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**Annual Report 2011 on the European Union's development and external assistance
policies and their implementation in 2010**

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A difficult environment

The world began a fragile recovery in 2010 from the financial and economic crisis of 2008-2009. Progress was uneven and patchy. Advanced economies like the United States, Japan and the European Union recorded modest growth. Emerging countries led by China, India, Russia and Brazil advanced more strongly. Developing countries, particularly low-income ones hardest hit by the crisis, had little scope to expand their economies. Some of them were also the first to suffer from a new surge in world commodity, energy and food prices which occurred during the year. They were unable to create or exploit new economic possibilities at home or abroad. At the same time, world population increased by 79.3 million people, mostly in developing countries. The chances of reaching the Millennium Development Goals (MDGs) by the agreed 2015 deadline slipped.

As a result, unemployment and poverty levels increased in poor countries, affecting a further 120-150 million people worldwide in 2009-2010. Young people in particular felt the impact, raising social tension and migratory pressures. Most developing country governments did not have the resources to apply anti-cyclical policies. They therefore had to reduce budget deficits by cutting expenditure. This negatively affected social, health and education programmes and widened the gap between rich and poor. Income inequality also increased in both advanced and developing countries.

Such was the background to the EU's efforts in 2010 to provide more and better aid and to deliver it faster and more effectively. One constant of EU development assistance during the year was to provide maximum support to global and local efforts to reach the MDGs. The intention was to prevent progress from backsliding because of the crisis and to consolidate what has been achieved. The EU was a major player at the UN MDG summit in September which agreed to redouble efforts to deliver the full range of MDGs by 2015.

Keeping MDGs on target

This was the biggest event of 2010 for the MDGs. The EU played an important role in the run-up to and during the summit. To underline its commitment to supporting global efforts, the EU announced during the session a €1 billion MDG initiative to intensify its assistance to help its partners in African-Caribbean-Pacific (ACP) countries attain the MDGs, especially those most off-track.

The EU is committed to maintaining support for its MDG policies at a time when EU aid is coming under pressure as governments cut back on spending so as to reduce their budget deficits.

Progress on the eight MDGs has varied significantly. Progress has been good for example on universal primary education (MDG2) and access to water (MDG7). However 1.4 billion people still live in extreme poverty, and several MDGs are seriously off-track. Maternal health (MDG5) and access to sanitation (part of MDG7) need more attention. Sub-Saharan Africa has fallen behind on most MDGs.

In April 2010, the European Commission issued a set of concrete proposals for EU action to help developing countries achieve their MDGs on time. This 12-point action plan gives priority to countries most off-track, including those in conflict or other fragile situations. The plan was accompanied by five working papers which analysed in turn progress on the MDGs,

finance for development, aid effectiveness, aid for trade, and policy coherence. Other Commission contributions on food security, global health, tax for development, education and gender fed into the EU position paper for the UN review summit.

In its final document, summit participants pledged to redouble efforts to achieve the MDG targets by the 2015 deadlines. Commitments came from both developed and developing countries, giving the MDG process new momentum. One promising avenue is to encourage developing countries to mobilise more domestic revenues to help fund their development, for example by increasing their capacity to raise tax revenues in line with the principles of good governance in tax matters. In this context, the Commission adopted a communication¹ in April 2010 to strengthen the link between tax and development policies, and enhance good governance in the tax area (transparency, exchange of information and fair tax competition). It is working to establish a partnership with the African Tax Administration Forum. The EU is also committed to supporting the expansion of the private sector in developing countries.

More effective cooperation

The Lisbon Treaty requires the EU to take account in all its policies of the objectives of development cooperation. The Commission issued a work programme on policy coherence for development for the period 2010-2013² in April. The objective is to refine further the coherence between development assistance and other relevant EU policy areas with a bearing on external relations like trade, tax and finance, food security, climate change, migration and security.

The European Commission took several initiatives designed to improve its development policies. These include public consultations on the role of EU aid in support of inclusive growth and sustainable development (see box) and on the role of the EU's external financial instruments. For the consultation on these instruments, the objective was to gather ideas and opinions on a wide range of issues such as the added value of EU financial intervention in some areas, the options for new forms of cooperation and delivery mechanisms with partner countries, as well as the efficiency, impact and visibility of EU external assistance.

