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# **Follow-up to the International Conference on Financing for Development (Monterrey - 2002)**

## ***Monitoring the Barcelona Commitments***

***- Summary -***

## TABLE OF CONTENT

<i>Introduction</i> .....	3
A) FIRST COMMITMENT: VOLUME OF OFFICIAL DEVELOPMENT ASSISTANCE .....	4
B) SECOND COMMITMENT: CO-ORDINATION AND HARMONISATION .....	10
C) THIRD COMMITMENT: UNTYING OF AID .....	12
D) FOURTH COMMITMENT: TRADE RELATED TECHNICAL ASSISTANCE.....	14
D) FIFTH COMMITMENT: GLOBAL PUBLIC GOODS.....	17
E) SIXTH COMMITMENT: INNOVATIVE SOURCES OF FINANCING .....	18
F) SEVENTH COMMITMENT: REFORM OF THE INTERNATIONAL FINANCIAL SYSTEM .....	19
G) EIGHTH COMMITMENT: DEBT RELIEF.....	20

## INDEX OF FIGURES AND TABLES

Figure 1 - EU Member States level of ODA in % of GNI in 2002 .....	5
Figure 2 - ODA Comparison by Major Donors in € billion 2000-2006.....	6
Figure 3 - Evolution of Member States ODA in % of GNI 2001-2006 .....	6
Figure 4 - Voting rights in IBRD .....	19
Figure 5 - Voting rights in IMF .....	19
Table 1 - Monterrey Pledge (1) EU ODA Flows 2000-2006 .....	4
Table 2 - Monterrey Pledge (2) Increase of EU ODA decided at the Barcelona Summit.....	4
Table 3 - Post Monterrey EU ODA perspectives 2001 - 2006.....	7
Table 4 - Forecasts of acceding countries ODA in 2006.....	8
Table 5 - Czech Republic Forecast on ODA in CZK million [€ Million]* .....	9
Table 6 - Potential Gap for reaching Monterrey collective commitment in 2006.....	9
Table 7 – Current level of Untying by Major EC instruments .....	12
Table 8 - Commitments to TRA/CB activities in 2001 (in US\$ million).....	16
Table 9 - Burden sharing in the HIPC Initiative.....	22

## **Introduction**

The European Union undertook eight commitments at the Barcelona Council on 14 March 2002 as its contribution to the International Conference on Financing for Development (Monterrey, Mexico, 18-22 March 2002). At its session in November 2002, the Council<sup>1</sup> stressed the importance of an adequate monitoring of the implementation of those commitments. The Council welcomed the intention of the Commission to ensure this monitoring. It requested the Commission to report back on the results in spring 2003, in particular concerning the financial commitments made by the EU at the Barcelona Summit on the increase of its Official Development Assistance (ODA).

In December 2002, the Commission distributed a questionnaire to the Member States in order for them to appreciate the implementation of their commitments. The compilation of responses to this questionnaire was disseminated to the Member States by the Council secretariat in March 2003<sup>2</sup>. The analytical summary presented herewith is based on the results of this fact-finding exercise. It reports on the implementation at the European level of the follow up to the International Conference on Financing for Development. It also takes into account the requirements, reflected in Articles 177 to 181 of the Treaty, to ensure coherence, coordination and complementarity of Community and Member States policies.

This monitoring exercise represents a positive collective effort by the EU and reflects the wish to be transparent. It has been a good opportunity for benchmarking and exchange of practices. These benefits can be further sustained through regular reporting in the future. Since the EU places a high emphasis on an integrated follow-up to the intertwined agendas of the major UN conferences, incorporating elements deriving from other conferences (e.g. the EU initiatives on Water/Sanitation and Energy, including recent proposal from the EC to create a Water Fund) into future reporting exercises should be considered.

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<sup>1</sup> General Affairs and External Relations Council, November 19 2002, page 27, Follow-Up to International Conferences - Monterrey

<sup>2</sup> Doc. n° 40/03 DEVGEN, 25 March 2003

## a) FIRST COMMITMENT: VOLUME OF OFFICIAL DEVELOPMENT ASSISTANCE

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*"In pursuance of the undertaking to examine the means and timeframe that will allow each of the Member States to reach the UN goal of 0.7% ODA/GNI, 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 in the next four years within their respective budget allocation processes, whilst the other Member States renew their efforts to remain at or above the target of 0.7% ODA, 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."*

### The EU Pledge in Monterrey:

The European Union pledge in Monterrey stated (EcFin) that, based on the most modest assumption, ODA from Member States would increase by an extra €8 billions per year by 2006 and that an extra €23 billion would be made available over the period from 2000 to 2006. The commitment to 0,39 % of GNP in 2006 (€ 39,062 millions) corresponds for 2006 to a volume increase in the absolute amount (including GNP Growth rate) of 33,5 % when compared to 2000 (€ 29,257 millions).

The following figures were presented in Monterrey and are based on the DAC Statistics.

(i) The DAC figures were not available for 2001 and 2002. The figures used for calculation were based on duplication of 2000 figures for 2001 and 2002.

(ii) The Growth rate was based on the official estimation (at the time) by the Commission of 2,7% for 2003. The Commitments were decided in 2002, therefore no Growth forecasts were used for years 2000, 2001 (1,6%) & 2002 (1,3%).

(iii) The figures are based on the hypothesis of a regular yearly increase towards the year 2006 commitments.

(iv) Exchange rate was 1.15 € = 1 US \$.

(v) The European Commission manages 5607 M€ of the annual EU ODA.

TABLE 1 - MONTERREY PLEDGE (1) EU ODA FLOWS 2000-2006

	Year 2000 in € million	Year 2006 In € million
EU-15 ODA	29,257	35,113
EU-15 ODA with GNI Growth Rate	-----	39,062
EU-15 ODA as % of GNI	0.33	0.39
EU ODA as % of all DAC ODA	47	-----

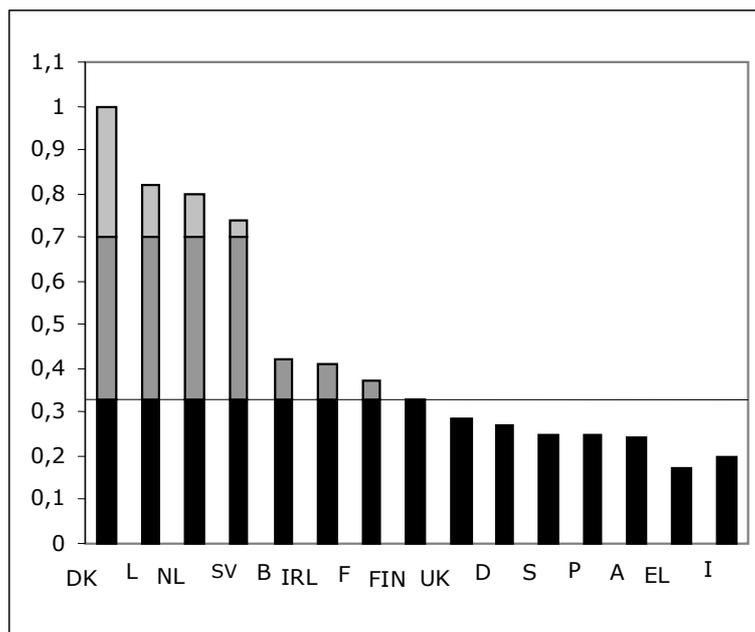
TABLE 2 - MONTERREY PLEDGE (2) INCREASE OF EU ODA DECIDED AT THE BARCELONA SUMMIT

