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**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE
EUROPEAN PARLIAMENT**

**Annual Report 2006 on the European Community's Development Policy and the
Implementation of External Assistance in 2005**

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Annual Report 2006 on the European Community's Development Policy and the Implementation of External Assistance in 2005

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Introduction

The European Union is the world's largest provider of development assistance, the main trading partner of developing countries, and a key actor in political dialogue. In 2005, the EU committed itself to double its current level of Official Development Assistance (ODA) by 2010.

In terms of delivery of development aid, 2005 was a record year for the European Commission : €6.2 billion was spent – up from €5.7 billion the previous year. It showed again that the Commission, which manages about one-fifth of the EU total flows of official development aid, can deliver effectively and rapidly on its commitments, so that the money reaches those who need it. The results show the value of the reforms launched in 2000 to improve the way in which the Commission's aid to third countries is spent. This, together with the EU's activities in response to natural disasters like the Tsunami and the earthquake in Pakistan, testify to the fact that the Commission is becoming an increasingly reliable partner.

The overall objectives of European Community development policy and external assistance are set out in its Treaty (art. 177).

Within this legal framework, the Commission set out in its Annual Policy Strategy (APS) for 2005¹ specific objectives of particular relevance for development policy and external assistance. In 2005 it chose to focus on the following:

- The stabilisation and association process in the Balkans;
- Further implementation of the European Neighbourhood Policy, particularly by means of Action Plans;
- Creation of the four 'Common Spaces' with Russia;
- Contribution to the reconstruction of Iraq;
- Review and scaling up of the EU contribution to the Millennium Development Goals;
- Making the Peace Facility for Africa operational;
- Launch of an EU Water Facility.

To complete the APS objectives, the Commission had also planned to conclude and sign a revised Cotonou Agreement. This objective, together with the implementation of the Peace Facility and the emphasis on the Millennium Development Goals, reinforced the focus on Africa as the main priority for 2005.

These objectives have oriented the actions and financing programmes carried out in 2005. These actions are featured extensively in the Annual Report.

¹ COM(2004) 133 final

Besides this general record, the focal points in the year 2005 of EC aid and development policy centred on five main issues:

- In the course of the preparation of the “Millennium + 5” UN Summit in September 2005, the EU also renewed its commitment vis-à-vis the **achievement of the Millennium Development Goals** (MDGs) and agreed on a common approach to development. The EU took firm commitments to accelerate progress towards achieving the MDGs, concentrating on : more and better aid, strengthened policy coherence for development, and extra efforts in support of Africa.
- A new tripartite **development policy statement**, the ‘European Consensus on Development’, was endorsed by the European Parliament, the Council and the Commission, and complemented by an EU **strategy for Africa**. The specific problems of Africa, in particular Sub-Saharan Africa, demand an appropriate response. This dedicated strategy will help the EU’s efforts to offer a ‘step change’ in support to Africa, in terms of both quantity and quality.
- The EU developed further its **partnership approach**: countries are offered a framework for their relationship with the EU which is both collaborative and adapted to their situation. 2005 saw major steps in the strengthening of these partnerships with Western Balkans countries, Russia, Latin America and ACP countries, and has also been a key year for the European Neighbourhood Policy.
- The **political dimension of aid and external assistance** has been fundamental, whether it has meant using aid as leverage for political dialogue, or funding specific actions devoted to strengthening the rule of law and respect for Human Rights.
- The Community has maintained in 2005 its **requirement for faster and better aid delivery**. The Paris Declaration, signed by EU Member States and the EC in 2005, has made a key contribution in that area and its benefits will soon be visible.

1. TOWARD THE ACHIEVEMENT OF THE MILLENNIUM DEVELOPMENT GOALS

1.1. Backing the ‘Millennium + 5’ UN Summit, the EU sets its objectives

2005 saw a series of major steps by the international community to address the challenge of fighting world poverty by actively re-launching the Millennium Development Goals (MDGs). The EU played a leading role in the UN World Summit in September 2005, both in terms of political and financial commitments.

In preparation for the Summit, on the basis of Commission proposals, the European Union agreed on a set of measures to accelerate progress towards achieving the Millennium Development Goals which seek to reduce extreme poverty in all its key dimensions. They formed the basis for the European contribution to the UN Summit, and consisted of three main elements:

A significant increase in the quantity and quality of EU aid

The 25 Member States' Official Development Aid (ODA) totalled €43 billion in 2005. The EU agreed to continue increasing its ODA budgets beyond the commitments made at Monterrey – 0.39% of GNI in 2006 – committing to a new interim minimum target for 2010 for each Member State of 0.51% of GNI (0.17% for the new Member States) in order to achieve the 0.7% target fixed by the UN in 2015. This would take the Union's collective effort to 0.56% of GNI in 2010. In absolute terms, this commitment would mean that an additional €20 billion in ODA would become available annually by 2010.

