



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 2.3.2006
COM(2006) 85 final

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

Financing for Development and Aid Effectiveness –

The challenges of scaling up EU aid 2006 – 2010

{SEC(2006) 294}

1. BACKGROUND

In the run-up to the UN Millennium Review Summit in September 2005 the EU took historic new commitments to accelerate progress to achieve the Millennium Development Goals (MDG)¹, building on the earlier Barcelona Commitments taken prior to the Monterrey Conference on Financing for Development in 2002. These decisions were essential to trigger commitments by others; they were widely acclaimed by our developing country partners, particularly because the results of the Summit itself remained below EU ambitions, notably as regards the financing for development segment. Subsequently the UN General Assembly agreed on a follow-up conference to take place between 2008 and 2009 to review further progress on the Monterrey consensus.

The new commitments will further reinforce the EU's position as the world's biggest aid donor and constituted fundamental elements of the 'European Consensus on Development'² – and the EU Strategy for Africa³ agreed later in 2005. They comprise

- **new targets for Official Development Assistance (ODA)**: through progressive ODA increases the EU will collectively provide 0.56% of its GNI by 2010, as an intermediate step to achieving the UN target of 0.7% by 2015. This commitment is combined with the promise to **provide fifty percent of increased aid volumes to Africa**;
- additional commitments concerning **innovative sources of financing** for development further **debt relief** and **International Public Goods**;
- better coordinated and **more effective aid** at EU level as well as implementation of the Paris Declaration on Aid Effectiveness, including **more predictable aid mechanisms**, notably budget support, **mitigation of exogenous shocks**, **aid untying** and **reform of the international financial institutions**;
- **trade-related assistance (TRA)**, for which the Council further specified commitments prior to the WTO Ministerial in Hong Kong⁴.

The Council invited the Commission to monitor the implementation of these commitments and to report progress annually on the financing and effectiveness of aid, including for Africa. This Communication provides the first such assessment of the implementation of the extended set of EU commitments and is based on the Member States' (MS) contributions in the annual monitoring survey of late 2005. A detailed evaluation of progress is contained in the complementary Staff Working Paper⁵.

¹ Council Conclusions of May 2005. *'Millenium Development Goals: EU Contribution to the Review of the MDGs at the UN 2005 High Level Event'*.

² Joint Statement by the Council and the Representatives of the Governments of the Member States meeting within the Council, the European Parliament and the Commission; Council Document 14820/05.

³ European Council of 15-16.12.2005 *'The EU and Africa: Towards a strategic partnership'* (document 15961/05 of 19.12.2005).

⁴ *"Aid for Trade"* Council Document 15579/05 DEVGEN 250 RELEX 748 of 09.12.2005.

⁵ *'The EU monitoring of Financing for Development and Aid Effectiveness: Starting to deliver on the new commitments'* SEC(2006) 294.

2. THE COMMITMENT TO INCREASE FINANCIAL RESOURCES FOR OFFICIAL DEVELOPMENT ASSISTANCE (ODA)

In 2005 the EU increased the initial ODA targets set for 2006 by those MS that participated in the “Barcelona commitments” (EU15: 0.33% ODA/GNI individual baseline target to ensure an EU collective average of 0.39%). In order to achieve the 0.7% UN goal by 2015, all 25 MS, including the countries that joined the EU in 2004 (EU10) subscribed to **new commitments**: the EU15 promised to reach, **by 2010**, an **individual baseline of 0.51%** - the EU10 of 0.17% - ODA as a percentage GNI; corresponding to a collective result of 0.56% ODA/GNI. The acceding countries **Bulgaria** and **Romania** aligned themselves with these commitments.

2.1. Towards meeting the ODA target of 2006

The EU remains well on track to achieve the initial collective 0.39% ODA target by 2006. If forecasts hold true the EU can still reach an approximate average of 0.42%. The **EU performance in 2004** is satisfactory in that by collectively providing 0.34% of GNI for ODA the EU ensures substantially higher levels than non-EU OECD/DAC donors (except for Norway and Switzerland) and remains well above the DAC average of 0.26%. This corresponds to additional aid flows of €2.3 billion compared to 2003, but **has not led to a real increase in percentage terms compared to 2003**.

Table 1: EU ODA levels 2004 – 2005 – 2006

ODA Levels	2004		2005		2006	
	Mio. €	as % of GNI	Mio. €	as % of GNI	Mio. €	as % of GNI
Targets						0,33 / -
Austria	554	0,23	1072	0,45	1080	0,43
Belgium	1195	0,41	1358	0,45	1577	0,5
Cyprus	4	0,04	4	0,04	5	0,04
Czech Republik	88	0,11	102	0,11	110	0,11
Denmark	1664	0,85	1675	0,81	1715	0,80
Estonia	4	0,05	5	0,06	6	0,06
Finland	535	0,35	600	0,39	671	0,416
France	6921	0,41	8093	0,47	8213	0,47
Germany	6155	0,28	6204	0,28	7505	0,33
Greece	380	0,23	484	0,28	589	0,33
Hungary	45	0,06	68	0,085	89	0,1
Ireland	496	0,39	546	0,40	675	0,47
Italy	2011	0,15	3279	0,24	4577	0,33
Latvia	7	0,06	7	0,06	8	0,06
Lithuania	8	0,042	12	0,06	14	0,064
Luxembourg	192	0,83	204	0,85	216	0,86
Malta	8	0,18	7	0,18	9	0,2
The Netherlands	3434	0,73	4104	0,83	4221	0,82
Poland	96	0,05	200	0,09	250	0,1
Portugal	842	0,63	454	0,33	450	0,33
Slovak Republic	23	0,072	29	0,09	30	0,085
Slovenia	25	0,1	30	0,12	35	0,127
Spain	1991	0,24	2600	0,30	3234	0,35
Sweden	2224	0,78	2587	0,88	3070	1
UK	6439	0,36	7138	0,39	8061	0,42
EU 15	35033	0,35	40398	0,40	45854	0,44
EU 10	308	0,07	464	0,09	556	0,10
EU 25	35341	0,34	40862	0,38	46410	0,42

