be the future framework for aid effectiveness encompassing the Paris Declaration and the Accra Agenda for Action while directing future implementation in priority themes and commitments. The Commission proposes that the EU Common Position should include the following themes and proposals for commitments by partner countries and donors including multilateral organisations and vertical funds.

3.1. Ownership

The Busan outcome document should address ownership as a combination of commitments on democratic ownership, capacity development, strengthened country systems and results-based conditionality.

Partner countries should, with the support of donors, commit to i) strengthen democratic ownership, emphasising an approach in which stakeholders negotiate a broad consensus on development strategies. Governments should promote an enabling environment for different stakeholders - including parliaments, civil society organisations and the private sector - to bring their added value into development processes. Such favourable conditions require functioning democratic, legal and judicial systems including respect for human rights and gender equality. Democratic ownership also requires transparency of information on development resources including the publication of national budgets. Partner countries should ii) institutionalise inclusive and results-oriented multi-stakeholder dialogues, and iii)

⁵ See footnote 2.

⁶ See footnote 2.

safeguard the active participation of groups often excluded from decision-making, particularly women.

Partner countries and donors should iv) reaffirm their commitment to capacity development as one key element for ownership, and v) agree to seek approaches that balance results orientation and long-term capacity development. Partner countries should commit to vi) continued leadership in country system reforms, and donors vii) should provide their capacity development support according to local priorities, context and capacity and use sectors as the primary entry point for joint approaches. Partner countries and donors viii) should work together towards harmonised and results-based conditionality.

3.2. Transparent, harmonised and aligned partnerships

Transparency and predictability

The main achievement in transparency since Accra has been the agreement and implementation of the International Aid Transparency Initiative (IATI) standard by its current 20 signatories, including nine from the EU. In Busan, donors should reaffirm their commitment to publicly disclose regular, detailed and timely information on aid volumes, conditions and the results of development expenditure. This should be done on an annual and rolling three- to five-year basis to enable accurate budgeting, accounting and auditing by partner countries.

In Busan, donors should commit to i) develop internal systems which allow for multi-year budgeting of development cooperation, ii) adapt a global reporting standard based on IATI and the Development Assistance Committee (DAC) Creditor Reporting System, iii) develop and implement mechanisms which align aid data standards with partner countries' budget classifications and iv) disclose all country-specific information of the DAC forward spending exercise, including more detailed information at sector level. Partner country commitments on transparency are integral parts of democratic ownership and accountability commitments.

In Busan, the EU should send a strong political message on EU leadership on transparency by launching an 'EU Transparency Guarantee' based on the existing transparency commitments adopted in the EU Operational Framework on Aid Effectiveness.

Reduced fragmentation and proliferation

Despite high investments by the EU on division of labour, aid fragmentation still presents challenges. The results of country and sector concentration take time to materialise, however, global efforts need to be increased.

The Paris and Accra commitments have not fully addressed the political nature of division of labour. In addition, evaluation shows that partner countries have not been able or prepared to lead in determining the optimal roles of donors.

In Busan, donors should commit to i) proceed further with concentration and division of labour while recognising that political decision making is essential for success, ii) move from individual country strategies towards joint assistance strategies among those donors that have the political will to work together, and iii) avoid further proliferating vertical funds and instead use and strengthen the existing channels. Donors and partner countries should iv) promote a global high-level debate on cross-country division of labour based on the DAC's

analytical work on fragmentation and forward-looking plans, also addressing under-funded countries.

Alignment

The evidence confirms that aligning with partner countries' national priorities and using their systems makes aid more effective. Use of country systems does not refer solely to budget support but is equally important for project support. Partner country governments have the lead in strengthening country systems while the identification and mitigation of risks should be done jointly by partner countries and donors.

In Busan, donors should i) reaffirm their current commitment to align with the partner countries' national development plans, and ii) to use and strengthen, together with partner countries, country systems for all aid modalities for more effective institutions and policies.

3.3. Accountability for results

The overall justification for the aid effectiveness agenda is that it supports achieving development results. Yet performance on results is significantly off track. The same applies to performance on mutual accountability between partner countries and donors and with their respective publics.

Both partner countries and donors are increasingly accountable to their publics on the use of aid funds and achieving results. While some countries have initiated mutual accountability frameworks according to the Paris and Accra commitments, they need to be rolled out universally and also include accountability for results.

While Paris and Accra affirmed the importance of managing aid to get results, in Busan the ability to measure and report results should be at centre stage. However, the pressure to deliver results should not compromise the longer term process of developing partner countries' capacities to plan, deliver, measure and report development results. Donor assessments of results should be based, to the extent possible, on partner countries' reports on results.