Policies in other areas should also help to achieve the MDGs

Development co-operation alone will not be enough to achieve the Millennium Development Goals. Other EU policies have an essential role to play in helping developing countries achieve the MDGs, hence the concept of *Policy Coherence for Development (PCD)*². The EU has agreed to associate 12 policy areas³ with the MDG objectives and timeframe and, in these 12 areas, has accepted specific 'PCD commitments' to ensure coherence with the development policy objectives.

A priority: Africa

The Commission wishes to focus its efforts on Africa in order to help Africans become the main players in their own development, and to act as a catalyst for additional development aid. The EU is working to establish a real partnership based on mature trading and political relationships. Besides general concern for social cohesion and sustainable development, the EU fosters the network necessary for regional integration between African countries and for South-South trade. It has also created a partnership with the African Union, and its institutions carry out actions such as the refinancing of the Peace Facility.

1.2. A European vision of development

On 20 December 2005, the Presidents of the Commission, Council and Parliament endorsed the new EU development policy statement, the **European Consensus on Development**⁴, which constitutes a milestone in the history of EU development co-operation. For the first time in fifty years common values, principles, objectives and means to eradicate poverty and achieve the Millennium Development Goals have been defined at Union level.

The **EU Strategy for Africa**⁵, adopted in December, is the first concrete application of the European Consensus on Development. It sets out a framework for action for Member States and the European Commission to support Africa's efforts to attain the

² COM(2005) 134 - April 2005.

³ Trade; environment; climate change; security; agriculture; fisheries; social dimension of globalisation, migration; research and innovation; information society; transport; energy.

⁴ The Commission and the Council adopted the document at the General Affairs and External Relations Council on 22 November 2005 (14820/05), whereas the Parliament endorsed it at the Plenary Session of 15 December 2005 (Resolution n. P6-TA-PROV (2005) 0528

⁵ COM(2005) 132

Millennium Development Goals, with enhanced support in particular for peace and security, governance, infrastructure and trade.

Stepping up care for children

The new EU Development Policy Statement as well as the new EU Strategy for Africa give attention to children's needs and rights (education, health, child labour, orphanage, etc.), as the EU is committed to progress on the internationally agreed objectives of the Convention of the Rights of the Child. Guidelines on children's rights have been developed for policy dialogue at delegation level. The Group of Commissioners on Fundamental Rights, chaired by President Barroso, decided in April 2005 to work towards a "Pact for the Child" to advance the promotion of children's rights in internal and external EU policy.

2. A PARTNERSHIP APPROACH

2.1. Co-operation with the Western Balkans

In 2005, the countries of the Western Balkans have made considerable progress in stabilisation and reconciliation, internal reform and regional co-operation. Now closer to the EU, they will continue to benefit from the CARDS programme of financial support until the introduction of the unified instrument for pre-accession in 2007⁶. In June 2005 the European Council reaffirmed its commitment to implement the Thessaloniki agenda. Important steps have been taken in 2005: opening accession negotiations with Croatia, granting candidate status to the former Yugoslav Republic of Macedonia, nearing conclusion of a Stabilisation and Association Agreement (SAA) with Albania, and opening SAA negotiations with Serbia and Montenegro and Bosnia and Herzegovina. The political process for reaching a decision on Kosovo's future status has begun. The European perspective provides a powerful incentive for political and economic reform and has encouraged reconciliation among the peoples of the region.

2.2 The EU Neighbourhood Policy

The European Neighbourhood Policy (ENP)⁷ aims to develop a zone of shared prosperity and stability between the EU and its neighbours, on the basis of commitments agreed by both sides in line with the principles of joint ownership. It offers a stake in the internal market and support in meeting EU standards, as well as assistance with reforms that will stimulate economic and social development. In turn, ENP partners make precise, monitorable commitments to strengthen the rule of law, democracy and respect for Human Rights, to promote economic reforms, to stimulate employment and social cohesion, and to co-operate on key foreign policy objectives (counter-terrorism, non-proliferation of weapons of mass destruction). The partnership is designed to reward progress with greater incentives, which are entirely distinct from any prospect of accession. The ENP also helps address concerns within the EU about illegal migration, border management and organised crime.

⁶ Apart from Croatia which has already been granted candidate country status, and benefits from all three pre-accession financial instruments as well as the CARDS regional programme

⁷ COM(2004) 373 final

In 2005, further progress has been made in finalising Action Plans with the countries covered by the European Neighbourhood Policy, notably on market economy status, visa facilitation and energy dialogue with Ukraine, setting up a border monitoring mission on the Moldova-Ukraine border, as well as strengthening and extending the scope of the political dialogue with a number of Mediterranean countries. New Action Plans are being implemented with Jordan, Israel, the Palestinian Authority, Moldova and Ukraine. Finally, negotiations have been launched with Georgia, Armenia and Azerbaijan. In the Mediterranean region, increased emphasis has been given to supporting economic reforms initiated by the partner countries, funding sectoral policies (particularly education and health), and promoting democracy, Human Rights and good governance.