The future of EU development policy

In November 2010, the Commission launched a public debate with the publication of its green paper "EU development policy in support of inclusive growth and sustainable development"³ This presented options on ways to make EU development policy a catalyst for building developing countries' own capacities to generate inclusive and sustainable growth and mobilise their economic, natural and human resources in support of poverty reduction strategies. It considered the possible development of partnerships for inclusive growth involving the public and private sectors and it looks at climate change, energy and environment policies as drivers of sustainable development as well as the role of agriculture and biodiversity in achieving food security and boosting growth.

The results of this consultation will feed into Commission policy proposals later in 2011, including those for modernising European development policy.

¹ COM(2010)163 final, 21.04.2010

² SEC(2010) 421 final, 21.04.2010

³ COM(2010) 629 final

The Commission also launched a public consultation on the use of budget support for delivering EU assistance⁴. It aimed to draw lessons from more than a decade of providing budget support and invited views and evidence on both the opportunities of this tool and the ways to improve its quality, value for money and impact.

Budget support is a mechanism to transfer aid funds to the national treasury of the beneficiary country if it meets agreed conditions for payment. During 2010, budget support represented 24% (€1.8 billion) of all commitments from the EU budget and the EDF. General budget support is where the EU supports the implementation of a national development strategy and sector budget support is where EU funds help the partner country in a given sector.

Another area under development is the blend of grants and loans in funding development assistance so as to include more loan financing, particularly from the European Investment Bank. Given today's scarcity of grant resources, these blending mechanisms can benefit both beneficiaries and donors in helping achieve easier access to financing with high leverage effect. One example is the innovative blending instrument launched under the energy facility. An amount of €40 million, to be blended with funding from Member States and the EIB, is now available to co-finance medium-size projects aimed at increasing access to sustainable energy services in ACP countries. The Commission plans to further expand innovative financing in external action so as to optimise the financial and policy leverage of the EU budget by attracting other public and private financial institutions.

Effective aid is an essential tool for achieving the MDGs. Every euro set aside for development has to be used efficiently and effectively. The EU is committed to increasing its aid effectiveness.

Externally, the Commission coordinates EU positions on aid effectiveness at various levels, including the OECD, the UN, the G8 and the G20. This work will be relevant as preparations advance for the fourth UN High-Level Forum on aid effectiveness in Busan, South Korea at the end of November 2011.

At the OECD, the Commission co-chaired in 2010 the Development Assistance Committee (DAC) aid-effectiveness working party, which seeks to develop best practice and policy coherence among donor countries. The Commission contributed inputs to increase the operational effectiveness of the use of country systems, the division of labour, more aid transparency and accountability, and better technical cooperation.

With the 27 EU Member States, the Commission implemented the operational framework on aid effectiveness agreed in 2009 which contains a set of commitments to strengthen the implementation of aid effectiveness principles. This focuses *inter alia* on the division of labour among donors so as to reduce fragmentation of aid efforts. The Commission is preparing a proposal to synchronise EU and national programming cycles at partner country level and based on partner countries' strategies and their programming cycles.

Another mechanism to improve the division of labour is the system whereby the Commission delegates to a Member State, or vice versa, the execution of a particular project if it is better placed to implement it.

⁴ COM(2010) 586 final, 19.10.2010

The Commission also proposed ten high-impact actions to improve aid effectiveness, addressing three main priorities: division of labour, use of country systems and enhanced technical cooperation.

In terms of quality of aid management, the Commission also substantially increased the number of ongoing and completed projects that were monitored during 2010. It made proposals, to the Council of the European Union and European Parliament, to simplify tendering and grant procedures for the award and execution of projects. Staff training was also intensified.

Lastly, the Commission proposed to strengthen the capacity of the European Investment Bank to support EU development objectives.

Closer cooperation with international donors

During the year, the EU strengthened its cooperation with traditional donors and new emerging partners. The EU and the United States agreed at their summit in November to develop a joint work plan on the in-country division of labour, transparency and accountability and to implement it in selected partner countries during 2011. The first annual policy dialogue on development with Japan took place in April. In the first initiative of its kind, emerging and advanced economies agreed at the G20 summit in November in Seoul on a multi-year action plan to overcome key obstacles to growth, particularly in low-income countries. New countries, China, Brazil and some Arab states, have joined the donor community, bringing additional resources as well as new approaches.