In Busan, partner countries and donors should deepen their accountability for development results by committing to i) increased investment in developing the statistical capacity of partner countries, including through the initiative Paris21⁷, and ii) strengthen partner countries' monitoring and evaluation capacities to track development results. Partner countries and donors should commit to iii) transparent reporting on development results using partner countries' assessment frameworks, iv) the universal use of mutual accountability frameworks tailored to country contexts to monitor progress on commitments and results and v) strengthen results-based decision-making for aid investments.

3.4. Countries in fragile situations

The Paris Declaration and Accra Agenda for Action recognised that aid effectiveness principles are relevant in fragile situations. However, they need to be tailored to the specific challenges of countries in fragile situations stemming from weak ownership and capacities

⁷ Paris21 is a consortium by partner countries and donors with a secretariat hosted by the Organisation for Economic Co-operation and Development (OECD), see <http://www.paris21.org/>

and the urgent needs for basic service delivery. The results of monitoring the 10 specific Fragile States Principles⁸ show that, while aid effectiveness principles remain relevant, the way they are implemented in situations of fragility needs more fine-tuning.

The Busan outcome should i) recognise and support the work of the International Dialogue on Peacebuilding and Statebuilding, and the growing leadership of the g7+⁹ countries by endorsing the Monrovia Roadmap on Peacebuilding and Statebuilding as a framework for defining and measuring results in fragile states, ii) endorse the DAC guidance on state building, transition financing and risk management in fragile situations, and iii) call upon donors to adapt their procedures for decision-making, funding and implementation to the specific challenges of situations of fragility.

4. EXTENDING AID EFFECTIVENESS PRINCIPLES TO OTHER SOURCES OF DEVELOPMENT FINANCE AND ACTORS

The evidence suggests that aid effectiveness commitments are relevant beyond their present scope in terms of actors and sources of development financing. The increasing importance of non-DAC donors calls for their wider participation in the aid effectiveness agenda and in the Busan Forum. The following sections addressing development effectiveness include the actors and sources of finance which can bring added value to effective development cooperation and which should be a priority in the Busan Forum.

4.1. Role of the emerging economies and South-South cooperation

Emerging economies are playing a rapidly growing role in supporting partner countries, including through South-South cooperation. It is important that Busan is used as an opportunity to strengthen the global development partnership based on the diverse approaches to and experiences of development.

Contributing to development results is relevant to all stakeholders providing development financing. The Busan Forum should include an exchange between partner countries, donors and emerging economies to share experiences in achieving results. Based on this the Busan Forum could build towards shared principles and differentiated commitments. Aid effectiveness principles can provide added value in formulating them.

The relevance of South-South and Triangular cooperation should be reaffirmed in Busan. To strengthen the results of these cooperation channels, the Busan outcome should address complementarities between North-South and South-South partners based on transparency regarding development financing flows. The Busan outcome should also emphasise the role of regional platforms for knowledge-sharing on successful development experiences as well as capacity development and aid management practices.

⁸ Fragile States Principles refer to the Principles of Good International Engagement in Fragile States to which OECD countries committed themselves in 2007.

⁹ The g7+ is an independent and autonomous forum of fragile and conflict affected countries and regions inaugurated at the first International Dialogue on Peacebuilding and Statebuilding, held in Dili, Timor-Leste in 2010.

4.2. Civil society organisations, local authorities and private foundations

Building on the Accra Agenda for Action and the results of the EU Structured Dialogue, the Busan outcome should reaffirm the recognition of civil society organisations (CSOs) as independent actors in their own right and acknowledge that CSOs complement the roles of governments and the for-profit private sector. In addition, the Busan outcome should recognise the role of local authorities when they have autonomy and the right to initiate specific interventions supportive of local development needs.

In Busan, civil society organisations and local authorities from donor and partner countries should be called on to continue their ongoing efforts to enhance accountability, transparency and integrity in their operations based on self-regulatory mechanisms such as the Istanbul CSO development effectiveness principles¹⁰.

The Paris principles are also applicable to private foundations that have an increasingly important role as donors. Foundations should be called upon to make adaptations to the Istanbul principles to fit their activities and partnerships.

Finally, when acting as donors, international CSOs and private foundations should promote local ownership by acknowledging the lead of local civil society in taking the initiative in identifying local development needs.

4.3. Working together with the private for-profit sector

The emergence of private actors offers different viewpoints and solutions to development challenges. This calls for closer involvement of the private sector in development cooperation to strengthen the catalytic role of aid. Increased cooperation should be based on the aid effectiveness principles.