2.3 The ‘Common Spaces’ with Russia

A single package of road maps was adopted in May 2005 for the creation of the **four ‘Common Spaces’⁸ between the EU and Russia**. These road maps set out shared objectives for EU-Russia relations, as well as the actions necessary to achieve these objectives. In addition, EU co-operation with Russia is pursued in the framework of the strategic partnership established between the two.

2.4. The oldest partnership: Africa, the Caribbean and the Pacific

2005 was also the year in which the **Cotonou Agreement** was revised. The Cotonou Agreement, which provides the framework for **relations with the countries of Africa, the Caribbean and the Pacific (ACP)**, is the EU’s oldest partnership and is aimed at promoting the development of a common strategy on poverty reduction through a true partnership approach.

Joint institutions, including the Joint Parliamentary Assembly and the ACP-EU Council of Ministers, have played a pivotal role in the partnership since the beginning, and the association of civil society and other stakeholders has contributed to enhancing the effectiveness of ACP-EU co-operation.

The social, economic, political, cultural and environmental aspects of sustainable development have been integrated throughout the Agreement, reflecting the relevant international commitments taken by the EU and its ACP partners.

Moreover, steady progress is being made in putting into place an innovative economic and trade co-operation framework aimed at promoting development by strengthening regional economic integration, abolishing trade obstacles and promoting the gradual integration of ACP countries into the global economy.

To deliver on the partnership with the ACP countries, a new **European Development Fund** was agreed which will provide €22.682 billion for the ACP countries in 2007-2013.

⁸ Common economic space, common space of freedom, security and justice, common space on external security, common space on research, education and culture

2.5 Strengthening the partnership with Latin America

In May 2005, the Foreign Ministers of the European Union met their counterparts from the Rio Group. Discussions focused on regional integration processes in Latin America, social inequality and exclusion. They also discussed preparations for the September 2005 UN Summit.

In December 2005 the European Commission decided to give new impulse to the strategic partnership with Latin America by adopting a Communication “A stronger partnership between the European Union and Latin America.”

Negotiations have continued on an association and free trade agreement between the EU and Mercosur and preparatory steps were taken for agreements with Central America and the Andean Community.

3. AN INCREASING POLITICAL DIMENSION

3.1. Instruments to promote democracy and Human Rights

This priority is reflected in all the Agreements concluded and is translated into the political dialogue at country and regional level, as well as the geographical co-operation programmes. The **European Initiative for Democracy and Human Rights (EIDHR)**⁹ is mainly targeted at countries that are most in need of support in these areas: its main beneficiaries are civil society organisations engaged in these areas. In 2005, €126.7 million were spent, mostly to keep funding projects launched in the two previous years. Projects included support for the work of the Office of the High Commissioner for Human Rights, the Council of Europe, the special courts for former Yugoslavia, Sierra Leone and Cambodia, as well as projects for the promotion of democracy in Belarus¹⁰ and other initiatives in support of the rights of indigenous peoples. With a total amount of €10 million, specific priority was given to **Iraq** in 2005. Projects were identified within the UN trust funds specifically targeting the constitutional process, training of domestic election observers and civil society organisations.

The EU is increasingly seen as a key player in the field of **election observation**. When launching an Election Observation Mission (EOM), the Commission, the European Parliament and the Council work closely together to assess the extent to which elections are “free and fair”. The number of EOMs has increased in 2005 and will continue to increase in 2006. About 1 000 observers were deployed in 2005, compared with 632 in 2004.

Election Observation Missions took place for presidential or parliamentary elections, or referenda, in Afghanistan, Burundi, Guinea-Bissau, Lebanon, Liberia, Ethiopia, the Democratic Republic of Congo, Venezuela and Sri Lanka. In all these missions, the EU has gained visibility while becoming an increasingly critical actor in the

⁹ COM(2001) 252 final

¹⁰ including the European Humanities University in Vilnius providing higher education in Belarusian on democracy and Human Rights related issues

reinforcement of the democratic process. Missions were also in preparation at the end of 2005 for deployment in 2006 (West Bank and Gaza Strip, Uganda and Haiti).

In addition to EOMs as such, financial support for electoral processes was also provided through projects in Asian and ACP countries.

3.2. Creating a framework for political dialogue

In the case of the ACP countries, the revision of the Cotonou Agreement signed in June 2005¹¹ provided the opportunity to enhance the political dimension of the partnership by means of a more **systematic, formal, effective and results oriented political dialogue** based on the well established principles of partnership and ownership.

