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towards the EU Official Development Assistance Peer Review

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

**Enhancing EU Accountability on Financing for Development
towards the EU Official Development Assistance Peer Review**

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**Enhancing EU Accountability on Financing for Development
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1. INTRODUCTION

Following the global crises and last year's renewed commitment to accompanying developing countries in reaching the Millennium Development Goals (MDGs), this Communication and its accompanying Staff Working Document¹ analyse the EU and its Member States' performance in fulfilling common commitments on mobilising domestic (tax governance) and international resources for development, increasing trade capacity and investment, Official Development Assistance (ODA), innovative sources and mechanisms of financing, aid effectiveness, debt, climate finance and the voice and representation of developing countries in international financial institutions. They break down progress on the above issues, showing where the EU has been successful and where more should be done. They also reflect progress on transparency and accountability in international cooperation: for the first time the replies of Member States agreeing to do so and of the Commission to the annual questionnaire are published.

The Communication is also an input for the Istanbul UN conference on Least Developed Countries² and the Busan High Level Forum IV on Aid Effectiveness³.

The Communication recaps proposals on how to reach common EU targets, considers how to bridge the estimated EUR 50 billion gap between current ODA levels and the target for 2015, and provides a basis for the Council report to the European Council for the annual ODA peer review discussion on how to meet the EU ODA targets by 2015⁴.

2. EU FINANCING FOR DEVELOPMENT IN THE GLOBAL CONTEXT

The EU has been a leading force in pushing for better living standards in developing countries. When world leaders convened last autumn in New York for the UN Summit on MDGs, the EU actively promoted the global consensus on joint action. Mobilising more development financing from all available sources is crucial to fighting poverty. More money alone, however, does not bring about development. Developing countries have primary responsibility for their own development and improving policy and governance frameworks. In addition to being a generous donor, the EU has a comprehensive set of actions to support developing countries in their quest for sustainable development, in particular by designing aid policies with partner countries, ensuring that the EU's internal policies are consistent with development objectives and helping developing countries tackle global challenges. Unlike most donors, the EU has set itself quantitative and qualitative targets against which its progress can be measured.

The EU commitments are founded on the global Financing for Development agenda⁵, covering different sources of finance, although this agenda does not sufficiently reflect changes in the global landscape such as new official donors and investors, charities, South-South cooperation and private sector activity. ODA is the best known indicator of official

¹ SEC(2011) xxx EU Accountability Report on Financing for Development.

² LDC IV conference, Istanbul, May 2011.

³ HLF IV, Busan, November 2011.

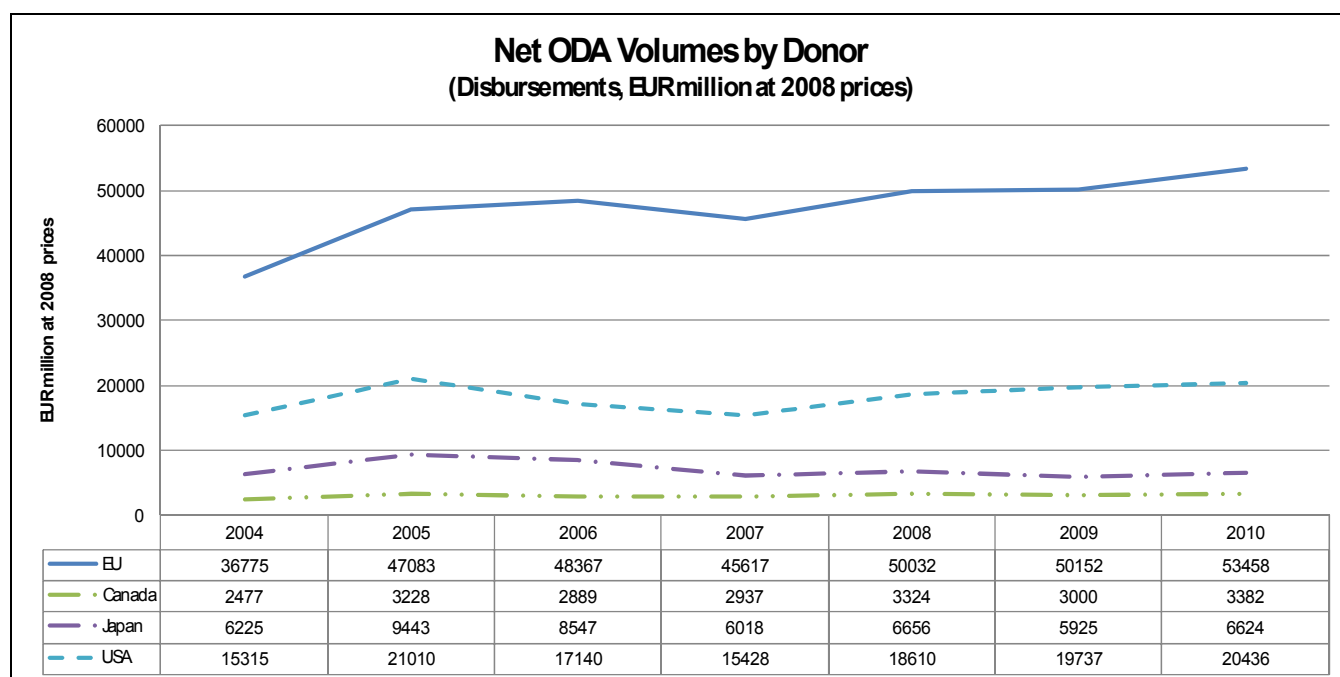
⁴ Conclusions of the European Council of 17.06.2010, par. 20.