Data sources: OECD/DAC Annual report 2005 and replies by EU MS to the Monterrey survey

The outlook for 2005-2006 is more promising. If current estimates hold true, the **EU15 together will have exceeded the 0.39% target already in 2005. Italy**, which is the only country with a decrease in ODA per GDP between 2003 and 2004, seems to have introduced corrective measures (estimated 0.24% ODA/GNI), but remains at the lowest level of the group. **The collective result in 2006 will depend on those MS that are still below the minimum threshold of 0.33%.** They must ensure a substantial rise in aid volumes to meet their individuals target by 2006 and to avoid jeopardising the strong performance of the EU as a whole. The EU10 could collectively contribute almost 0.1% of their GNI for ODA in 2006, thus ensuring a stronger performance than previously estimated.

2.2 Impact of the European Council decision on the scaling up of community aid

On the Financial Perspective package 2007 – 2013 the European Council concluded that⁶ the EC budget for external actions shall increase annually by 4.5%, and allocated an additional

⁶ “Financial Perspective 2007 – 2013”- Council document 15915/05 CADREFIN 268 of 19.12.2005.

€22.682 billion for cooperation with ACP countries during 2008-2013 under a 10th European Development Fund (EDF). These decisions have consequences: Should they be confirmed, the real share of the **EC's contribution** (from EC budget and EDF) **to EU's collective ODA** would decrease from today 20% to 15% by 2010 and 13% by 2013. Moreover, if MS honour their ODA pledges they will have to provide around 90% of the additional EU aid bilaterally.

Against this background, the EU must face a double challenge to ensure its credibility as a key global donor, as indicated by the European Consensus for Development:

- The Council Conclusions do not secure appropriate funds for the EC to respond to the expectations of partners resulting from the ambitious EC and EU Association/Partnership Agreements concluded with many partner countries worldwide.

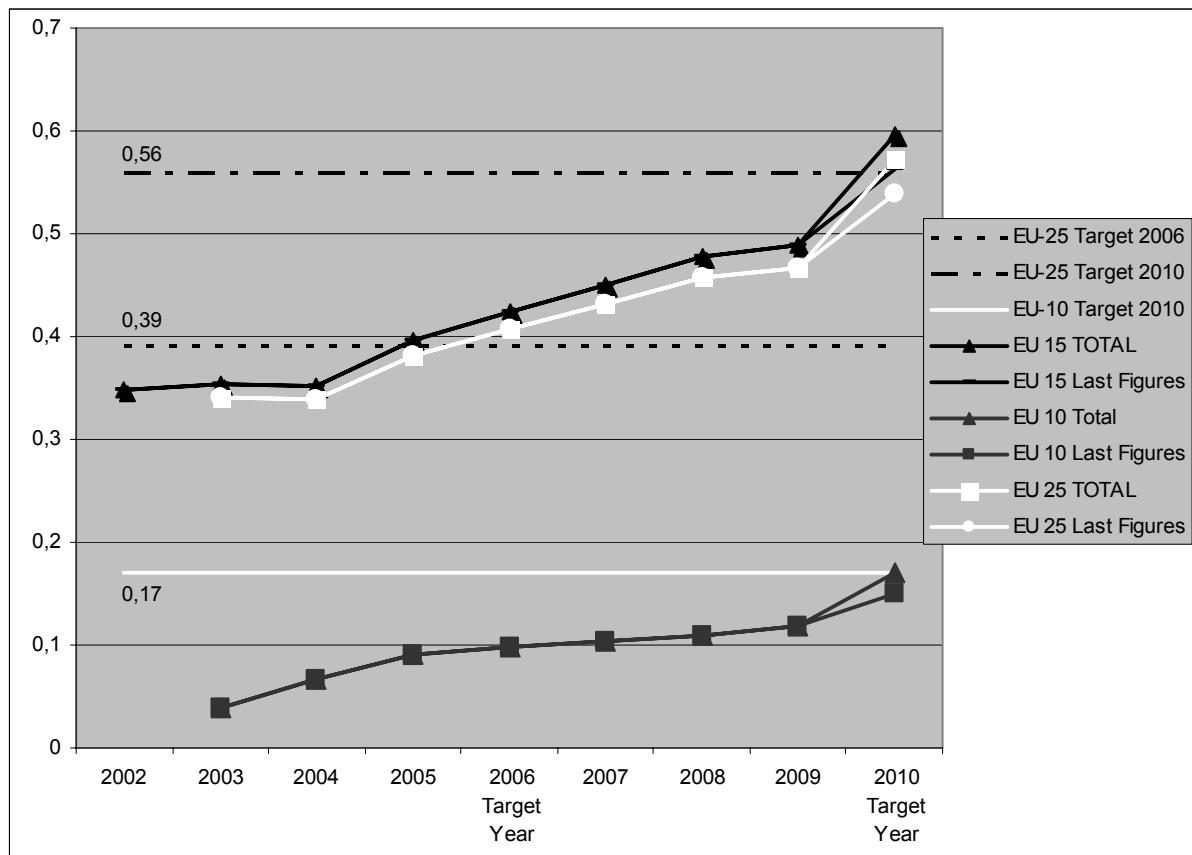
If MS's national aid systems came also under considerable strain due to the scaling up of aid that would undermine the commitment to make the EU collectively a stronger, more effective aid performer.