The ACP-EU partners also introduced a reference to **co-operation in countering the proliferation of weapons of mass destruction**. This constitutes a real breakthrough in the area of international relations. A reference to the International Criminal Court and the Statute of Rome has also been introduced into the Agreement, demonstrating partners' common commitment to the institutions of global governance. Furthermore, the revised Agreement provides for a clause confirming ACP-EU international **co-operation in the fight against terrorism**. Strengthening partner countries' ability to counter terrorism must be financed by resources other than those intended for the financing of ACP-EC development cooperation¹².

3.3. Migration and asylum issues in the frame of development policy

This much debated issue requires policies and aid which address both the opportunities and the difficulties it generates. To this end the European Council has repeatedly underlined the need for a comprehensive approach to migration.

At the policy level in the follow-up to the '**Hague programme**' of 2004, the EU has shaped its migration policy further with regard to third countries. National and regional programmes such as MEDA or TACIS provide the core funding for migration and asylum projects. Established in 2004¹³, the AENEAS thematic programme is complementary to the geographic programmes: it provides financial and technical assistance to third countries in support of their efforts to ensure more effective management of all aspects of migration flows. The first round of projects was selected during 2005 for a total amount of €30 million of which approximately €16 million were earmarked for the Mediterranean region. The second 'Call for Proposals' was published in December 2005 with a total budget of €40.3 million. Geographic emphasis will be on the CIS countries, the Mediterranean and Sub-Saharan Africa.

¹¹ Ratifications have to proceed. The agreement should enter into force on the 1st January 2008

¹² Revised Cotonou Partnership Agreement :Council/Commission Joint Declaration on Financial and Technical assistance in the area of cooperation in the fight against terrorism and art. 11a) inserted in the Revised Cotonou Partnership Agreement

¹³ Regulation (EC) N° 491/2004

With regard to asylum, the Commission adopted a **Communication on Regional Protection Programmes** on 1 September 2005¹⁴. The first pilot programmes are to be developed in Tanzania and in the Western Newly Independent States (NIS), in close partnership with the third countries involved and the UNHCR, so that refugees who require protection are able to access it quickly and in a form most closely matching their needs.

4. MORE, BETTER, FASTER AID – EUROPE DELIVERS

4.1. The issue of aid effectiveness

The process of increasing aid effectiveness concentrates on simple but practical ways of harmonising the preparation of country strategies, the implementation of aid and the way in which its use is reported, of implementing more reliable systems and procedures in beneficiary countries and more co-ordination between donors. Partner countries take the key role, undertaking to improve their operational development strategies, strengthen their public finance management and national procurement systems, and enhance monitoring and audit practices. This allows donors to co-ordinate their activities better, channelling more assistance through the national budget and minimising reporting requirements. The transaction costs for partner countries are reduced, freeing up scarce local management and administrative capacity to work on national priorities. A significant aspect of this initiative is the move towards providing aid in the form of direct budget support, so that it is administered entirely within the partner country's own systems.

The Commission's efforts to step up co-ordination with Member States (European Consensus on Development) and other donors is illustrated by the close collaboration after the Tsunami with governments, civil society in the affected countries, international NGOs and financial institutions. In helping to co-design delivery mechanisms, such as reconstruction trust funds with governments and the international community, the EC ensured that affected communities were also fully involved in designing reconstruction projects.

The Paris Declaration of 2 March 2005 on Aid Effectiveness¹⁵ is an agreement between nearly 100 countries – representing recipients of aid and donors, including the 25 Member States and the Commission – and over 25 development agencies to provide aid in a way that best supports the realisation of the Millennium Development Goals by 2015. The Paris Declaration established a commitment to set and track targets using 12 Indicators of Progress¹⁶. The targets and indicators are designed to monitor progress at the global level among the signatories of the Declaration.

The 12 indicators track progress following the five partnership commitments included in the Paris Declaration: *ownership* of the partner country; *alignment* of the donors on the countries' national development framework; *harmonisation* of donors' actions; *management for results* and *mutual accountability* of donors and partners for

¹⁴ COM(2005) 388 final

¹⁵ <http://www.oecd.org/DATAOECD/11/41/34428351.pdf>

¹⁶ DAC. CHAIR (2005) 12 /REV.1

the results. The EU is committed to a timely implementation of the Declaration. The Commission will be expected to report on progress achieved in respect of the aid effectiveness agenda at EU level and to submit a report on 2005 country level implementation to the Council. To that end, it has developed a simple interactive tool for reporting progress on alignment and harmonisation.

4.2. Evaluation

Evaluation aims at increasing the impact of assistance, and in 2005 the programme to improve the methodology of the evaluation function was finalised. Eleven new evaluations were launched in 2005; several others are underway, including two major joint evaluations, one on general budget support and the other on co-ordination, complementarities and coherence. The main evaluation findings in 2005 concerned two countries (Benin, Ghana), two regions (the Caribbean and Latin America), and one sector (private sector development). As an example, the evaluation of the Commission's support to Ghana showed it is mainly visible in terms of increased access to safe water and sanitation and to basic education and health services for the poorest segments of the population. In general, however, evaluations point to long delays in implementation and highlight the rigidity and slowness of Commission procedures. Two evaluation reports on the EIHDR, as well as a study on the suitability of its indicators, were completed in 2005 with positive global conclusions.