Blending of loans with grants and further use of innovative financial instruments (risk capital, guarantees, risk-sharing) in cooperation with multilateral and bilateral institutions offers means to leverage additional development funding from the private sector. In Busan, development partners should be called on to further develop and increase the use of blending and innovative financial instruments. Furthermore, the private sector should be called on to take an active role in development cooperation through public-private-partnerships and corporate social responsibility practices.

4.4. International climate change finance as part of Official Development Assistance

The Copenhagen-Cancun process agreed on substantial finance to address climate change: so-called Fast Start Finance amounting to \$30 billion over the years 2010-2012 and an increase in public and private funding to reach \$100 billion per year by 2020.

The Busan outcome should i) endorse the application of the aid effectiveness principles to climate change finance and target similar endorsement in the Copenhagen-Cancun-Durban process, ii) ask the United Nations Framework Convention on Climate Change Transitional Committee to include the aid effectiveness principles in the design of the Green Climate Fund, and iii) make a commitment to assess the application of the aid effectiveness

¹⁰

http://www.cso-effectiveness.org/IMG/pdf/final_istanbul_cso_development_effectiveness_principles_footnote.pdf

principles regularly through the Monitoring, Reporting and Verification mechanism on climate finance.

5. FUTURE AID EFFECTIVENESS GOVERNANCE AND MONITORING

At present, the key elements for efficient aid effectiveness governance are not sufficiently addressed. First, continuous political support has not fully materialised and has mainly been restricted to the three High Level Forums. Second, country level implementation has not been adequately supported by global structures and the DAC-hosted Working Party on Aid Effectiveness (WP-EFF) has become a self-standing, heavy bureaucracy. Third, monitoring of the Paris commitments has taken place, but this has not been adapted to country contexts. Finally, mutual accountability frameworks have not been developed in all partner countries, and their outcomes have not been systematically debated at the global level.

In Busan, the decisions on governance should be sufficiently detailed to avoid lengthy discussions after Busan. In general, the governance structure should have wide coverage of different development partners. Post-Busan governance should contain the following elements:

First, political engagement and decision-making should be addressed by emphasising links between aid effectiveness implementation and global development policy forums. This could be done through regular high level debates on progress in International Monetary Fund/World Bank and DAC Senior and High Level Meetings.

Second, country level implementation should be strengthened through 'country compacts' in which partner countries, based on multi-stakeholder consultation, agree on locally adapted Busan priorities and targets with their development partners, using existing local mechanisms for mutual accountability.

Third, the WP-EFF should be streamlined, with the termination of most of the current clusters. It should be tasked to facilitate country level implementation (helpdesk function, synthesis, good practices) and to conduct global monitoring together with the DAC. The DAC should become an international hub for transparency and the host organisation of the IATI. The UN Development Cooperation Forum should focus on strengthening global mutual accountability.

Finally, global monitoring should be conducted in connection with the 2015 deadline for the Millennium Development Goals. The Paris indicators should be reduced to reflect the focused agenda. The indicators to be included should address ownership (indicators 1, 2), alignment (indicators 3 and 5), predictability and transparency (indicator 7) and accountability for results (indicator 12), resulting in an equal number of indicators for partner countries and donors. The baseline for indicators should be kept the same to enable measurement of long-term progress. Country level monitoring, in turn, should be based on existing local mechanisms. Generic lessons should be distilled at the global level through the WP-EFF and the DAC.

6. CONCLUSIONS

The Busan Forum will be a key opportunity to focus the aid effectiveness agenda to increase the impact of aid on development results. Informed decisions are possible due to the wealth of evidence available on aid reform. Sustained political support will be crucial for effective

implementation. To this effect, the Commission proposes the EU continues its leadership in aid effectiveness by pursuing the following objectives:

1. The Busan outcome should be an encompassing document reaffirming the Paris Principles, based on the Paris Declaration and Accra Agenda for Action and focusing on deepened key commitments to guide future implementation. All DAC donors, vertical funds and multilateral organisations should fully adhere to the principles and commitments.
2. Aid effectiveness themes included in the Busan document should be democratic ownership, transparency and predictability, reduced fragmentation and proliferation, and alignment as well as accountability for results. Commitments in situations of fragility should be deepened in a flexible manner.
3. Aid effectiveness implementation should be anchored at the country level through flexible partner country led 'country compacts' based on existing local mechanisms. The global aid effectiveness governance structure and monitoring should be streamlined.
4. Diverse experiences of achieving development results and interpretations of aid effectiveness principles should be invited from the emerging economies, CSOs and local authorities as well as the for-profit and non-profit private sector in order to work towards differentiated responsibilities and commitments.
5. Aid effectiveness commitments should be extended to cover other sources of development finance, particularly climate change finance.