Cumulative amount of ODA 2000-2006 with GNI growth rate (in € million)	228,787
Increase in yearly volume 2006/2000 (in € million)	9,805
Cumulative increase of EU ODA 2000-2006 with GNI Growth Rate (in € million)	23,987

## General situation:

Implementation has started despite a difficult budgetary background. The trend is positive towards the achievement of the first Barcelona Commitment on the volume of ODA<sup>3</sup>. In 2002, eight Member States had already met the target<sup>4</sup> of 0.33% ODA/GNI. In 2003, ten Member States will reach this objective. In fact, this progress already corresponds to around one third of the amount of additional ODA per year that should be made available by the EU from 2006 on. Those Member States who have not yet met this commitment have reaffirmed their will to do so.

FIGURE 1 - EU MEMBER STATES LEVEL OF ODA IN % OF GNI IN 2002



## Prospective elements

**Denmark, Luxembourg, the Netherlands and Sweden**, which have already reached the UN ODA target of 0.7% of GNI, have reaffirmed their commitment to stay above this level. **Denmark** has announced its intention to maintain the absolute value of the development assistance budget implying a moderately declining ODA-ratio, which will however still remain well above the UN target of 0.7%.

Others countries have set targets higher than the EU benchmark: **Belgium**, whose current ODA level is at 0.42%, stated that it would meet the target of 0.7% by 2010<sup>5</sup>. **Ireland** confirmed that it would meet a target of 0.41% for 2003 and of 0.7% for 2007. **France** met the target of 0.39% in 2003 and announced its intention to reach 0.5% in 2007 (F). **Finland** attained a level of ODA of 0.35% in 2003. **UK** reached 0.33% in 2003 and has committed to increasing its ODA level to 0.4% by 2005. **Italy** has introduced official proposals to reach 0.33% in 2006 and achieved in 2002 a level of 0.2% which is above its initial forecasts of 0.17%(I)

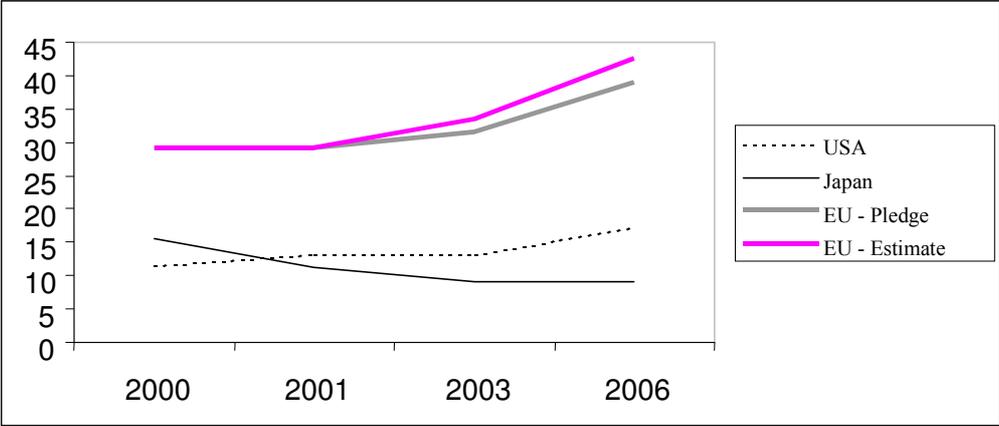
<sup>3</sup> The Barcelona commitment on ODA implies two different commitments from the EU MS: one individual and one collective. The individual commitment implies that the MS that have not yet reached the 0.7% target<sup>3</sup> will increase their ODA. In particular the MS that have not yet reached the current EU average (0.33%) will strive to reach it by 2006, while those that have already reached the 0.7% target will remain at that level or go beyond. The collective commitment states that a EU average of 0.39% has to be reached by 2006.

<sup>4</sup> See Figure 1 - EU Member States level of ODA in % of GNI in 2002

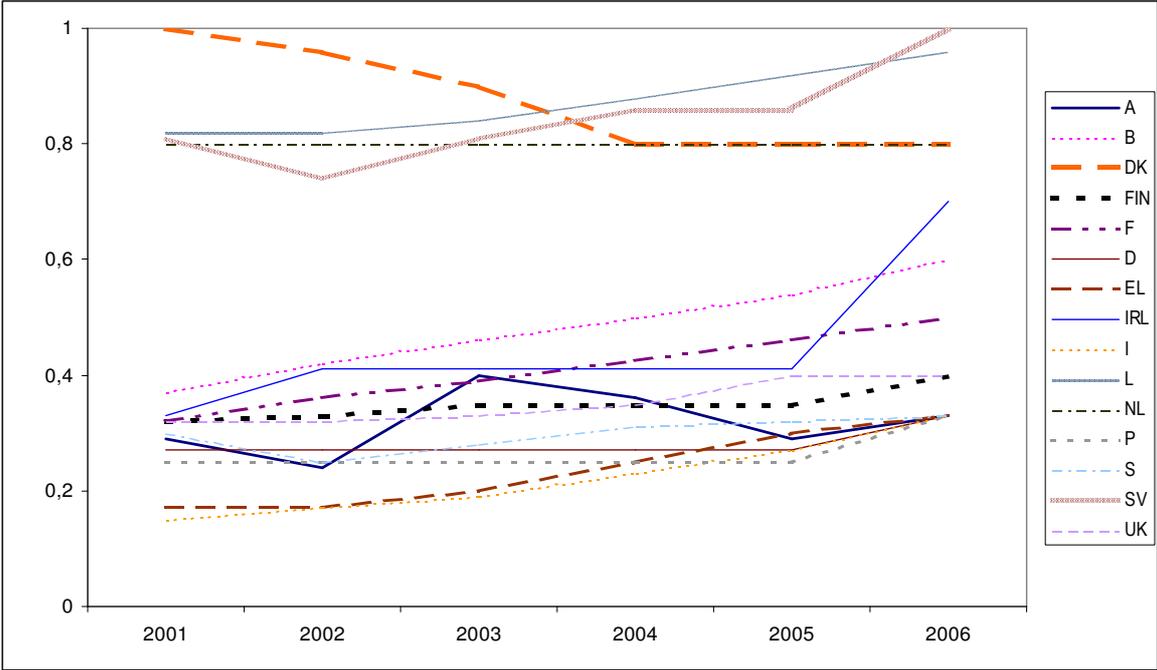
<sup>5</sup> A Law was adopted in December 2002. It is intended to reach the objective of 0.7% of GNI in 2010.(B)

**Austria, Germany, Greece, Portugal and Spain** announced that they would meet the ratio target of 0.33% ODA/GNI by 2006. They have not yet been able to produce concrete proposals. A specific mention must be made of the renewed commitment announced by Greece and Italy to reach the first Barcelona commitment. Both countries reconfirmed that they would strive to double the actual amount of ODA by 2006.