4.3. Management issues

In 2005 the Commission continued to shift its focus from input to outcome and impact issues as they affect the process of delivering aid. The **quality focus** is a continuation from the reforms of external assistance management that were implemented over the preceding four years (2001-2004).

The outcome of implementing these reforms was charted in a public report *Qualitative assessment of the reforms in the management of external assistance*¹⁷ published in July 2005. This report reviews operational, organisational and methodological reforms in assistance delivery, and assesses the effects and results.

The effect of the reforms has been to ensure a constant improvement in the speed of aid delivery, with higher payments levels each year and shorter average duration of aid implementation.

As a consequence of the completion of the devolution process – giving management responsibility for most development programmes to the Commission's in-country Delegations – the headquarters structure of EuropeAid Co-operation Office was modified in March 2005 to provide more help and support to Delegations and to reflect the transfer of the Western Balkan countries to DG Enlargement, in the light of the prospect of their future membership of the EU.

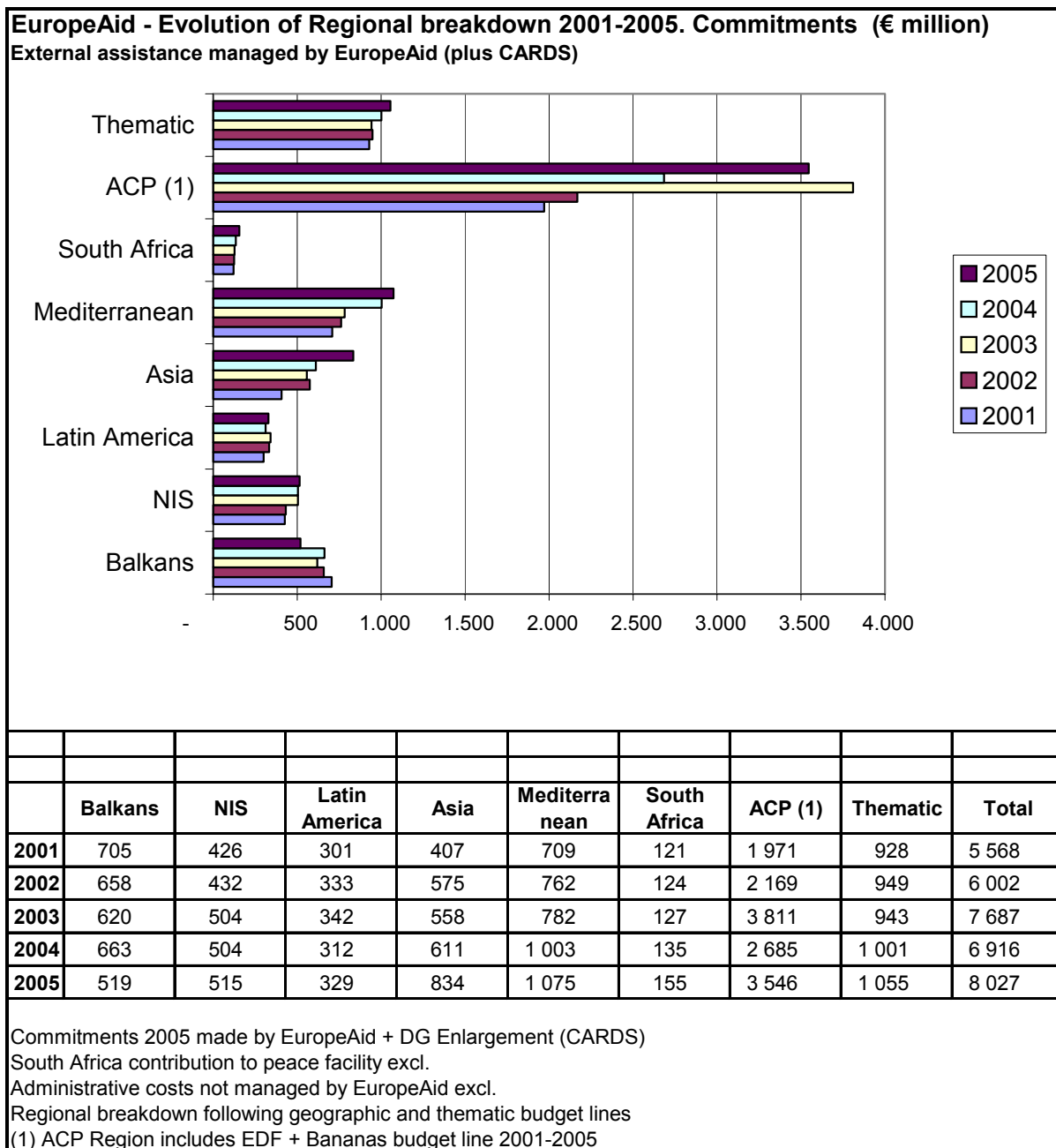
4.4. Results

In 2005 the European Commission has acted with **record speed and efficiency** to implement programmes, so that the money swiftly reaches those who need it. The