Hence and to ensure a global EU coherence and visibility it is crucial to put in place appropriate structures and ways also at EU level that facilitate the coordinated and complementary channelling of MS' bilateral and EC aid. The Commission will contribute to this effort by developing different types of host structures open to MS' voluntary contributions, such as the European trust fund for infrastructure in Africa, call for proposal mechanisms as applied under the ACP Water and Energy Facilities, or the exploration of the feasibility of common instruments to respond to global challenges related to the fall in commodity prices and natural catastrophes (for example an EU-FLEX or similar).

2.3 Scaling-up of EU ODA: the new intermediate targets for 2010

Preliminary estimates show that the majority of MS have introduced the necessary measures to attain the 2010 ODA targets: six MS will provide 0.7% or more of their GNI as ODA, with Sweden keeping its ODA at 1.0% of GNI and Luxembourg endeavouring to attain that level. A further four MS will allocate around 0.6% of their GNI for development aid and others foresee progressive year-on-year increases to reach 0.51% ODA/GNI.

Diagram 1: Estimated EU ODA in relation to the collective targets 2006-2010



Sources: Replies of EU Member States to the Monterrey survey

Table 2: Prospects for achievement of the 2006-2010 intermediate EU goals

ODA Levels	2006		2010 (latest figures)		2010 (commitments)	
	Mio. €	%GNI	Mio €	%GNI	Mio. €	%GNI
Targets		0,33 / -		0,51 / 0,17		0,51 / 0,17
Austria	1080	0,43	1397	0,51	1397	0,51
Belgium	1577	0,5	2561	0,70	2561	0,7
Cyprus	5	0,04	10	0,06	28	0,17
Czech Republik	110	0,11	137	0,11	212	0,17
Denmark	1715	0,80	1997	0,80	1997	0,80
Estonia	6	0,06	8	0,06	21	0,17
Finland	671	0,416	1287	0,7	1287	0,7
France	8213	0,47	11483	0,6	11483	0,6
Germany	7505	0,33	12359	0,51	12359	0,51
Greece	589	0,33	1041	0,51	1041	0,51
Hungary	89	0,1	176	0,17	176	0,17
Ireland	675	0,47	1227	0,62	1227	0,62
Italy	4577	0,33	3519	0,24	7478	0,51
Latvia	8	0,06	13	0,07	31	0,17
Lithuania	14	0,064	20	0,07	48	0,17
Luxembourg	216	0,86	250	0,83	258	0,86
Malta	9	0,2	7	0,17	7	0,17
The Netherlands	4221	0,82	4848	0,8	4848	0,8
Poland	250	0,1	570	0,17	570	0,17
Portugal	450	0,33	768	0,51	768	0,51
Slovak Republic	30	0,085	77	0,17	77	0,17
Slovenia	35	0,127	58	0,18	58	0,18
Spain	3234	0,35	7136	0,60	7136	0,6
Sweden	3070	1	3783	1,00	3783	1
UK	8061	0,42	12863	0,59	12863	0,59
EU 15	45854	0,44	66519	0,56	70486	0,60
EU 10	556	0,10	1076	0,15	1228	0,17
EU 25	46410	0,42	67595	0,54	71714	0,57

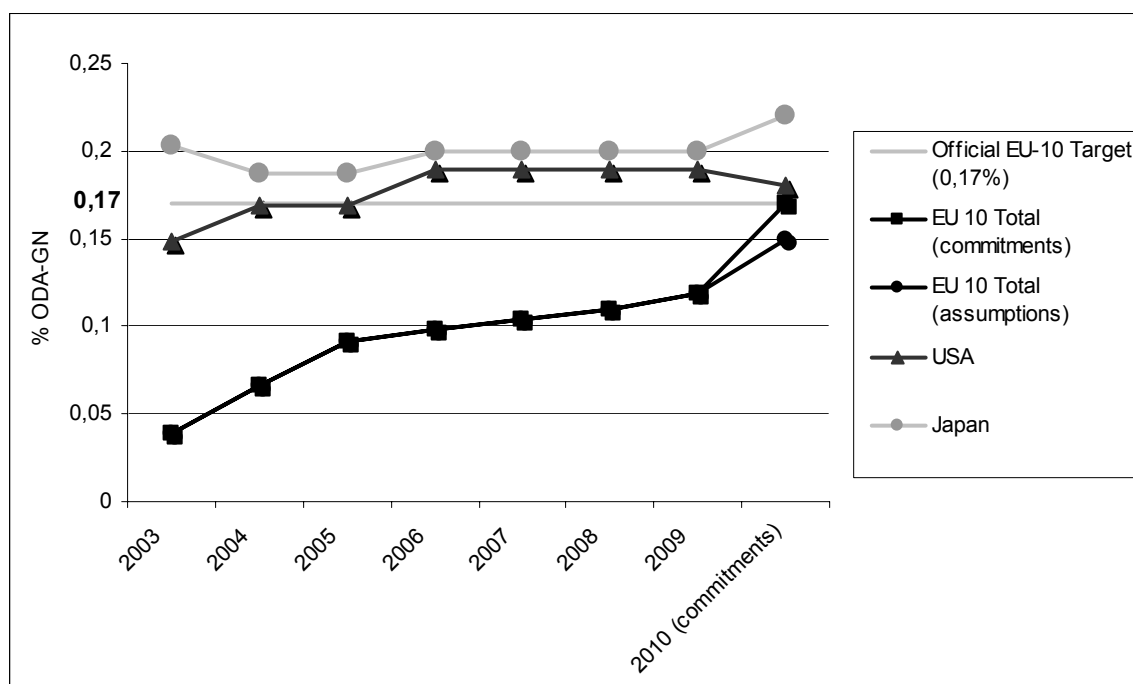
Source: Replies of EU MS to the Monterrey survey

While ODA flows are expected to grow consistently, a significant proportion of the increase seems related to debt relief operations (notably Iraq, Nigeria throughout 2005-2007). Recalling the Monterrey Consensus the Commission underlines the need to ensure that resources provided for debt relief do not detract from ODA resources intended to be available for developing countries. The challenge ahead consists of introducing the necessary dynamics in MS' budget planning to reach sustained higher ODA levels in view of the 2010 goals, especially in countries that are still far from attaining the 2006 baseline target. There is a noticeable trend among MS to backload the required growth of aid budgets.