⁵ Monterrey Consensus of 2002, Doha Declaration on Financing for Development of 2008.

donors' resolve and the main focus of this document; but is not the only source of funds mobilised for development.

Over the period 2004–2010, the EU and its Member States accounted for 57% of net ODA to developing countries from all OECD DAC and EU donors and for 65% of the global EUR25.7 billion increase in ODA. In 2010, the OECD DAC and EU donors' ODA reached EUR97.2 billion in nominal terms. The EU as a whole provides 58% of this aid. Already the world's biggest donor, the EU and its Member States promised to increase ODA spending to 0.7% of its combined Gross National Income (GNI) by 2015. This would add another EUR50 billion to the current EUR53.8 billion.

Graph: ODA of the EU and its Member States and of other non-EU G8 members



Source: OECD DAC Table 1

There are other major sources of financing available for developing countries besides ODA. For example, global remittances from migrants were expected to amount to around EUR 245 billion in 2010, private charities are by some calculations estimated to provide about EUR 35 billion annually⁶; global Foreign Direct Investment (FDI) flows are about equal to ODA and new economic powers like Brazil, Russia, India and China spend increasing amounts supporting developing countries. While these funds are of a distinct nature and managed differently from ODA, together they could, if harnessed to complement ODA, better meet the need to foster development and tackle global challenges.

3. EU PERFORMANCE IN 2010

This Communication and supporting document illustrate how the EU and its Member States have moved to meet their various commitments. It shows that, in general, the EU as a whole has kept up progress in delivering on its pledges, although the situation varies greatly between issues and between Member States.

3.1. Making more resources available for development and global challenges

3.1.1. Support for mobilising domestic resources for development

Generating more domestic resources is widely seen as the most important way of achieving sustainable development and growing out of aid dependency over time. Developing countries' state budgets are by far the biggest source of development finance. Increasing financial

⁶ http://www.hudson.org/files/pdf_upload/Index_of_Global_Philanthropy_and_Remittances_2010.pdf

independence from external support creates the fiscal space necessary to finance the MDGs and strengthens the link between the state and its citizens.

In 2010, the EU and its Member States continued to refine their methods of working with partner countries on these issues with the aim of providing enhanced support, including through capacity building, for domestic revenue mobilisation in developing countries in line with the principles of good governance in tax matters (transparency, exchange of information and fair tax competition), as part of their wider efforts to strengthen good governance and public finance management. The EU will continue to promote those principles and to support developing countries to fight tax evasion and harmful tax practices so as to develop a transparent, cooperative international tax environment.