¹⁷ SEC(2005) 963

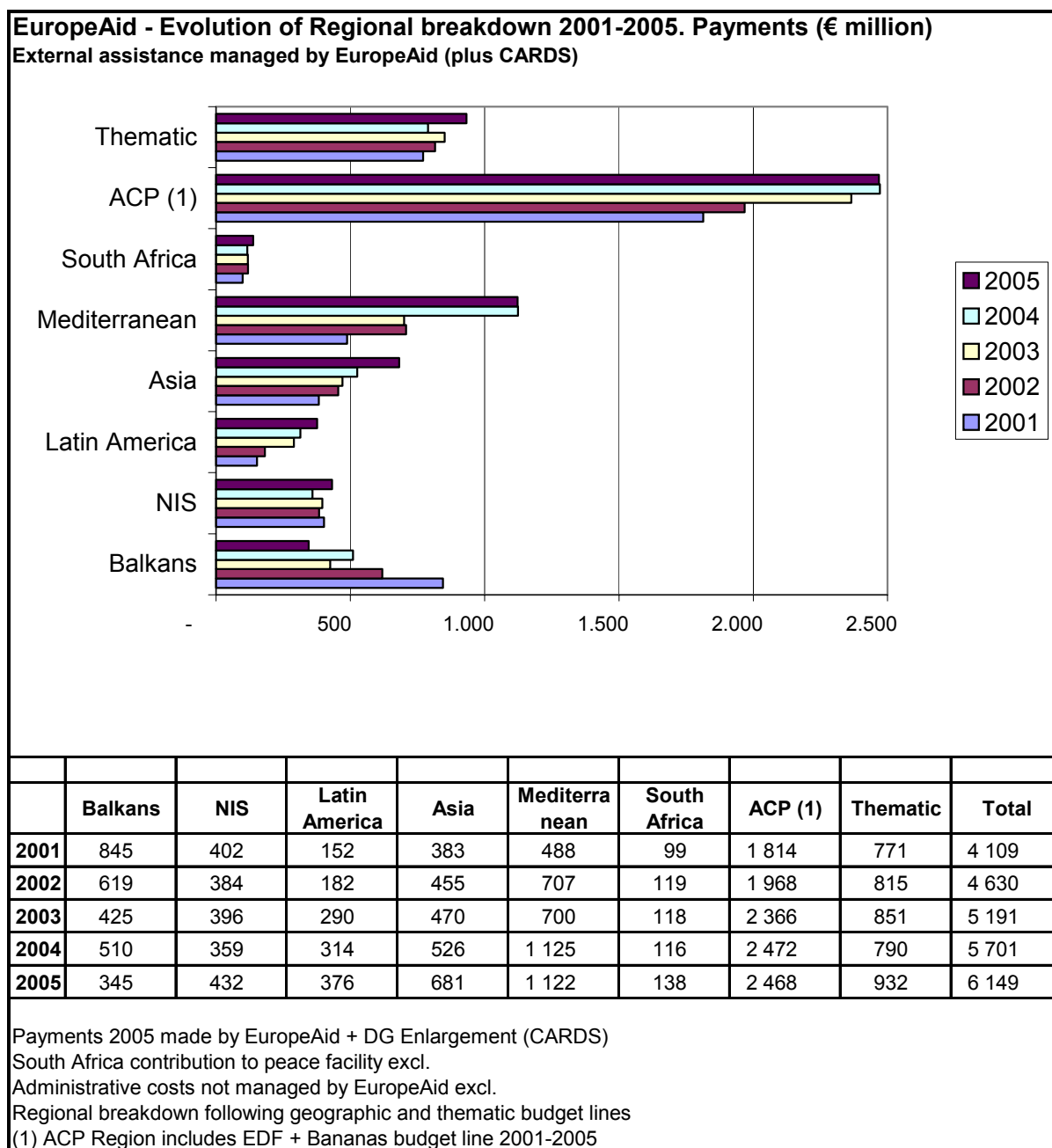
results show the value of reforms introduced in 2000 to improve the way in which the Commission's aid to third countries is disbursed.

In 2005, commitments rose to €8 billion, more than 16% higher than in 2004. Commitments to countries in Africa, the Caribbean and Pacific rose by over €1 billion and almost reached the record level of 2003. Commitments to Asia also recorded a sharp rise (almost 50%) over 2004. €6.2 billion in development aid was disbursed, up from €5.7 billion the year before.