2.4 The contribution of the new Member States

The ten countries that joined the EU in 2004 (EU10) have agreed to individual baselines adapted to their specific situation. They have committed themselves to striving towards reaching the 'acquis' of the EU in 2002 by 2015 (0.33%ODA/GNI) through gradual increases of their ODA and an intermediate target of 0.17% by 2010.

Diagram 2: Projected ODA increases in the EU10 during 2003-2010 compared to US and Japan



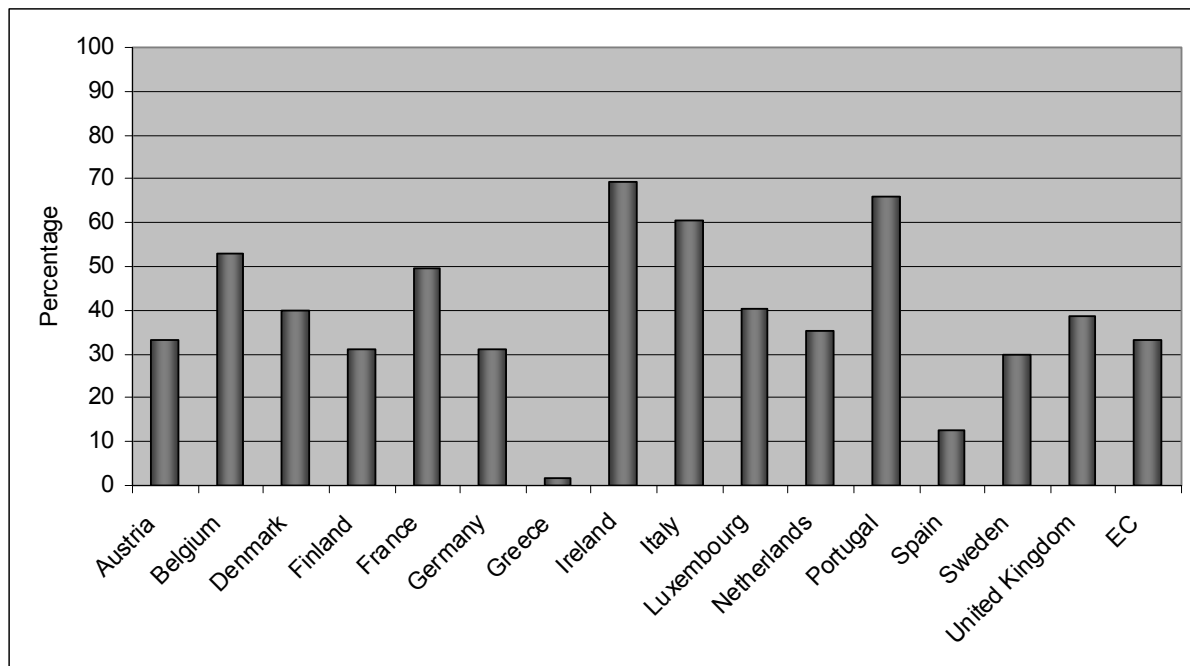
Sources: OECD/ DAC Annual report 2005 and replies of MS to Monterrey survey

Their overall performance is impressive, especially when compared with other big OECD/DAC donors. If current trends are confirmed, the combined ODA volume would increase more than six-fold between 2003, the year prior to accession to the EU, and 2010 and reach the 0.17% baseline target. Whereas some countries have planned for progressive aid increases, others need to step up their efforts and adapt their ODA budgets, especially through allocations other than their contribution to the EC budget and the 10th EDF. By 2010, the combined aid levels of the EU10 would equate to the projected ODA/GNI ratio of the US.

2.5 The special commitment on Africa

The EU undertook to raise aid to Sub-Saharan Africa and to ensure that half of the envisaged collective aid increases as of 2006 will be allocated to Africa. Whereas the G8 - building largely on the EU's financial efforts - also promised aid increases for Africa towards 2010, the EU pledge has so far not been matched by commitments from others, neither in scope nor in terms of verifiable indicators. The promise on Africa pertains to the collective EU effort avoiding interference with national aid priorities of individual MS. Further work on the division of labour needs to ensure a fair burden-sharing amongst EU donors and with international partners.

Diagram 3: Share of allocations to Africa in EU total ODA – average 2000 - 2004



Source: OECD/DAC Annual Report 2005

The Commission invites the Council to:

- call on other donors to commit more substantially to ensuring proper financing for the MDGs, notably in Africa, in the medium and long term;
- in the light of the negative effect on EC aid of the Financial Perspective Conclusions adopted by the European Council, call on MS to contribute, especially for Africa, to common EU and other aid instruments to ensure an effective implementation of the forthcoming aid increases;
- encourage MS whose ODA levels are still below the individual baseline to make every effort to reach the targets in 2006 and in 2010 respectively;
- ensure that further developments in debt relief remain in keeping with the spirit of the Monterrey consensus and the EU commitments;
- encourage MS that joined the EU after 2002 to sustain and step up their efforts to achieve 0.17% ODA/ GNI individually by 2010.