The Commission continued contact, cooperation and dialogue with the UN and the World Bank. The Commission and the UN now work together in more than 100 countries, on projects ranging from mine clearance to sanitation. In 2010, the EU contributed €597 million to the UN and its agencies and €192 million to the World Bank. Cooperation with the UN and the World Bank makes more and bigger projects possible, with positive impact for beneficiaries and for the effective and efficient delivery of aid. World Bank expertise has been particularly valuable for budget support, public finance management, debt reduction and private sector development.

EU financial regulations allow international organisations to manage EU funds in accordance with their own procedures, provided these meet EU standards for implementation and monitoring, and provided the EU can carry out spot-checks on the ground where necessary.

The EU also cooperates with the Council of Europe, the Organisation for Security and Cooperation in Europe (OSCE) and the International Organisation for Migration (IOM).

Sharing responsibilities with partners

Aid efficiency and the MDGs featured in the EU's cooperation with its partners around the world during 2010. A series of regional and bilateral summits culminated in the EU-Africa summit in Tripoli in November. The summit adopted the second action plan (2011-2013) of the Joint Africa-EU Strategy, to deliver swiftly concrete results in areas including MDGs, trade, energy, peace and security, governance and human rights, regional integration, and migration. In parallel, concrete projects were also launched or continued. The list of projects includes action on small arms and light weapons, the ACP observatory on migration, the Nyerere programme, the Caprivi electricity interconnector, the east Africa submarine cable

system, the popularisation of science and technology, a travelling exhibition on African art and the promotion of public participation.

The EU's flagship for development cooperation – its partnership with 79 countries in Africa, the Caribbean and Pacific – entered a new phase when the revised Cotonou Agreement took effect in November. The revision adapts the partnership to global changes and the growing importance of regional integration, the interdependence between security and development, and the persistent challenges of HIV/AIDS and food security. Payments from the European Development Fund (EDF), the main source of ACP aid funding, reached a record of €3.32 billion in 2010, compared with €3.13 billion in 2009. This puts the 10th EDF, which started in 2008, on track to commit its entire resources on schedule by the end of 2013.

During 2010, the Commission delivered budget support programmes (€495 million) to Africa for poverty reduction with a continued strong focus on the MDGs. It also continued efforts to combat the short-term fiscal impact of the economic crisis on the most vulnerable countries through the Vulnerability FLEX instrument which allows poverty-focused programmes to be maintained in the face of tighter fiscal constraints. The EU has been active in fighting hunger in Africa via its food facility and specific food security projects. Many EU projects in the region also directly target health-related MDGs. The EU continued its action in fragile countries and plays a leading role in sectors like democratic governance, justice, security sector reform, infrastructure, public financial management and rural development.

Relations with the EU's neighbours in eastern Europe and the southern Mediterranean progressed in 2010 in economic terms, but not enough in terms of democratic reforms and human rights. This was the conclusion of a Commission evaluation of the European Neighbourhood Policy (ENP) and the fourth set of ENP reports⁵ adopted in May. These show clearly the benefits partner countries derive from the relationship with the EU. Progress was significant in transport, energy, climate change, research and development and health and education. In the eastern partnership region, negotiations on an enhanced association and free trade agreement with Ukraine continued while negotiations for association agreements opened with Moldova, Armenia, Azerbaijan and Georgia. The seventh round of the slow-moving negotiations for a new agreement with Russia, which is not part of the ENP, finished in December. In the southern neighbourhood, a summit took place with Morocco in March to mark its "advanced status" as an EU partner. Two attempts to hold a Union for the Mediterranean summit, first in June and then in November, failed.

EU assistance to the ENP region focused on job creation, improving the investment climate, good governance, developing social infrastructures and support for administrative, economic and social reforms. The most difficult social situation remains that of the occupied Palestinian territory where, despite humanitarian assistance, the socio-economic indicators did not improve in 2010, leaving more than 30% of the Palestinian population still living in poverty.