The EU already enhanced its support for the Extractive Industries Transparency Initiative (EITI) as an emerging global standard for revenue transparency and accountability and will encourage developing countries' efforts to improve governance of extractive industries active in their countries. The EU is also working towards increased policy coherence for development, e.g. by working towards the possible disclosure by multinational corporations of financial data on a country-by-country basis to enhance transparency and corporate governance. The Commission is considering legislation on this issue, at least with regard to listed companies active in the extractive industry, in the framework of the revision of the Transparency Directive, currently foreseen for autumn. Enhanced transparency and improved corporate governance will help developing countries to optimise revenue collection and maximise their fiscal resources to ensure the delivery of public goods and services.

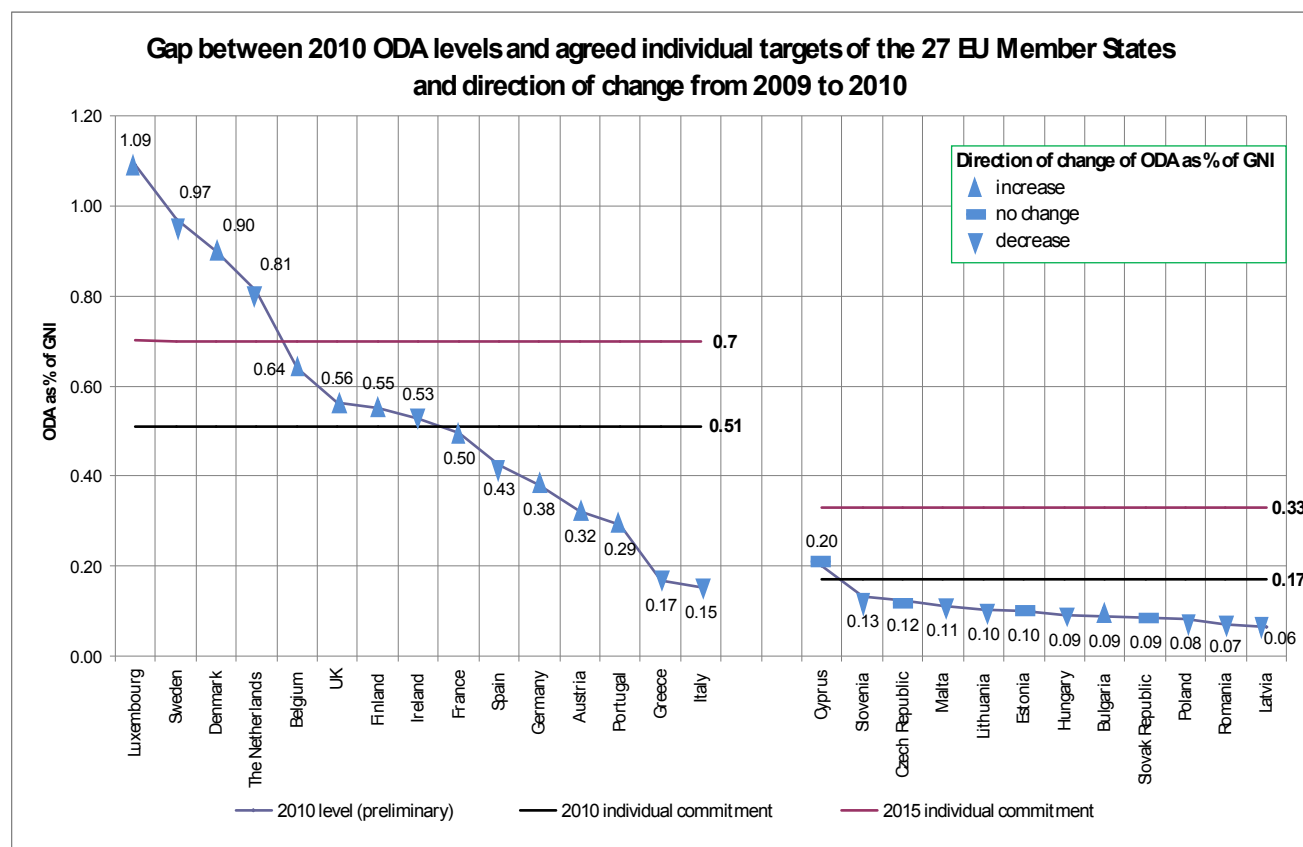
3.1.2. EU largest donor but 2010 targets missed

The EU is the world's most ambitious group of donors, committed to providing 0.7% of its collective GNI in ODA by 2015, in line with the long-standing UN goal. The EU leaders agreed this collective target in 2005, based on Member States' differentiated individual targets.