3. COMMITMENT ON INNOVATIVE SOURCES OF FINANCING

In 2005, the Council considered the most promising options for innovative sources of financing for development on the basis of technical analyses provided by the Commission.⁷ As a result of this process, two proposals received the support of some MS:

- The **International Finance Facility (IFF) for Immunisation (IFF-Im)**, launched in September 2005 by France, Italy, Spain, Sweden and the UK as a mechanism to bring forward in time resources already pledged to partner countries for immunisation programmes, involves a €3.3 billion commitment over ten years; first disbursements are expected in 2006;
- A **solidarity levy on airline tickets** to facilitate the financing of existing ODA commitments, in particular for projects in the health sector: The UK indicated that part of the existing Air Passenger Duty should be diverted for development financing. France decided to introduce air ticket tax as of July 2006 and estimates to raise some €210 million p.a..

A technical workshop of Commission departments and MS on innovative financing in February 2006 revealed that the implementation of the initiatives under preparation may have a positive effect on MS' readiness to join, or carry forward, proposals of innovative financing for development.

Linking new sources of finance to specific issues and goals may lead to further vertical and issue-based funds and programmes that need also to ensure country ownership.

The objective of mobilising additional, more stable sources of finance must guide the overall discussion on innovative financing and aid modalities and should, in the medium term, lead to the provision of more predictable funding.

Against this background the **Commission proposes that the Council** should continue to consider innovative sources of finance, including by monitoring the implementation of current initiatives.

4. COMMITMENT ON DEBT RELIEF

The main event on debt in 2005 was the G8 proposal for the cancellation of the IMF, World Bank (WB) and African Development Bank debt remaining in countries having reached the HIPC Completion Point. This Multilateral Debt Relief Initiative (MDRI) was endorsed by the September 2005 Annual Meetings of the International Finance Institutions and is now being operationalised by the three institutions concerned. The countries benefiting from this additional debt reduction will thus probably reach long term debt sustainability.

⁷ "New Sources of Financing for Development: A Review of Options" SEC(2005)467 of 05.04.2005; "An analysis of a possible contribution based on airline tickets as a new source of financing development" SEC(2005) 733 of 15.06.2005; "A possible contribution based on airline tickets as a new source of financing development: technical reflections in the run up to the UN High Level Event" SEC(2005) 1067 of 01.09.2005.

5. COMMITMENT ON AID EFFECTIVENESS

Since 2004 both the EU and the donor community at large - together with beneficiary countries - agreed to concrete aid effectiveness deliveries. This year, how successful we have been in honouring these commitments will be judged against the degree of genuine implementation.

The Commission plays an active role in the development of a strong monitoring mechanism for the objectives and indicators of the Paris Declaration. Considering the delays in finalising that monitoring tool, it is essential that this process finds its cruising speed in 2006, without watering down the commitments, in order to keep up the pace of the necessary reforms.

This progress report will in the future assess the status of the EU's own commitments, which were recorded during the Paris High Level Forum. A comprehensive **Action Plan on the effectiveness of EU aid** brings together nine deliverables that the EU will have to further develop in 2006 and implement in the field until 2010.⁸

The Council repeatedly highlighted the need to enhance the complementarity of our activities by improving our division of labour, as a key component to improving the effectiveness of EU aid. Although reorganising ongoing activities is difficult, it is crucial in view of the projected scaling-up of aid and requires a concerted effort. The EU Action Plan responds to these challenges.

Improved aid effectiveness requires efforts from partner countries and donors alike: Partner countries need to put in place procurement and public finance management systems that meet international standards. Donors need to explore ways in which, in the absence of harmonised systems, they can reduce transactions costs. The Commission, through increasing recourse to budget and sector support, simplified contractual arrangements for international organisations and proposals to simplify its regulatory and legislative framework is progressing in accordance with the obligations of the Paris Declaration. Moreover, current procedural and legal constraints for EC aid in relation to basket funding and co-financing should no longer persist beyond 2006 for the new instruments under the financial perspective 2007-2013 and beyond 2007 for the EDF.

The Commission asks the Council to:

- support the establishment of strong monitoring processes by the end of 2006, both within the DAC context and at EU level;
- support, the establishment of EC aid rules favouring co-financing with Member States and other donors, under the new cooperation instruments of the EC budget for the period 2007 – 2013 and under the 10th EDF;
- agree to further deepening its approach towards operational complementarity, through the adoption of principles for an improved division of labour;

⁸ Communication from the Commission “*EU aid: delivering more, better and faster*” COM(2006) 87.

- agree on a concerted EU strategy, designed in a broader context, to address a scaling-up of EU aid, embedded in the effectiveness of aid and the division of labour;
- endorse, in 2006, the deliveries contained in the Action Plan on EU Aid Effectiveness and its objectives for progressive implementation of those deliveries in the field until 2010.

6. COMMITMENT TO CREATING MORE PREDICTABLE, LESS VOLATILE AID MECHANISMS

For the best performing developing countries, a rolling multi-year framework and less frequent verification of conditionality are key elements to achieving greater predictability in budget support disbursements. However, while a number of MS mentioned budget support as their preferred aid instrument, only Portugal and the UK seem willing to move to **multi-annual budget support with a less than annual review of conditionality** in the sense indicated by the Council Conclusions of May 24, 2005. A technical workshop organised by the Commission in February 2006 in response to the Council's invitation to elaborate proposals for a new long-term budget support mechanism⁹ targeting the best performing countries also revealed the divergent views among MS. Nevertheless, the MS agreed on the importance of ensuring more predictable aid and expressed interest in the ideas put forward by the Commission for a multi-annual **"MDG contract"** that should focus on well performing countries and offer greater assurances of predictable funding in exchange for enhanced planning, monitoring and performance by beneficiaries with respect to the MDG. The Commission will further analyse this issue, including through informal working groups with experts from interested MS, like-minded donors and relevant international organisations.