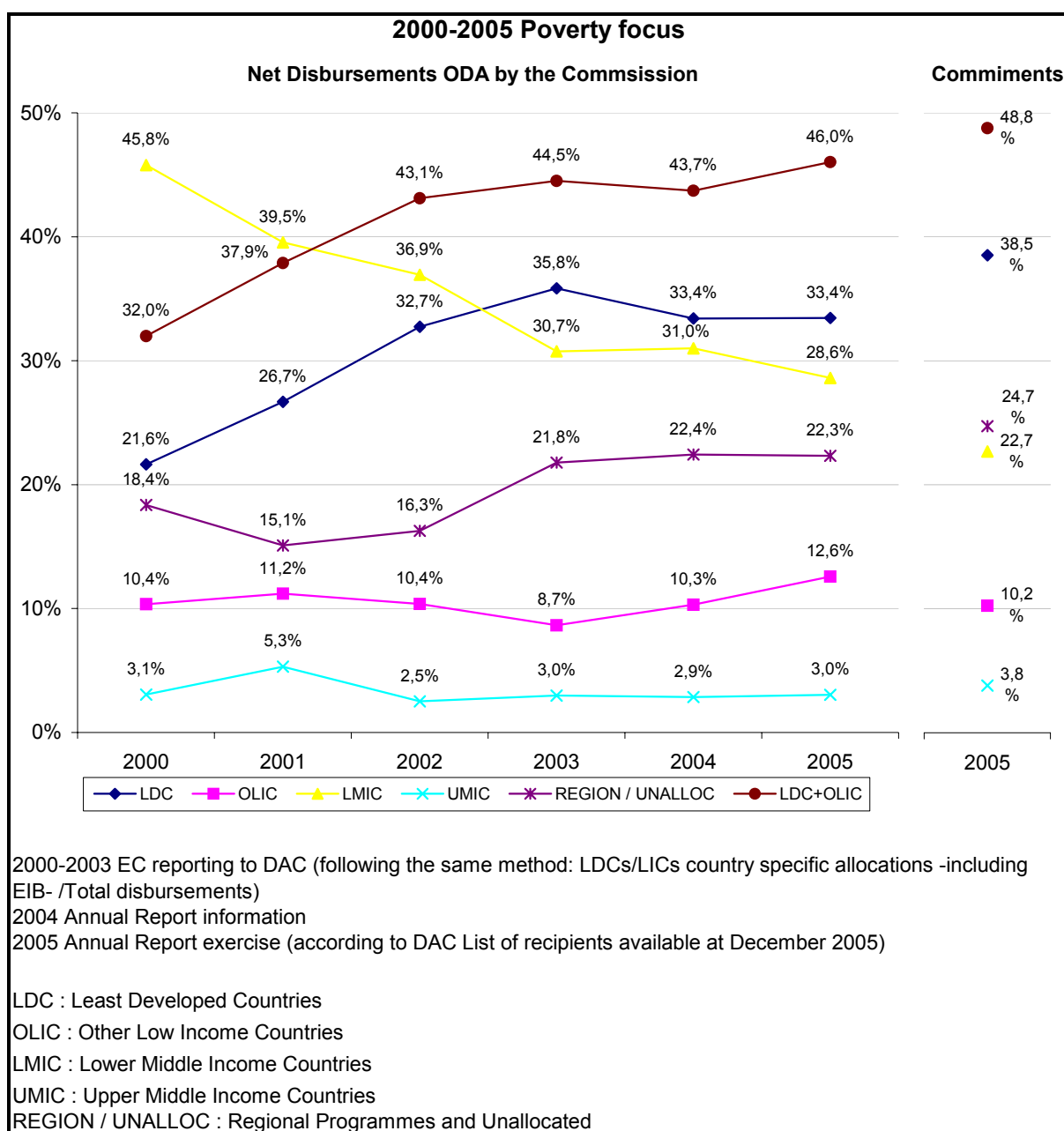


Thanks to the reforms, the Commission is processing the money pledged more effectively, both in its own internal procedures and in the implementation of programmes themselves. A comparison between 2001 and 2005 shows commitments up by 44% and payments up by 50%. The figures signify that, on average,