During 2008-2010, the Neighbourhood Investment Facility (NIF) supported 35 projects in transport, environment, and energy as well as social and private sectors with NIF grants totalling €260 million. This helped to mobilise €9.4 billion of investment from international financial institutions.

⁵ COM(2010) 207, 12.05.2010

EU relations with Asia are increasingly complex. The economic and political emergence of Asian countries produces dramatic changes affecting the balance of global relations. The EU held summit meetings with China in October and with India in December. Many contacts took place regionally e.g. with ASEAN (Association of SouthEast Asian Nations) and bilaterally. Cross-cutting issues like the environment and climate change were important themes. Partnership or free trade agreements have been signed or are under negotiation with India, Indonesia, Mongolia, the Philippines and Vietnam.

Asia's economic vitality and rapid industrialisation as embodied by China and India are impressive. But although an expanding middle class has benefited considerably, Asia is still home to two thirds of the world's poor. Development assistance is therefore still high on the EU's Asian agenda, targeting poverty reduction, health and education.

Central Asian transition countries enjoyed significant growth rates over the past decade but have been considerably affected by the recent crisis. EU assistance focused on raising living standards, developing the social sector and providing a social safety net. It also seeks to improve the rule of law and public governance. An Investment Facility for Central Asia has been created, focusing on blending grants and loans in energy, environment, small and medium enterprises and social infrastructure.

The annual EU summit with Latin America and the Caribbean took place in Madrid in May. After six years of stalemate, negotiations on an association agreement between the EU and Mercosur resumed, with several negotiation rounds and a timetable set for 2011. The summit launched the Latin America investment facility (LAIF) and endorsed the conclusion of negotiations for an association agreement with Central America and of a trade agreement between the EU and Colombia and Peru. The fight against drugs also featured in EU contacts with Latin American partners, particularly the cost of anti-drug operations and measures to deal with the transit of drugs from Latin America to Europe via west Africa. In May, the European Commission adopted its first-ever country strategy paper for Cuba, to serve as the basis for future bilateral cooperation.

An average of 40% of the Latin American population still lives in poverty. In 2010, the Commission adopted 24 actions in Latin America with a total value of €356 million. The most important areas concern the fight against poverty, social cohesion, mutual knowledge and understanding, sustainable development, the fight against drugs, and trade and the private sector.

Integrating cross-cutting issues

Throughout the year, the EU worked with development partners on cross-cutting issues which affect all strands of EU development policy. The EU aims to make these issues an integral part of all development activities. Two of these were addressed at conferences in Nagoya and Cancun on new regimes for biodiversity and climate change. The Nagoya negotiations ended with a protocol on access to genetic resources and a strategic plan for 2011-2020. The Cancun conference adopted a package of decisions, putting the negotiations for a new international post-Kyoto climate regime back on track after the inconclusive 2009 Copenhagen meeting.

Democratic governance is another cross-cutting issue where the EU has provided sector-specific support and carried out information and awareness-raising activities. Governance is a recurring subject in policy dialogue with partner countries. It is essential for a sound

investment climate, good public finance management, reducing corruption and strengthening institutions.

Gender equality is one of the five principles underlying EU development policy. In June, an EU action plan for gender equality and women's empowerment in development was adopted. It aims to reinforce the EU's efforts to advance gender equality in developing countries and the achievement of the MDGs. The action plan, which covers the period 2010-2015, will ensure that gender issues are part of the annual and multi-annual planning for EU development programmes and projects.

The European Instrument for Democracy and Human Rights (EIDHR) funds human rights projects and initiatives around the world in the context of relevant EU policies. It is the concrete expression of the EU's intention to integrate support for democracy and human rights into all its external policies. The EIDHR sets aside part of its budget for small-scale projects in individual countries. Among its priority issues are women and children's rights and the protection of minorities. The EIDHR also organises election observation missions and election assistance projects. In 2010, this activity concerned nearly 20 countries, mainly in Africa, at a total cost of €100 million.