7. MITIGATION OF THE IMPACT OF EXOGENOUS SHOCKS

The EU is well on track in its commitment to support the operationalisation of market-based insurance schemes to mitigate the negative effects of external shocks on the economies of developing countries. Through the European Development Fund (EDF), the Commission has earmarked € 25 million in support of the **Global Index Insurance Facility (GIIF)**, under preparation by the WB during 2005. The GIIF will include a re-insurance facility allowing insurance coverage for indexable price risks related to weather, disaster and commodities in developing countries and is expected to be operational by mid-2006. In addition to strictly commercial interests, share-holdership in the GIIF will most likely include development banks such as the EIB and the German Investment and Development Company (DEG). Active participation by MS in the **International Task Force on Commodity Risk Management** will be essential to improve the exchange of information on risk management approaches.

⁹ Council Conclusions of 22.11.2005 *"Orientation Debate on the Effectiveness of EU External Action"* (doc. 14821/05 DEVGEN230 RELEX 679).

Following discussions with the ACP group on an **EU-ACP Natural Disaster Facility** the Commission is now also processing a financing proposal for capacity building in disaster prevention/preparedness in the ACP regions, budgeted at €12 million from the 9th EDF. A second phase will be discussed with national and regional authorities in the context of the preparation of the 10th EDF, with the aim of including this matter in Country and Regional Strategy Papers, particularly for disaster-prone countries and regions.

In the light of other initiatives that have been undertaken in 2005 to address the negative effects of exogenous shocks (including the **post-tsunami debt rescheduling** by the Paris Club and the **Exogenous Shocks Facility by the IMF**) and the continuation of existing mechanisms (**FLEX** for the ACP countries), it is increasingly important that the various instruments should be well coordinated and provide complementary responses to shocks. Moreover, the international community should ensure that responses are rapid, reliable and rooted in a strategy that pays adequate attention to risk prevention and risk mitigation planning. Vulnerability to external shocks may be included as a criterion for the allocation of development assistance from the EC and MS while shock management should ensure that any additional assistance is counter-cyclical.

The Commission invites the Council to contribute to supporting the Global Index Insurance Facility (GIIF) in order to facilitate the access of developing countries to market-based insurance instruments.

8. COMMITMENT ON UNTYING OF AID

The majority of MS that are DAC members have fully untied their bilateral aid and 40% of the others are considering further opening access to their development assistance beyond their current level of untying.

In addition, more than half of the MS have abolished any conditions linked to the channelling of their funds through UN bodies or NGOs, including several new MS. Moreover, a third of the MS have established a system of local preferences aimed at creating local capacities and reinforcing of local markets.

In December 2005, the EC **adopted two regulations that open access to all EC external assistance**. More than two thirds of EC aid delivered through geographical or thematic instruments is now to a large extent untied. The remaining part of aid will be untied to developing countries and to all donors as and when they unty their own aid.

All EU MS have agreed to further **extend the scope** of the OECD/DAC recommendation on **aid untying to the LDCs** and called for full untying of food aid and food aid transport. In this regard the Commission regrets that progress is still obstructed by negative commercial approaches sponsored by other donors.

The Commission reiterates its duty to ensure the consistency of the Single Market and its will to monitor, in accordance with the Treaty the access of all MS to public procurement in other MS, including in the field of development.

The Commission recommends that the Council should continue its efforts to **promote the further untying of food aid and food aid transport**, in line with the negotiation mandate adopted in view of the revision of the London Convention.

9. INTERNATIONAL PUBLIC GOODS (IPG)

The commitment on IPG is linked to the availability and content of the final report of the Task Force on Global Public Goods. Many MS and the Commission consider that the Task Force has provided a valuable contribution to enhancing the debate and raising awareness of International Public Goods, regret the delay in releasing the final report and look forward to its final availability. The Commission also notes that the new ambitious commitments for development, in particular those made by the EU (notably increased ODA volumes and the “European Consensus on Development”) have been accompanied by a decreasing interest in an IPG approach, especially its financing dimension. Against this background the **Commission invites the Council to call on the International Task Force on Global Public Goods for a prompt release of its final report.**

10. REFORM OF THE INTERNATIONAL FINANCIAL INSTITUTIONS

The vast majority of MS are in favour of **more systematic joint statements by EU MS representatives on the Governing Boards of IFIs and of a more formal coordination mechanism among EU MS** for WB issues of strategic importance to the EU.

By presenting **joint statements** as often as possible, the EU will increase its visibility and influence in the IFIs, in line with the ‘European Consensus on Development’ and the EU strategy for Africa. The Commission has created an inter-service network to support this process.

MS also expressed general satisfaction with the improved informal **EU coordination** between **the EU Executive Directors** of the IMF and the WB in Washington; this has taken form of **regular coordination meetings** in which the Commission actively participates. Whereas the Economic and Financial Committee (EFC) established a special sub-committee to coordinate the EU position on IMF and related issues (SCIMF), there is no such formal coordination mechanism for WB issues. The annual visits of the EU Executive Directors from the WB to the EU institutions have a catalytic effect on cooperation. Similar mechanisms should be developed to improve EU coherence among **the Executive Directors from Regional Development Banks**, where collective EU shareholding is significant, such as the African Development Bank, the Asian Development Bank and the Inter-American Development Bank. The Commission will soon organise **a visit of EU Executive Directors of Regional Development Banks** to the European institutions.