**FIGURE 2 - ODA COMPARISON BY MAJOR DONORS IN € BILLION 2000-2006**



**FIGURE 3 - EVOLUTION OF MEMBER STATES ODA IN % OF GNI 2001-2006**



\* The Austrian Government has proposed a budget for 2004 that foresees an actual increase of about 40% in bilateral development co-operation. The fluctuations of the Austrian ODA figures are attributable to substantial HPIC contributions in the years in questions (A).

**TABLE 3 - POST MONTERREY EU ODA PERSPECTIVES 2001 - 2006**

MEMBER STATES	YEARS											
	2001		2002		2003		2004		2005		2006	
	M€	% GNI	% GNI	% GNI	% GNI	% GNI	% GNI					
AUSTRIA	595	0,29	0,24	0,40	0,36	0,29	0,33	0,36	0,29	0,33	0,33	
BELGIUM	968	0,37	0,42	0,46	0,5	0,54	0,6	0,5	0,54	0,6	0,6	
DENMARK	1824	1,03	0,96	0,9	> 0,8	> 0,8	> 0,80	> 0,8	> 0,8	> 0,80	> 0,80	
FINLAND	434	0,32	0,33	0,35	0,38*	0,40*	0,42*	0,38*	0,40*	0,42*	0,42*	
FRANCE	4713	0,32	0,36	0,39	--	--	0,50	--	--	0,50	0,50	
GERMANY	5571	0,27	0,27	0,28	--	--	0,33	--	--	0,33	0,33	
GREECE	202	0,17	0,17	0,2	0,25	0,30	0,33	0,25	0,30	0,33	0,33	
IRELAND	320	0,33	0,41	0,41	--	--	0,70	--	--	0,70	0,70	
ITALY	1817	0,15	0,2	0,19	0,23	0,27	0,33	0,23	0,27	0,33	0,33	
LUXEMBOURG	157	0,82	0,82	0,84	0,88	0,92	0,96	0,88	0,92	0,96	0,96	
THE NETHERLANDS	3541	0,80	0,80	0,8	0,8	0,8	0,80	0,8	0,8	0,80	0,80	
PORTUGAL	299	0,25	0,25	0,25	--	--	0,33	--	--	0,33	0,33	
SPAIN	1939	0,30	0,25	0,28	0,31	0,32	0,33	0,31	0,32	0,33	0,33	
SWEDEN	1860	0,81	0,74	0,81	0,86	--	1	0,86	--	1	1	
UNITED KINGDOM	5112	0,32	0,3**	0,33	0,35	0,4	0,40	0,35	0,4	0,40	0,40	
EU TOTAL	29 352	0,33	0,34	--	--	--	> 0,44	--	--	--	> 0,44	

\*Based on the increase (in €) of the ODA agreed by the Government of Finland to take place by the end of its term in 2007 and on the present GNI estimate for future years.

\*\* This decrease is due to a delay in lodging the UK's contribution to IDA in 2002 and represents a statistical anomaly.

## The context of enlargement

The accession of ten new EU Member States is an additional challenge and a new opportunity. The commitments made in Barcelona represent an important part of the political EU “acquis” that the new acceding countries are expected to implement as soon as possible. The new Member States are also expected to meet the objectives that were agreed at the highest political level in Barcelona. In this context we need to recall that the Barcelona agreement implies two different commitments from the EU Member States:

- One individual (no less than 0.33% /GNI) at the level of Member State, and
- One collective (0.39% /GNI at EU level).

From 2004, the acceding countries will emerge as new donors. Indeed, they will provide resources to the EC budget, which is partly devoted to external relations including development aid. Therefore 4,68% of their contribution to the EC budget will automatically take the form of ODA. Acceding countries would also contribute to the European Development Fund. They are expected to contribute as from the 10<sup>th</sup> EDF.

Information available at this point indicates that most acceding countries will be nowhere near the individual target by the time their membership becomes effective in 2004. Given the economic and political context, they will face a tremendous challenge to meet the individual objective by 2006.

For information purposes, the following charts present forecasts of what could be the least and most positive scenarios. These projections are limited by nature and only intend to express a trend. Potential extra amounts related to new Member States bilateral contributions to multilateral organisations and funds or other channels would have to be added.

These forecasts are based on two scenarios:

- a) The implementation of the Monterrey target (0.33%) by the acceding countries in 2006
- b) The contribution by the acceding countries to the EC budget only

**TABLE 4 - FORECASTS OF ACCEDING COUNTRIES ODA IN 2006<sup>6</sup>**

		ACCEDING COUNTRIES										
		CY	CZ	EST	H	PL	SLO	LT	LV	SK	M	TOTAL
<b>MOST POSITIVE SCENARIO (MEETING THE MONTERREY TARGET)</b>	ODA in M €	46.5	448.8	44.2	400.3	1173	105.3	99.9	59.7	197	15.2	<b>2590</b>
	As % of GNI	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	<b>0.33</b>
<b>LEAST POSITIVE SCENARIO (CONTRIBUTION TO EC DEVELOPMENT BUDGET ONLY)</b>	ODA in M €	5.4	32.3	2.9	28.7	81.9	9.7	6.4	3.6	11.7	2.2	<b>184,8</b>
	as % of GNI	0,039	0,024	0,022	0,024	0,023	0,03	0,021	0,02	0,02	0,049	<b>0,024</b>

<sup>6</sup> In constant amounts 2001

The Least Positive Scenario underscores the reality. Some acceding countries have assistance budgets that already go beyond these figures but is not clear whether they can be all considered as ODA. We will continue working together to clarify this situation.

The data situation concerning existing ODA remains very precarious. Nevertheless some acceding countries have already announced higher contributions than the least positive scenario. As an example, the Czech Republic announced the following forecast.

**TABLE 5 - CZECH REPUBLIC FORECAST ON ODA IN CZK MILLION [€ MILLION]\***

Year	Contributions to the EC budget	Contributions to International org.	Bilateral Assistance	Total
2004	600 [18.9]	400 [12.6]	500 [15.8]	1500 [47.2]
2005	600 [18.9]	400 [12.6]	750 [23.6]	1750 [55.2]
2006	600 [18.9]	400 [12.6]	1100 [34.7]	2100 [66.2]
2007	600 [18.9]	400 [12.6]	1600 [50.4]	2600 [81.9]

\* The exchange rate with € was 31.7170 on 24/04/2003.