Food security

In May, the EU adopted a new policy framework for food security⁶. It is based on helping local farmers and smallholders in needy countries around the world, assisting vulnerable population groups and drawing up regional agriculture and food security policies. The new policy framework carries forward the themes of the EU's rapid-response food facility which is providing €1 billion to 50 target countries in 2009-2011. The full amount had been committed by the end of 2010, with 80% already disbursed.

In 2010, the EU also provided food and other emergency assistance to more than 150 million people hit by natural or man-made disasters in 80 countries around the globe. The final budget was more than €1 billion.

The way ahead

The slow exit from the global crisis, the higher food and energy prices, and popular pressures for democratic change, especially in some Mediterranean/Middle Eastern countries, have created a new context for EU development policy in 2011 and beyond. Responding to these challenges, while implementing aid priorities, will be a major task in 2011.

Among these priorities is the follow-up to the MDG summit to ensure that the development policy of the EU and its Member States has the greatest possible impact in attaining these objectives. The EU is committed to speeding up the process to bring the MDGs within reach between now and 2015. On climate change, the EU will follow up on the Cancun Agreement and cooperate with developing countries partners in preparations for the next post-Kyoto negotiations in Durban in December 2011. The EU is focusing its fast-start funding on climate mitigation and on supporting adaptation efforts of the least-developed countries (LDCs) and small island developing states. The UN Conference on Sustainable Development in June 2012

⁶ COM(2010) 126 final, 31.3.2010 and COM(2010) 127 final 31.3.2010

will provide the EU with an occasion to advance its objective of promoting a transition towards a greener economy in developing countries.

The EU will also prepare its position for the high-level aid effectiveness meeting in Busan in November and the fourth UN conference on Least Developed Countries in Istanbul in May.

Besides reinforcing its aid cooperation with the US, Japan and the international financial institutions, the EU will strongly support emerging economies as development partners. Their role includes South-South programmes and projects as well as triangular cooperation with traditional donors. The European Commission will participate in the follow-up activities to the G20 summit in Seoul in November via its development working group. It will also promote further cooperation on development with China and Africa.

Internally, the European Commission has set an ambitious reform programme for 2011 through a series of policy initiatives, including the follow-up to consultations on the future of EU development policy. The aim is to turn it into a catalyst for building the internal capacity of developing countries to generate inclusive and sustainable growth and mobilise their own economic, natural and human resources in this direction. A communication later in 2011 will set the framework for EU development assistance until 2020.

The Commission will also issue communications on budget support and on investment and growth in developing countries. It will publish reports on official development assistance (ODA) by the EU and Member States, and on the coherence of development policy with other EU policies, assessing EU performance on five major issues: the integration of developing countries in the world economy, food security, climate change, migration and security. During 2011, the Commission will also prepare proposals for the structure of EU budget spending, including the allocation for development assistance, for the financial period 2014-2020.