The Commission invites the Council to:

- support the creation of an **informal coordination mechanism between European Executive Directors from the Regional Development Banks**, in association with the Commission, where collective EU shareholding is significant, similar to the existing practice in the World Bank;
- ensuring that EU coordination meetings, with participation of Commission representatives, take place systematically prior to important decisions to be taken by the Boards of the IFIs, in which EU shareholding is significant.

- promote **increased transparency** between Executive Directors and the Commission, by transmitting as a first step, timely and regularly, the Board documents of IMF, WB and regional development banks to the Commission.

11. TRADE AND DEVELOPMENT

Following the Council of May 2005 the EU further deepened its commitments concerning Trade-Related Assistance (TRA). At the G8 Summit Commission President Barroso pledged to increase EC aid for trade to €1 billion p.a. In December 2005 the Council¹⁰ agreed that MS will strive to collectively increase their TRA to €1 billion p.a. by 2010. The combined EU contribution should thus reach €2 billion. The MS and EC also pledged to provide adequate and predictable funding of an enhanced and strengthened **Integrated Framework (IF)**, €10 million has been earmarked as EC contribution to the enhanced IF. The Commission is ready to examine possibilities for pooling MS and EC funds to enhance the effectiveness of TRA, and will review, in future editions of this report, the delivery of the Commission and MS on these commitments.

Following the WTO Ministerial Declaration in Hong Kong an Aid for Trade Task Force will be set up, in which the Commission intends to work to firmly sustain the “aid for trade” agenda, in coordination with the MS and using established channels.

The evaluation of EU coordination on TRA of 2005-06 concludes that the EU Informal Trade and Development Expert Group remains the main tool at headquarter level for coordination between the Commission and the MS. Other key findings include: headquarters exchange of information is mostly from the Commission to the MS and not vice versa; in-country coordination is a very ad hoc process, which has succeeded in avoiding duplication, but is yet to mature into a common strategic response to TRA needs; some MS contribute to shaping multilateral initiatives, but there is no joint EU strategy on such initiatives.

Against this background the **Commission invites the Council to:**

- **implement the conclusions on “Aid for Trade”**, in particular by effective and timely delivery by MS on TRA aid volume targets by 2010; work towards more effective and increased trade-related infrastructure activity; support an enhanced IF; and provide credible assistance to facilitate trade adjustment;
- contribute to **improved mainstreaming of trade into poverty reduction and development strategies**; use trade needs assessments systematically and, as far as possible, jointly for the programming of TRA;
- **further improve EU coordination efforts at headquarters and field level**; at headquarters level the Informal Trade and Development Expert Group should be more systematically used to share information and best practices; at field level the enhanced IF or, where applicable, trade needs assessments should include a strong coordination mechanism; and provide timely and full information on TRA commitments to the Doha Data Base.

¹⁰ “Aid for Trade” Council Document 15579/05 DEVGEN 250 RELEX 748 of 09.12.2005.

12. CONCLUSIONS

Following the extraordinary efforts undertaken by the EU in 2005 to contribute to a positive outcome of the UN Summit by setting new and ambitious commitments and by strengthening the EU framework through the European Consensus on Development and the EU-Africa strategy, the delivery on these promises has now taken off. The EU, albeit with some difficulties, gives signs to be prepared to meet its intermediate ODA targets 2006. Working towards the 2010 targets will require supplementary efforts and credible action supported by public opinion. Communication on EU development activity should be strengthened. Some MS are introducing innovative sources of financing, whereas the Multilateral Debt Relief Initiative responds to the EU's concern pertaining to debt sustainability of poor countries. Concrete deliverables on aid effectiveness must now be agreed, e.g. the joint EU framework for country strategies¹¹ and the Action Plan.

¹¹ “Increasing the impact of EU aid: a common framework for drafting country strategy papers and joint multiannual programming” COM(2006) 88; “EU Aid: Delivering more, better and faster” COM(2006) 87.

ANNEX

SUMMARY OF REVISED EU COMMITMENTS

ON FINANCING FOR DEVELOPMENT AND AID EFFECTIVENESS OF 2005

Extract from the Council Conclusions on the Millennium Development Goals of 24 May 2005, including references to the Council Conclusions on the International Conference on Financing for Development of 14 March 2002, complemented by the Councils Conclusions of 9 December 2005 on Aid for Trade

1. ODA

1.1 Increased ODA volumes beyond 2006: “Increased ODA is urgently needed to achieve the MDGs. In the context of reaching the existing commitment to attain the internationally agreed ODA target of 0,7 % ODA/GNI, the EU notes with satisfaction that its Member States are on track to achieve the 0.39% target in 2006 for ODA volumes contained in the Barcelona commitments. At present, four out of the five countries, which exceed the UN target for ODA of 0,7%, of GNI are member states of the European Union. Five others have committed to a timetable to reach this target. While reaffirming its determination to reach these targets, the EU agrees to a new collective EU target of 0,56 % ODA/GNI by 2010, that would result in additional annual € 20bn ODA by that time.

- i. Member States, which have not yet reached a level of 0,51 % ODA/GNI, undertake to reach , within their respective budget allocation processes, that level by 2010, while those that are already above that level undertake to sustain their efforts;
- ii. Member States, which have joined the EU after 2002, and that have not reached a level of 0,17 % ODA/GNI, will strive to increase their ODA to reach, within their respective budget allocation processes, that level by 2010, while those that are already above that level undertake to sustain their efforts;
- iii. Member States undertake to achieve the 0.7% ODA/ GNI target by 2015 whilst those which have achieved that target commit themselves to remain above that target; Member States which joined the EU after 2002 will strive to increase by 2015 their ODQ/GNI to 0.33%.”

1.2 Focus on Africa: “The EU will increase its financial assistance for Sub-Saharan Africa and will provide collectively at least 50% of the agreed increase of ODA resources to the continent while fully respecting individual Member States priorities’ in development assistance.”