**TABLE 6 - POTENTIAL GAP FOR REACHING MONTERREY COLLECTIVE COMMITMENT IN 2006**

		AMOUNT IN M €	AS % OF GNI
<b>MONTERREY COLLECTIVE COMMITMENT</b>	EU-15	34 310 690	0.39
	EU-25	37 370 630	0.39
<b>MOST POSITIVE SCENARIO MEETING THE MONTERREY TARGET</b>	EU-10 ODA <sup>7</sup>	2 590	0.33
	EU-25 ODA	36 899,9	0.385
	<b>GAP for meeting Monterrey Collective Commitment</b>	<b>470.7</b>	--
<b>LEAST POSITIVE SCENARIO CONTRIBUTION TO EC DEVELOPMENT BUDGET ONLY<sup>8</sup></b>	EU-10 ODA	184.8	0.02
	EU-25 ODA	34 494.7	0.36
	<b>GAP for meeting Monterrey Collective Commitment</b>	<b>2 875.9</b>	--

**Concluding remarks:**

- *The commitment announced in Monterrey is being implemented. A number of Member States have introduced concrete plans to increase ODA.*
- *Five Member States have not yet identified a concrete implementation path.*

<sup>7</sup> Acceding Countries

- *One Member State has announced its intention to maintain the absolute value of the development assistance budget implying a moderately declining ODA-ratio, which will however still remain well above the UN target of 0.7.*
- *New Member States face a significant challenge in order to reach the individual commitment of 0.33%. Work will have to be done to improve available data on ODA performances.*

## **b) SECOND COMMITMENT: CO-ORDINATION AND HARMONISATION**

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*"To take concrete steps on co-ordination of policies and harmonisation of procedures before 2004, both at EC and Member States level, in line with internationally agreed best practices including by implementing recommendations from the OECD Development Assistance Committee Task Force on donor practice."*

### **General situation**

The conference at Monterrey was a catalyst for the work on harmonisation of procedures at the international level. The work in the OECD/DAC Task Force on the Harmonisation of Donor Practices was the main driving force of the debate on concrete steps towards the implementation of the concept. The first tangible results came through the adoption of Good References Papers by the OECD/DAC<sup>9</sup>. In February 2003, this was confirmed in a global context at the occasion of the High Level Forum of Rome<sup>10</sup>. The EU has on all those occasions reaffirmed its strong commitment to further progress including the will to move further on areas not specifically covered such as the co-ordination of policies.

To prepare the speedy implementation of the political commitment from Barcelona and Monterrey, the EU Member States asked the Commission in June 2002 to launch a pilot initiative<sup>11</sup> in four countries: Morocco, Nicaragua, Mozambique and Vietnam. The report on the pilot initiative confirmed that there are difficulties in the operational implementation of EU co-ordination on the ground and considerable differences in the application between the regions and countries concerned. The result confirmed however that substantial progress had been made. The findings confirm that:

- Improving co-ordination and harmonisation does not represent a direct cost but an immediate increase in "better value for money".
- There is a demand for more co-ordination and harmonisation from most of the actors present at field level i.e. the EC delegations, the Member States and the authorities of the Partner Country,
- There are a number of cases where interesting initiatives are spontaneously being organised in the field,
- The devolution/deconcentration process carried out within the framework of the Relex Reform is a very significant "asset" for the effective implementation of the proposed recommendations.

EU Directors General for Development<sup>12</sup> agreed to establish a list of concrete measures to be taken by the European Union and its Member States. Such recommendations must build on the consensus already reached and be implemented with flexibility by taking into account the specific realities of each partner country.

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<sup>9</sup> The 6 Good References Papers were endorsed at the DAC Senior Level Meeting of 12 December 2002.

<sup>10</sup> High Level Forum of Rome - Declaration on Harmonization, Rome, 24-25 February 2003.

<sup>11</sup> October 2002, Pilot Initiative on Co-ordination of Policies and Harmonisation of Procedures. The report presents the outcomes of the pilot exercise, which are based on the results of four field visits (Morocco, Mozambique, Nicaragua, Vietnam) and takes into account the work being done on those issues at the European as well as at the international level.

<sup>12</sup> Informal meeting EU DGs for development - 25 October 2002

## Prospective elements

There is consensus among Member States to move forward on the fundamental issue of improving co-ordination of policies and harmonisation of procedures. Effective improvements should be reached quickly. The number of Member States will increase from 15 to 25 after the enlargement. Therefore, the more we can harmonise the better.

Member States agreed to formulate proposals, before September 2003, for concrete measures at the EU level in the four countries of the pilot initiative conducted in 2002 (Morocco, Mozambique, Nicaragua and Vietnam).

**All Member States** favour harmonising Policy Papers in the four pilot countries and agree that (part of) country strategies should be harmonised. **All Member States** agree to harmonise (part of) programming, in particular through common sector programmes. **The majority of Member States** speak in favour of harmonising part of the implementing procedures. Moreover, in a concrete and pragmatic approach, Member States favour a focus on the four pilot countries, followed later on, as a qualitative jump, by an extension of the positive outcomes and lessons of this exercise to all countries.

Outside the framework of the four pilot countries, a number of Member States are involved in other concrete harmonisation efforts with or without non -EU donors (e.g.: Like Minded Donor Group in Zambia, Norway and Sweden corporate delegations, French AFD and German KfW agreement....).

Further work on this must be based on a country specific approach. It must also ensure that all donors have the possibility to participate in this effort but we should not wait for the last donor to come on board. The objectives should be set by taking into account both the existing level of co-ordination of policies and harmonisation of procedures and the expectations expressed by the partner country. Several comments recall that such a process should build on the work of the OECD/DAC, in particular the above-mentioned Rome Declaration and the "Good References Papers" adopted.

Although there is an appreciation for progress and advanced cases, one has to come to the conclusion that they take place in a patchwork of initiatives. This situation makes it difficult to get a comprehensive overview and to monitor the improvements made. "Co-ordination" consists in most of the cases only in an exchange of general information. We still have a long way to go in terms of internalisation and implementation by the Member States of Policy Frameworks and Guidelines that have been established after a negotiation at the Community level. Even if some EU Member States have deployed their assistance in their own way and speed, Europe should be able to go further together. This includes e.g. the implementation of sector-wide programming, budget or sector support and basket funding.