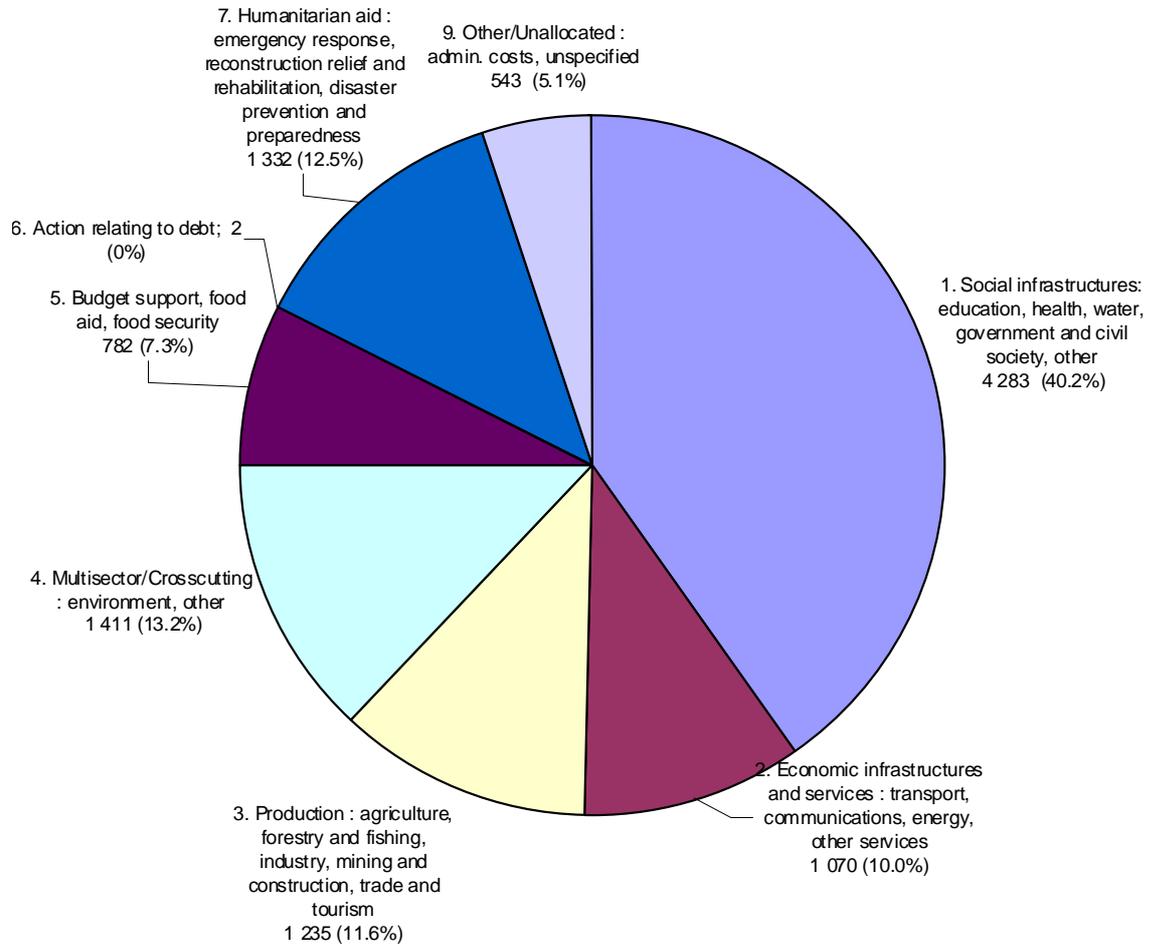
Institutionally, the changes brought in by the Lisbon Treaty should contribute to better programming and management of EU aid. The most relevant are:

- the nomination of a High Representative for Foreign Affairs & Security Policy who, as a Commission Vice-President, is responsible for ensuring the consistency of the Union's external action and who also chairs the Foreign Affairs Council;
- the creation of the European External Action Service (EEAS) which serves the HR/VP, the President of the European Council and the Commission;
- new possibilities for enhanced cooperation among Member States and joint programming.

This new structure, together with adequate financial resources for the 2014-2020 period, will reinforce the EU's status as a main international actor and supporter of global development.