1.3 ODA target 2006 (Council conclusions of March 14, 2002): “...those Member States that have not yet reached the 0.7% target commit themselves - as a first significant step - individually to increasing their ODA volume ... within their respective budget allocation processes, ..., so that collectively an EU average of 0.39% is reached by 2006. In view of this goal, all the EU Member States will in any case strive to reach, within their respective budget allocation processes, at least 0.33% ODA/GNI by 2006.”

2. INNOVATIVE SOURCES OF FINANCING

“The Council will continue to consider the most promising options for innovative sources of financing for development, in order to increase the resources available in a sustainable and predictable way. It notes the intention of some Member States to introduce a solidarity levy on airline tickets”.

3. DEBT

“The EU remains committed to finding solutions, in cooperation with International Financial Institutions, to unsustainable debt burdens, and is committed to full implementation of the enhanced HIPC initiative. It will be vital to agree on the scope and modalities for further multilateral debt relief in order to secure the long term debt sustainability on a case by case approach.

The EU will continue and enhance efforts to restore and maintain debt sustainability, based on a case by case approach, including

- (a) exploring possibilities for mechanisms for temporary suspension of debt servicing for developing countries affected by exogenous shocks,
- (b) specific measures for post conflict countries with external arrears which, therefore, have not yet met the criteria of the HIPC initiative.”

4. AID EFFECTIVENESS

“The EU will continue and enhance efforts to restore and maintain debt sustainability, based on a case by case approach, including

- (a) exploring possibilities for mechanisms for temporary suspension of debt servicing for developing countries affected by exogenous shocks.
- (b) specific measures for post conflict countries with external arrears which, therefore, have not yet met the criteria of the HIPC initiative.

In preparation of the Paris High Level Forum the Council has adopted, on 22 of November 2004, a comprehensive EU response with the report on ‘Advancing coordination, harmonisation and alignment’. The EU will ensure implementation of the concrete recommendations contained therein, including a more effective framework for development assistance at the EU level and division of labour and complementarity at country level in the context of joint, multi-annual programming based on the partner country’s poverty reduction strategies.

The EU is fully committed to a timely implementation and monitoring of the Paris Declaration on Aid Effectiveness including setting monitorable targets for 2010 and of the EU specific commitments adopted at the Paris Forum.”

5. MORE PREDICTABLE, LESS VOLATILE AID MECHANISMS

“In order to better respond to the need for stable resources and in view of the expected increases in ODA flows, the EU will develop new, more predictable and less volatile aid mechanisms. Such mechanisms could consist in the provision of a minimum level of budgetary aid secured in a medium term perspective and linked to policy performance in the partner countries in particular in relation to the commitment towards achieving the MDGs in national poverty reduction strategies.”

6. EXOGENOUS SHOCKS

“In order to mitigate the impact of exogenous shocks, including price vulnerability, on developing countries economies, the EU will support the operationalisation of market based insurance schemes and explore possibilities for temporary suspension of debt servicing on a case by case basis. Further, the EU will strengthen and improve access to existing financing mechanisms such as those provided for in the Cotonou Agreement (FLEX) to give short term cover against the impact of such shocks on countries’ revenue.”

7. UNTYING OF AID

“Addressing the challenge of untying of aid by adopting as soon as possible, on the basis of the Commission’s proposal, a regulation on the access to EC external assistance; the EU will support ongoing debates at the international level on further untying of aid beyond existing OECD/DAC recommendations.”

8. INTERNATIONAL PUBLIC GOODS (IPGs)

“Examining, on the basis of the report of the Task Force on Global Public Goods, the possibilities to establish by 2006 an Action Plan at EU level on the provision of priority International Public Goods (IPGs) and agreeing to examine the financing modalities of the IPGs.”

9. REFORM OF THE INTERNATIONAL FINANCIAL SYSTEM

9.1 Conclusions of May 24, 2005: “Promoting a joint European position on enhancing the voice of developing and transition countries and further improving the quality of existing EU coordination in the IFIs.”

9.2 Conclusions of March 14, 2002: “To influence the reform of the International Financial System by combating abuses of financial globalisation, strengthening the voice of developing countries in international economic decision-making, and, while respecting their respective roles, enhancing the coherence between the UN, International Financial Institutions and WTO”.

10. TRADE AND DEVELOPMENT

10.1 Conclusions of May 24, 2005: “...the EU commits to further improving and better co-ordinating trade-related assistance programmes and – in view of possible trade integration costs faced by developing countries - providing additional support for trade adjustment and integration into the global economy. It therefore agrees that the different options set out in the Communication for improved and increased aid, including that of an international mechanism

for trade adjustment and capacity building, be pursued further within the EU and with the international community.”

“The EU will continue to provide support to developing countries to enable them to seize trading opportunities, in particular by assisting them in integrating trade into their national development strategies and securing the necessary domestic reform.”

10.2 Conclusions of December 9, 2005: Integrated Framework (IF): “On the understanding that the enhancement of the IF needs to address fully its existing weaknesses, the EU resolves that, within available budgets and with other donors, it will provide resources to enable the enhanced IF to be adequately and predictably funded. Some Member States may alternatively decide to provide aid for the same purpose through other channels.”

Trade-Related Assistance: “Within their commitments to future increases in development assistance, member States will strive to increase the EU’s collective spending on trade-related assistance (as so defined), in response to needs prioritised in partner country poverty reduction strategies or development plans, with a view to reaching a figure of € 1 billion per year by 2010, inclusive of spending on the enhance Integrated Framework. This would bring the contribution of the EU as a whole, including the Community contribution, to € 2 billion per year by 2010.”