## Concluding remarks:

- *As announced by the EU Presidency at the High Level Forum on Harmonisation in Rome, the European Commission will propose before summer 2003 a set of recommendations for action to be jointly implemented by the 15 Member States, the 10 new acceding countries and itself. Its objective will be to establish a minimum level of co-ordination and harmonisation and to ensure full implementation of the 2001 EC Guidelines on operational co-ordination through a series of concrete and clear actions. It will also look into how to promote synergies between all the initiatives launched in the last three years.*

### c) THIRD COMMITMENT: UNTYING OF AID

*"To implement the DAC recommendation on untying of aid to Least Developed Countries and continue discussions in view of further untying bilateral aid. The EU will also consider steps towards further untying of Community aid while maintaining the existing system of price preferences of the EU-ACP framework."*

#### General situation

Untying of aid was recognised in Monterrey as one of the significant means to improve the effectiveness of aid. The **EU Member States** are committed to the OECD/DAC recommendation on the untying of Official Development Assistance (ODA) to Least Developed Countries (LDC). They have all implemented or are in the process of introducing measures for applying these recommendations to their ODA. The **European Commission** has agreed to implement the spirit and objectives of the DAC Recommendations

The **European Community** Aid has been untied to a significant degree for more than 25 years. About one third of the EC aid is completely untied regarding donors and about 19 % of EC aid is completely untied regarding both donors and recipient countries. Calls for tender are open to the fifteen Member States and to all 77 ACP countries in the EDF, to all Mediterranean partner countries under the MEDA programme and to the beneficiary countries for Asia and Latin America (ALA). Some specific financial instruments are also completely untied like the CARDS programme for the Balkans (15% of ODA under the budget). Moreover a good proportion of EC aid – such as for example budget support, which represents almost one fourth of the funds in the Cotonou agreement - is already untied by its nature.

TABLE 7 – CURRENT LEVEL OF UNTYING BY MAJOR EC INSTRUMENTS

Instrument	Untying towards Developing countries	Untying towards Developed countries	% of EC ODA
CARDS – South East Europe	10 beneficiary countries	All DAC donors	15 %
TACIS – NIS & Mongolia	13 beneficiary countries	15 EU and associated countries	7 %
ALA-Latin America	19 beneficiary countries	15 EU and associated countries	5.5 %
ALA-Asia	17 beneficiary countries	15 EU and associated countries	7 %
MEDA – Mediterranean	12 beneficiary countries	15 EU and associated countries	14 %
EDF- ACP countries	77 beneficiary countries	15 EU and associated countries	30 %
- including structural adjustment	--	Fully untied	7 %
Horizontal lines	151 dev. countries	15 EU and associated countries	--
Humanitarian aid	151 dev. countries	15 EU and associated countries	9 %
- including via UN channels	151 dev. countries	Fully untied	3.5 %
Food aid	151 dev. countries	Fully untied	8.5 %

#### Prospective elements

There is a general movement in favour of untying that goes beyond the scope of DAC Recommendations. **Ireland, Luxembourg,** and the **UK** have already completely untied their development aid. A significant part of **Austrian** and **German** aid (D) is untied. **France, The**

**Netherlands** and **Sweden** have introduced proposals for further untying. **Belgium** has decided to abolish all forms of tied aid including food aid and aid for Middle Income Countries (B). **Denmark**, has announced its intention to further untying its aid. **Three fourth of Food Aid in Finland** is untied. **(D) Greece, Italy, Portugal and Spain** are discussing the issue but have not yet introduced concrete proposals on further untying of their bilateral aid.

The recent Commission Communication on "*Untying: enhancing the effectiveness of aid*" is currently being examined in the Council. Draft conclusions are under discussion and should be submitted to the GAERC in May for adoption. The Commission proposal, in accordance with the above-mentioned commitment aims at implementing the spirit and objectives of the OECD/DAC Recommendation.

The Commission's proposal has three clusters for which concrete recommendations are put forward:

- It presents the Commission's approach to and addresses the state of play regarding the untying of Community Aid. Building on the first important step of the DAC Recommendation, the Commission proposes a further untying of Community Aid under the condition of full reciprocity from other donors. This approach - once endorsed by the Council - will be introduced into all relevant legal bases for the financial instruments of the Community.
- It recalls, on the issue of bilateral aid, that the rules of the internal market apply to the Member States official development assistance. It also clarifies where tied bilateral aid may be in breach of Community law, in particular with regard to competition law and public procurement directives.
- It advocates a complete untying of food aid and food aid transport from all donors, which are currently excluded from existing agreements, and proposes to introduce these elements in the future re-negotiations of the Food Aid Convention.

#### **Concluding remarks:**

- *Although the issue of the untying of aid has been the subject of vigorous political debates over decades, it is very difficult to find concrete data on its factual reality. The recent DAC Recommendation contains two important exceptions (i.e.: Technical Assistance and Food Aid) so that it covers only about 2% of worldwide ODA. While it is very difficult to find out which part of the remaining 98% is "fully or partially tied", and as announced in its Communication "Untying: enhancing the effectiveness of aid", the Commission is planning to work together with the Member States, and the DAC, on improving transparency on this issue. This is all the more relevant since World Bank studies show that a complete untying of all aid would increase value for money.*

*"To increase assistance for long-term trade-related capacity building, productive capacity and measures addressing supply-side constraints in developing countries, as well as to provide immediate support for trade-related technical assistance in order to improve the negotiating capacity of developing countries in trade negotiations, including by commitments made at the WTO pledging Conference in Geneva on 11 March 2002."*

### **General situation**

The importance of the relationship between development, trade and integration of developing countries into the world economy is being increasingly recognised at the international level. Combined with a sound macroeconomic environment and good governance at national level, trade has a vital role to play in helping developing countries to boost their economic growth, which can have a positive effect on the poor and contribute towards sustainable development. Commitments in support of this were made at the recent major conferences in Doha, Monterrey and Johannesburg. Efforts are now underway to transform these commitments into action.

The MS and the EC are largely engaged in a wide and varied programme of Trade Related Technical Assistance (TRTA). The EU cumulated initiatives represent a large spectrum that covers the strengthening of long term capacity building, addresses supply-side constraints and supports the improvements in negotiating capacity. This Technical Assistance is largely channelled through multilateral programs and contributions to the World Trade Organisation (WTO), the United Nations Conference on Trade and Development (UNCTAD), the International Trade Commission (ITC), the Joint Integrated Technical Assistance Programme (JITAP) and the Agency for International Trade Information and Co-operation (AITIC). The EU has already pledged more than 60% of the €14 million commitment made at the WTO pledging conference (Geneva - 11 March 2002).

This Technical Assistance also includes detailed bilateral programmes, which focus on specific issues such as support to regional initiatives, SMEs, NGOs and new technologies. Figures show that trade policy and regulations are financed 60:40 from bilateral and multilateral sources, while bilateral financing accounts for two-thirds of trade development activities.

It has to be noted that it is very difficult to get transparent and reliable data on TRTA. This is partly a reflection of the flexible and wide-ranging definitions of what TR covers (e.g. the US adoption of the broadest definition of TRTA is reflected in its large figure).

Since 2001, the EC has earmarked more than €80 million for TRTA. €50 million is dedicated to an action programme on trade from the Intra-ACP allocation under EDF 9. Under current programming, €20 million is being used for capacity building in support of the preparations of the Economic Partnership Agreements, €10 million for the integration of ACP in the global commercial system within the WTO and €1.75 million to support Economic Integration.