Table 1: Sectoral Breakdown

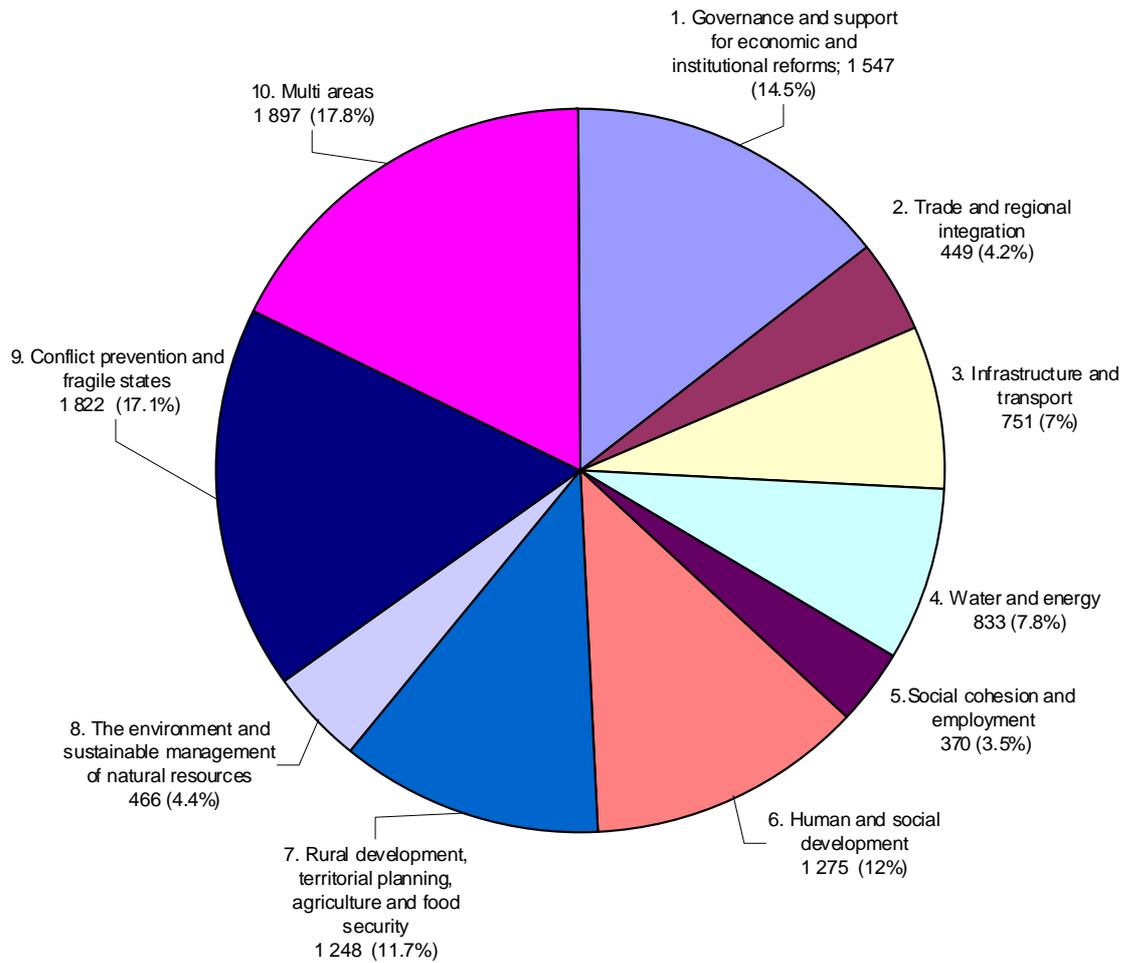
Commitments 2010 in €million



ODA resources managed by European Commission

Table 2: The European Consensus: areas relating to EU development cooperation

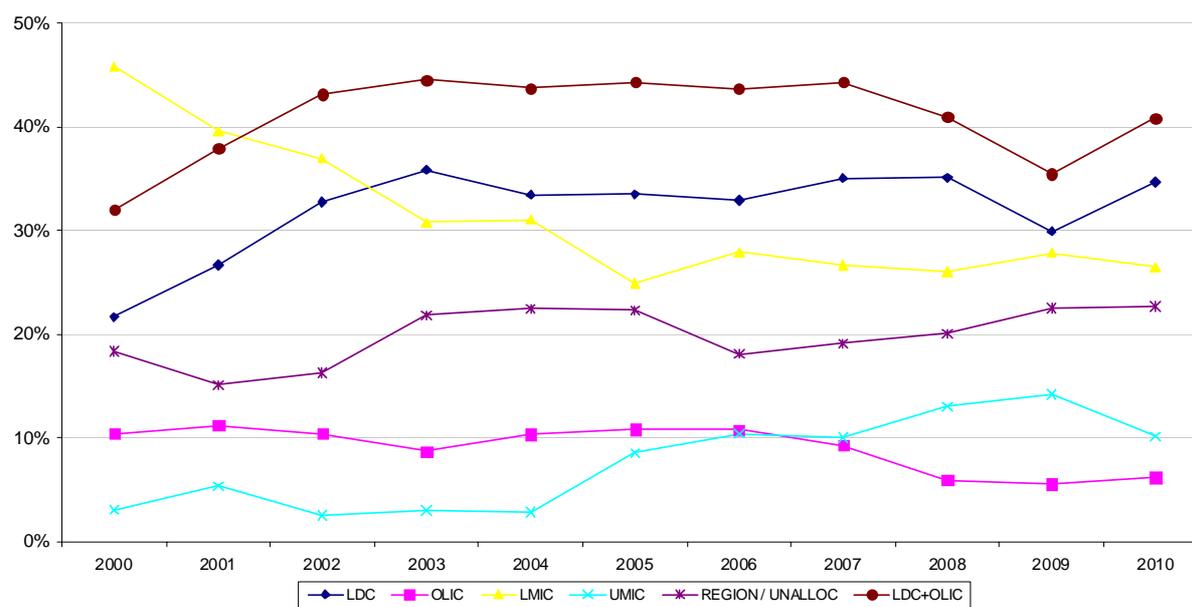
Commitments 2010 in €million



ODA resources managed by European Commission

Table 3: 2000-2010 Poverty focus

Disbursements



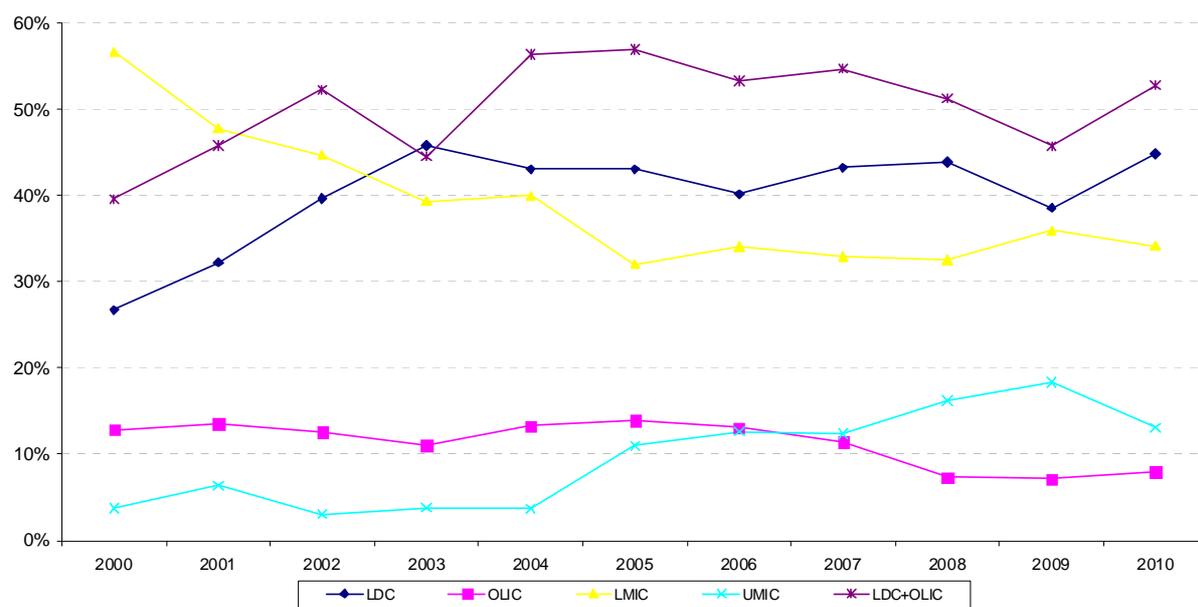
LDC : Least Developed Countries
 OLIC : Other Low Income Countries
 LMIC : Lower Middle Income Countries
 UMIC : Upper Middle Income Countries
 REGION / UNALLOC : Regional Programmes and Unallocated

Region/Unalloc.programmes benefit also to poorest countries LDC+OLIC.

In the new DAC list, which took effect in 2008, a number of OLICs have been reclassified as LMICs: Cameroon, Cape Verde, India, Republic of Moldova, Mongolia, Nicaragua, and Republic of Congo.

Table 3 bis: 2000-2010 Poverty focus

Disbursements



LDC : Least Developed Countries
 OLIC : Other Low Income Countries
 LMIC : Lower Middle Income Countries
 UMIC : Upper Middle Income Countries

In order to harmonize the presentation of this index with other donors, this index has also been calculated without taking into account regional and unallocated projects.

In the new DAC list, which took effect in 2008, a number of OLICs have been reclassified as LMICs: Cameroon, Cape Verde, India, Republic of Moldova, Mongolia, Nicaragua, and Republic of Congo.