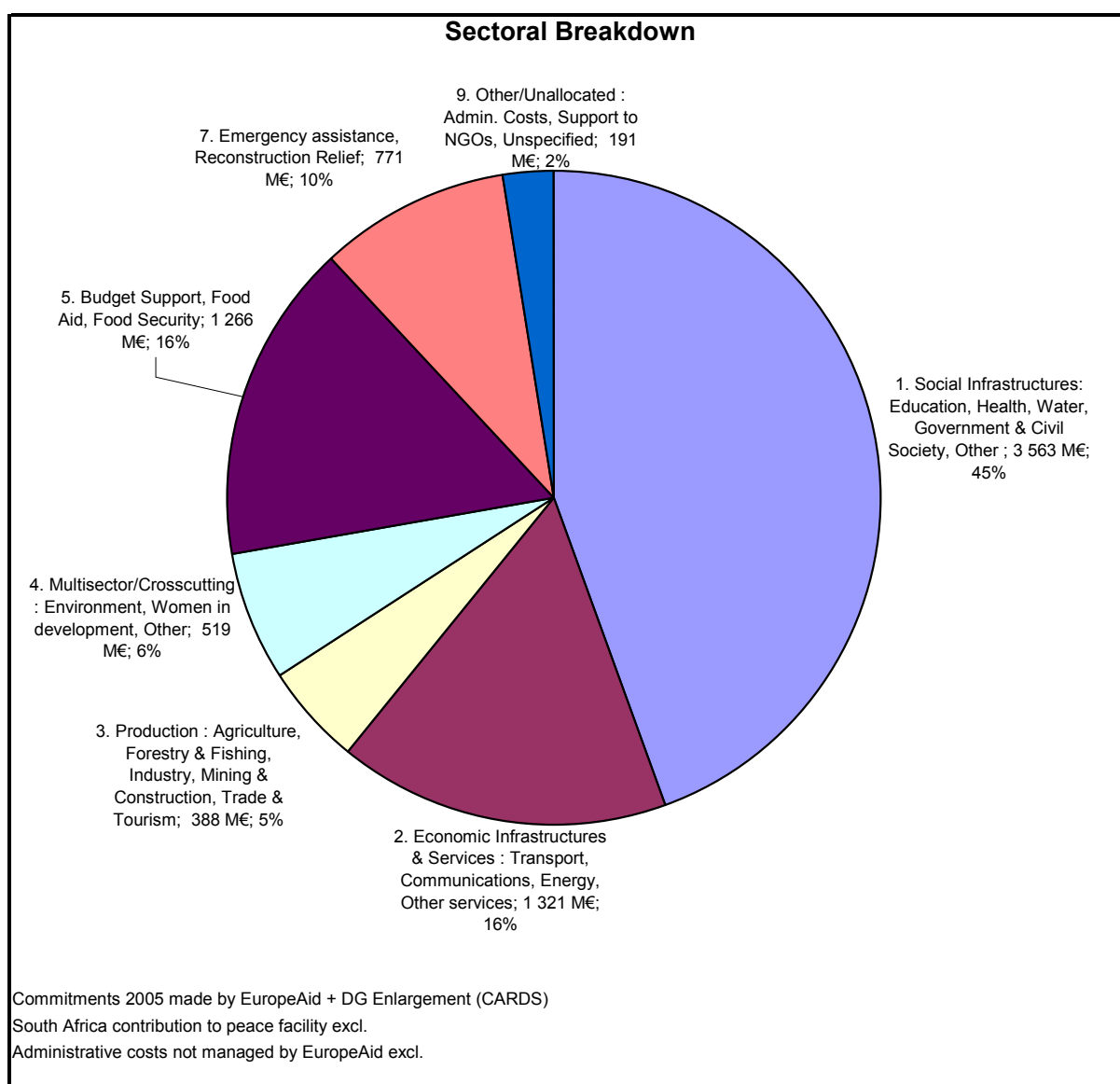
implementation takes 3.32 years, down from 3.55 years in 2004 and nearly five years in 2000.



The amount of ODA managed by the Commission and destined for low-income countries, including the least developed, again increased substantially. It has grown from about €1.5 billion in 2000 to more than double – about €3.2 billion – in 2005. As a percentage, it went from 32% in 2000 to 45.8% in 2005. This trend should continue, since over half the new commitments in 2005 were for the benefit of these countries.



Speed and efficiency are important, but the results obtained in helping those in need are what counts. The findings of the Commission's results-oriented monitoring system, which is based on regular on-site assessments by independent experts, show a clear trend towards steady improvement in quality. In particular, the scores for both the efficiency and sustainability of projects and programmes have increased substantially since 2001.



The Commission is determined to improve its management of the funds for which it is responsible still further, and has proposed simplifying both the legal basis for external assistance (the instruments) and its own internal procedures.

Intense activity took place in 2005 in preparing **the next generation of aid programmes** which will be implemented in the framework of the Financial Perspectives 2007-2013. In co-operation with the competent authorities and the relevant stakeholders of the beneficiary countries, as well as with the Member States and other donors, the Commission has started to prepare the Strategy Papers which will guide the programming process for the different countries and regions. This process will be completed in 2006, so that the actions planned can be implemented from January 2007.

The objectives and principles set out in the December 2005 statement on development policy, the European Consensus on Development, have inspired the preparation of these country and regional Strategy Papers. Particular attention has been paid to improving aid effectiveness by translating into the programming process the relevant commitments entered into by the EU and its Member States.