TRTA is also a sizeable component in all Regional and many National Indicative Programs (NIPs/RIPs). It accounts for 45% of the allocations of RIPs. The regional economic integration agenda comprises a significant share of trade-related matters. EU policy in this area is to recommend regional integration as a useful step towards regional market creation and integration into the world economy. Most TRTA will be carried out as part of a wider focal sector Regional Economic Integration. This sector comprises support for the three interrelated processes consolidating ACP regional integration, preparing for EPAs and participating in the Doha Development Agenda negotiations. The Regional Programming Guidelines suggest that at least 20% of the RIPs should be used on TRTA. This does not only include TRTA in the strictest sense but also for example, trade facilitation, restructuring assistance related to trade policy reforms and transitional budgetary support linked to trade liberalisation.

## **Prospective elements**

The objective of the EC action under the above mentioned €50 million programme is to undertake a systematic and integrated effort to assist countries and regions in enhancing their trade policy capacity and trade performance. The action programme has the three following complementary components:

### 1) Analytical Work (up to €13.5 million)

Analytical work will be conducted to determine the needs of those countries and regions for which a detailed assessment or strategy document is not yet available or for which additional feasibility studies are required. This will result in the design of an action plan for countries and ACP regions setting out the responses to the main bottlenecks to trade.

### 2) ACP Trade Policy and Negotiations Capacity Building Programme (€16.9 million)

The programme is designed to allow senior advisers based in the secretariats of key regional organisations to co-ordinate networks of junior advisers installed in trade ministries in individual countries in the region and will outreach to countries without junior advisers. A central steering body involving the implementing agencies, the beneficiaries and the EC will ensure overall co-ordination.

### 3) Institutional Capacity Building Pilot Schemes (€13.5 million)

This component will design and carrying out pilot activities prioritised under the first component. Interventions will vary from country to country but will always be conceived within the perspective of gradual integration into the regional and international economy.

## **Concluding remarks:**

- *The commitment is to a large extent implemented. Member States and the EC have launched a large number of actions in favour of TRTA.*
- *It seems however that it has not been done in the most efficient way. No real coordination took place and consequently complementarity was not discussed at all, either in general or as far as specific countries are concerned. Developing countries could benefit from a better co-ordination between donors. The EU should make an effort to achieve that co-ordination despite the fact that it is not easy to get an exact picture of needs and priority settings.*

**TABLE 8 - COMMITMENTS TO TRA/CB ACTIVITIES IN 2001 (IN US\$ MILLION)**

	Trade policy and regulations	Trade development	Contributions to multilateral providers
Belgium	0.4	2.2	-
Denmark	2.4	2.0	1.8
Finland	1.3	0.2	0.6
France	0.5	8.9	1.3
Germany	0.5	80.5	1.3
Italy	0.2	5.9	0.2
Netherlands	1.4	9.7	3.0
Portugal	0.0	0.0	0.5
Sweden	5.1	4.1	1.4
UK	32.4	75.9	1.2
EC	49.2	173.5	0.0
<b>Total EU</b>	<b>191.2</b>	<b>362.9</b>	<b>11.3</b>
<b>US</b>	<b>179.2</b>	<b>376.3</b>	<b>0.4</b>
<b>Japan</b>	<b>15.5</b>	<b>35.7</b>	<b>0.2</b>
<b>Total DAC</b>	<b>260.4</b>	<b>678.6</b>	<b>20.9</b>
<b>Total bilateral</b>	<b>266.4</b>	<b>681.2</b>	<b>23.3</b>
IDA*	138.2	133.8	-
IMF	1.8	0.0	-
UNDP	2.2	1.0	0.2
Other multilateral donors	1.2	1.7	2.3
<i>Implemented by ITC</i>	4.2	25.3	-
<i>Implemented by WTO**</i>	2.8	-	-
<b>Total multilateral</b>	<b>199.7</b>	<b>335.2</b>	<b>2.5</b>
<b>TOTAL TRA</b>	<b>466.0</b>	<b>1,016.4</b>	<b>25.8</b>

*Source: First Joint WTO/OEC Report on Trade-Related Technical Assistance and Capacity Building (November/December 2002)*

\* Includes IDA grants (US\$ 3.9million) to Middle East & North Africa, Sub-Saharan Africa and East Asia & Pacific and IDA loans (US\$268.7 million). These figures are provisional pending the World Bank isolating more precisely the trade components of each loan and reporting its grants to other regions. IBRD loans are excluded from the table because they are non-concessional.

\*\* The WTO could provide figures for only 58% of its activities in 2001 ; thus the amount shown in the table should be taken as a minimum. Activities implemented by the WTO increased in 2002 following the Doha Declaration (first estimates for 2002 amount to US\$12.8 million).

## **d) FIFTH COMMITMENT: GLOBAL PUBLIC GOODS**

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*"To further work towards a participatory process at the global level, including the proposal of setting up a task force open to all actors on a temporary basis, designed to lead to the identification of relevant Global Public Goods."*

### **General situation**

The EU made its proposal for the establishment of a global, participatory process on global public goods at both the Financing for Development Conference in Monterrey and again in the run up to the World Summit on Sustainable Development in Johannesburg. The EU was disappointed that this proposal was not taken up in the final outcome documents of either event. The WSSD Plan of Implementation instead included a weaker commitment: to 'examine issues of global public interest through open, transparent and inclusive workshops to promote a better understanding of such questions'.<sup>13</sup> The EU reaffirmed its continued commitment to a global, participatory process on GPGs in the Spring Council. Whilst the official global process on GPGs proposed by the EU was not established, an informal International Task Force was launched at WSSD by Sweden and France, working in collaboration with UNDP. As founder members, France and Sweden are closely involved in the work of this Task Force and are providing staff and other financial support for the Secretariat based in Stockholm. The Task Force is expected to complete its work in two and a half years, and to conduct consultations with a broad range of stakeholders. Membership of the Task Force is by personal invitation only and is expected to include senior political and institutional figures from both developed and developing countries. An initial brainstorming meeting was held in February 2003. Besides France and Sweden, several other EU Member States (Netherlands, Spain, Ireland, Germany, Austria) have indicated an interest in being part of the Task Force itself or the 'Friends of the Task Force' group, a forum for stakeholders interested in financially supporting and co-operating with the Task Force. Commissioner Nielson has been invited to participate in the Friends of the Task Force group and the Commission intends to liaise closely with the Task Force as its work progresses. Portugal, Denmark and Luxembourg have confirmed their interest in following the Task Force's work.

A number of EU Member States have begun looking at the implications of the GPG concept for their bilateral development programmes. France has officially placed the concept of GPGs at the heart of its international cooperation and development assistance policy. The UK Department for International Development has undertaken analytical work to guide aid allocations between GPG and country-based development interventions, based on the relative contribution of each to the achievement of the Millennium Development Goals. This was presented at an OECD/DAC Seminar on Aid Allocations in March 2003. DFID also funded an independent Commission on Intellectual Property Rights and Development (relevant to several GPGs), which produced its final report in September 2002.

For the Commission, DG Trade sponsored a workshop in Montpellier, France, in 2002, which discussed the GPG/trade/international governance nexus. In October 2002, DG Development sponsored a joint World Bank/European Policy Centre Seminar on GPGs, which focused on development implications.

### **Prospective elements**

Ongoing work related to the Informal International Task Force includes studies: France, Sweden and UNDP have launched a working group on financing issues.

The Danish Council for Development Cooperation is intending to hold a conference on global public goods during Spring 2003, to allow broad discussion among interested civil society organisations and individuals on the issue of GPGs and its interaction with Danish development policy and assistance.

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<sup>13</sup>WSSD Plan of Implementation, Paragraph 114.

### **Concluding remarks:**

- *The Commission is pursuing a GPG approach in relation to specific issues. For example, the Commission's recent update on the EC Programme for Action on HIV/AIDS, malaria and tuberculosis in the context of poverty reduction<sup>14</sup>, proposed further work on indirect incentives to increase research and development investments by the private sector on vaccines and treatments that might be considered GPGs, related to these diseases. An inter-service working group has been established for this purpose.*

## **e) SIXTH COMMITMENT: INNOVATIVE SOURCES OF FINANCING**

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*"To further explore innovative sources of financing and taking into account the conclusions of the Commission Globalisation Report."*

### **General situation**

*Six Member States indicated that they have taken the initiative to further explore innovative sources of financing<sup>15</sup>:*

- **International Taxation Mechanisms:** *France* would welcome continued reflection on these mechanisms, in particular supporting consideration of how to mitigate the negative effects of globalisation through international levies, which could provide new resources. In *Germany*, a study on a Currency Transaction Tax was completed, with a possible conference taking place in the second half of 2003. *Italy* indicated that the de-tax represents an innovative way to collect additional financial resources, to be channelled towards achieving the Millennium Development Goals.
- **Public/Private Partnership:** *France*, *The Netherlands* and *Denmark* are considering expanding partnership initiatives with the private sector.
- **Increased ODA:** The *United Kingdom* has launched a proposal for a new International Financing Facility to raise an additional \$50bn per year of aid up to 2015. *Finland* has financed a study on a global lottery to finance ODA. The idea of a global lottery is now being discussed within the World Lottery Association (WLA) which plans to discuss it with the UN.
- **Global Public Goods:** Some Member States referred to their involvement in initiatives. Responses are summarised under commitment five on Global Public Goods.

### **Prospective elements**

Fourteen EU Member States indicated that they foresaw no plans or actions related to the Commission Globalisation Report, though it should be noted that the report examined the various international taxation mechanisms. *France* made reference to the HIPC initiative for cancellation of the poorest countries' debts, and would support using this initiative to finance actions in the health sector, in particular with respect to the fight against AIDS.

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<sup>14</sup> COM (2003) 93 Final of 26.2.2003

<sup>15</sup> Denmark, Finland, France, Germany, Italy, and the United Kingdom.

## f) SEVENTH COMMITMENT: REFORM OF THE INTERNATIONAL FINANCIAL SYSTEM

"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."

### General situation

#### Strengthening the voice of developing countries

Twelve EU Member States<sup>16</sup> indicated their support for concrete steps and for strengthening the voice of developing countries. *France, Germany, the Netherlands*, and the *UK* have been involved in the production of discussion papers and *Ireland, Sweden* and the *UK* are offering financial support for initiatives.

*Germany* is preparing a discussion paper on the developing countries' voice in the World Bank. The *UK* has submitted a paper to the World Bank, setting out proposals to shape thinking on the issue, ahead of the Spring Meetings. *UK* proposals include *UK* funding for a Research Centre in Washington to assist African countries in accessing high quality and independent advice. *The Netherlands, France* and the *UK* contributed to a paper on developing a voice, which was subsequently taken forward by the EFC, and which has since been endorsed as a Common Understanding. *Ireland* is to contribute €1.5m over three years to Debt Relief International, which serves, inter alia, as a secretariat for HIPC Finance Ministers, and works with them to strengthen their voice in the BWIs. *Sweden* is currently providing financial support to a wide range of initiatives, with the objective of building and enhancing the capacity of developing countries.

FIGURE 4 - VOTING RIGHTS IN IBRD

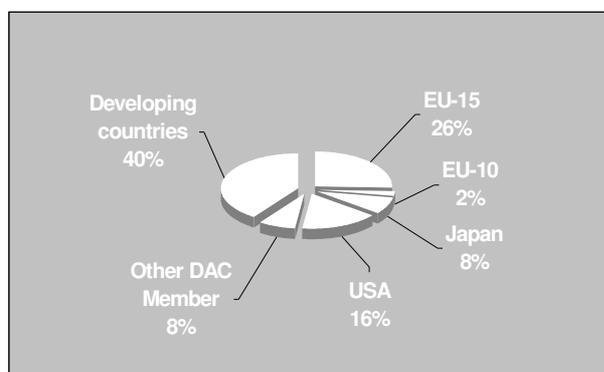
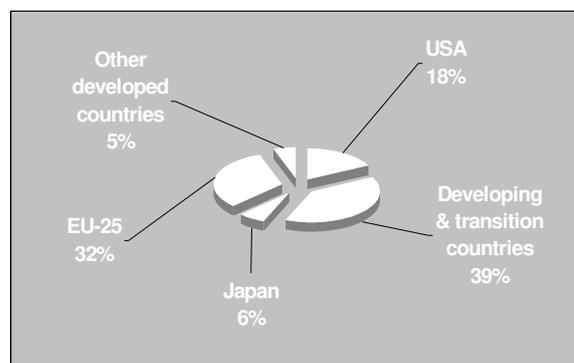


FIGURE 5 - VOTING RIGHTS IN IMF



#### Enhancing the coherence between the UN, IFIs and WTO

Seven EU Member States<sup>17</sup> expressed their support for enhancing coherence between the UN, IFIs and WTO. *Belgium, France, the Netherlands* and *Sweden* have financed studies or have been involved in developing initiatives.

*Belgium* contributed to the Trust Fund of the Integrated Framework managed by UNDP in 2002. *France* contributed to having the IFIs fully associated by 2004, with the preparation of the High Level Dialogue of the UN General Assembly. In 1999, *Sweden* and *the Netherlands* set up an informal

<sup>16</sup> Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Sweden and the UK.

<sup>17</sup> Belgium, Denmark, France, Ireland, the Netherlands, Sweden and the UK.

meeting group of World Bank and UN donors, which continues to work to enhance coherence. *Sweden* is involved in supporting several initiatives.

### **Prospective elements**

Eleven EU Member States agreed on the utility of and need for EU co-ordination in order to foster joint actions<sup>18</sup>. *Sweden* supports co-ordination within the existing structures and mandates of the EU and institutions. *The Netherlands* considers that this is already taking place in the IMFC and Development Committee.

#### 68th World Bank Development Committee meeting (13 April 2003)

The meeting led to the introduction of a first proposal to concretely enhance the voice of developing countries, supported by the European representatives and the African chairs. It includes the reinforcement of capacity of the African chairs through staff increases in each of the Africa offices and the creation of a financing mechanism to support independent research and advice for key areas (Independent Task Force).

The IMF supports an increase for the constituencies of the Sub-Saharan African countries as well as additional support.

#### Special high-level meeting of the UN ECOSOC with the BWIs and WTO (14 April 2003)

The second special high-level meeting of the ECOSOC with the BWIs and the WTO provided for by the Monterrey Consensus took place in New York on 14 April 2003, back-to-back with the Joint Meeting of the Development Committee of the World Bank and the IMF. While there is an unprecedented degree of international consensus on what needs to be done, there has been no dynamic capable of introducing the necessary practical changes.

### **Concluding remarks:**

- *The governing boards of both the World Bank and the IMF show concrete interest in reinforcing the voice of developing countries. It is a salient factor that in the preparation of the discussion several Member States have taken un-coordinated initiatives. This lack of coordination within the EU Membership of the boards may not have produced the optimum possible result.*

## **g) EIGHTH COMMITMENT: DEBT RELIEF**

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*"To pursue its efforts to restore debt sustainability in the context of the enhanced HIPC initiative, so that developing countries, and especially the poorest ones, can pursue growth and development unconstrained by unsustainable debt dynamics."*

### **General situation**

All Member States of the Union have made the necessary provisions to ensure their own participation in the HIPC initiative, and some of them are already providing debt relief beyond the requirements of this scheme.

So far, the EC has **pledged** more than **€ 1.275 billion** to the initiative: € 760 million as a donor to the HIPC Trust Fund, € 485 million, as a creditor, - including € 125 million recently decided by EC-ACP

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<sup>18</sup> Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Portugal and Spain.

Council of Ministers - and an additional € 60 million, again as a creditor, to alleviate remaining **special loans** granted to least developed ACP HIPC. In terms of **implementation**, the Community transferred to the Trust Fund the last tranche of its contribution in December 2002. It has also transferred € 200 million to the EIB, which is in charge of implementing the debt relief on behalf of the EC acting as a creditor.

### **Prospective elements**

The Commission and almost all the Member States are also committed to participating, on a fair burden-sharing basis, in the financing of the so-called “**topping-up**”. According to the HIPC framework, this additional debt relief, which is to be provided at the completion point, should be considered only in those cases in which exogenous factors cause fundamental changes to a country’s economic circumstances, thus affecting debt sustainability outlook. In the case of policy slippages, the option of topping-up should be ruled out.

The Commission is also proposing a **further contribution** as a creditor to the closing of the basic financial gap of the Trust Fund. A formal proposal is foreseen for adoption at the Joint EC-ACP Council in May 2003.

The HIPC initiative is certainly still **facing important challenges**, namely: securing its **full financing**, maintaining debt **sustainability** at the completion point and dealing with **difficult country cases**.

**1) Financing:** for the 26 countries having reached decision point, creditor commitments currently amount, on average, to 88% of the total necessary HIPC relief. Multilaterals and Paris Club creditors (among which are EU Member States) are delivering their portion of relief, whereas the challenge is ensuring the participation of the non- Paris club official bilateral creditors, for which commitments made so far cover only 59% of the cost, and of commercial creditors, for which data is not easily available. In addition, even if the amounts involved are relatively small, the few cases of creditor litigation and HIPC-to-HIPC debt relief have to be dealt with.

**2) Long term debt sustainability:** the review and discussion on the appropriateness of current **debt sustainability criteria** should continue to respond, for example, to criticism that the debt to export ratio is not appropriate as a primary indicator of debt sustainability.

The responsibility for long-term debt sustainability is shared between HIPC countries and the donor/creditor countries. HIPCs have a responsibility to adhere to sound macro-economic policies and to implement structural reforms, in the context of their Poverty Reduction Strategy Papers. Strengthened debt management, including prudent policies on new borrowing, is also important in improving debt sustainability prospects. On the creditor/donor side, responsibility lies mainly in the provision of adequate external financing on sufficiently concessional terms, and in the provision of technical assistance to build capacity in the areas of public expenditure management and of debt management. Finally, even after implementation of strong reforms and large HIPC debt relief, the debt sustainability of most of these countries remains largely dependent on export receipts. For many HIPCs, these mostly derive from the sale of commodities, where price fluctuations or even sharp reductions remain an unresolved issue.

**3) Difficult country cases:** There is a common understanding on the need to facilitate HIPCs emerging from conflict crisis in order to qualify for debt relief. However no fast-tracking of debt relief can be made for regimes engaged in acts of aggression or internal repression. Many of these countries also have substantial arrears problems, which require special efforts to be made, keeping in mind the need to avoid moral hazard issues.

**TABLE 9 - BURDEN SHARING IN THE HIPC INITIATIVE<sup>19</sup>**

Countries	Contributions to the HIPC trust Fund as donor		As creditor	Total Contribution
	Pledges	Paid in		
Austria	29,9	29.9	224,25	254,15
Belgium	23	23	174,8	197,8
Denmark	51,75	48.3	27,6	79,35
Finland	32,2	28.75	14,95	47.15
France	24,15	24.15	1741,1	1765,25
Germany	82,8	64.4	1177,6	1260,4
Greece	3,45	3.45	--	3,45
Ireland	23	23	--	23
Italy	80,5	80.5	863,65	944,15
Luxembourg	1,15	1.15	--	1,15
Netherlands	158,7	158.7	189,75	348,45
Portugal	17,25	17.25	272,55	289,8
Spain	97,75	74.75	488,75	586,5
Sweden	66,7	66.7	52,9	119,6
UK	254,15	158.7	525,55	779,7
EC	760.15	575	485	1245,15
<b>EU</b>	<b>1706.6</b>	<b>1377.7</b>	<b>6238.45</b>	<b>7945.15</b>
<b>USA</b>	<b>690</b>	<b>690</b>	<b>394,45</b>	<b>1084,45</b>
<b>Japan</b>	<b>230</b>	<b>189.75</b>	<b>2724,35</b>	<b>2954,35</b>
<b>DAC</b>	<b>2939,4</b>	<b>2570.25</b>	<b>9542.4</b>	<b>12481</b>

**Concluding remarks:**

- *The enhanced HIPC initiative seems to be successful. The Member States' and Commission's contributions have largely contributed to this achievement.*
- *In the context of the discussions on the topping up of the HIPC initiative, the Commission has made proposals to contribute on the basis of global burden sharing.*
- *The Commission is currently undertaking a study on the issue of long term debt sustainability.*

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<sup>19</sup> Source IDA/R20030041 - 10 March 2003