Part of the agreement was the intermediary collective goal of 0.56% ODA/GNI by 2010. While reaching a historical high of EUR 53.8 billion, representing 0.43% ODA/GNI and mobilising additional more than EUR 4.5 billion despite the economic downturn, Member States missed the intermediate target, falling short of the promise by EUR 15 billion.

Large differences between Member States persist: while some endeavour to do their share in implementing the common agreement, others do not deliver on their individual commitments to the collective EU results. This undermines the principle of fair internal EU burden-sharing and may have contributed to aid cuts in some Member States with ODA levels at or above 0.7% of GNI. Unless all EU Member States do their agreed part, the EU will not reach the collective 2015 target. In this context, it is of particular concern that some Member States have announced ODA decreases for 2011 and beyond, which challenge the common EU efforts. The European Commission has reported EUR 14.95 billion as ODA net disbursements for 2010. The amount includes EUR 5.15 billion of non-grant concessional EIB loans, mainly financed through EIB own resources and the remainder through the European Development Fund and the EU budget.

Graph: Member States' ODA performance in 2010 in% of GNI



Source: OECD DAC and EU annual questionnaire on financing for development

ODA to Africa: The EU and its Member States together remain the biggest aid donor to Africa and disbursed EUR20.5 billion to the continent in 2009. However, the 2005 commitment - to increase ODA to Sub-Saharan Africa and to channel at least 50% of the combined aid increase to the continent - has only partially been realised. While ODA to Sub-Saharan Africa grew by EUR2.7 billion since 2004, only 26% of the total ODA increase in real terms has been allocated to the African continent.

ODA to Least Developed Countries (LDCs): Within the overall ODA commitment, the EU, in 2008, pledged to collectively spend at least 0.15% of its combined GNI by 2010 on ODA to the LDCs. This target has been narrowly missed: Combined EU ODA to LDCs corresponded to 0.13% of GNI in 2010, based on preliminary data available. In 2009 eight Member States individually met the threshold and another three spent at least a third of their overall ODA in LDCs, thereby demonstrating their resolve to help the poorest countries.

3.1.3. EU financing for climate change and biodiversity

Developing countries need increased support to adapt to and mitigate climate change effects. In the lead-up to the 2009 UNFCCC Copenhagen Conference, the EU committed itself to contributing EUR7.2 billion over the period 2010-2012 to **fast-start climate funding for**

developing countries⁷. In 2010 the EU as a whole provided EUR2.34 billion in line with its overall target for 2010-2012⁸. The EU is also reflecting on ways to meet the developed countries' commitment under the Cancun Agreements, to mobilise USD 100 billion per year by 2020 jointly, from various sources (public, private, bilateral, multilateral and innovative sources), to address the needs of developing countries⁹. Developing comparable and transparent methods to measure, report and verify climate financing remains a key challenge. While the EU and its Member States have made significant progress in reporting on their implementation of fast-start finance in a transparent way, continued improvement in this area, particularly in view of the longer term financing, will be important to maintain trust in the international process.

Protecting biodiversity is also high on the EU agenda. At the Nagoya conference of the Convention on Biological Diversity (CBD) in 2010, the EU committed itself to substantially increase financial resources by 2020, to effectively implement the Strategic Plan 2011-2020 and to "take effective and urgent action to halt the loss of biodiversity ... contributing to ... human well being and poverty eradication." Several Member States announced major increases in their commitments for conserving biodiversity in developing countries.

3.1.4. Innovative financing sources and mechanisms for development

As aid will never be enough to meet the financing needs of developing countries to achieve the MDGs and other internationally agreed development objectives, the EU committed itself to seriously considering innovative financing mechanisms with significant revenue generation potential to ensure predictable financing for sustainable development¹⁰. Several EU Member States already use different innovative sources and mechanisms that have raised, so far, about EUR 13 billion for development. While some Member States are considering further sources and mechanisms, there is no common EU approach yet on the innovative sources and mechanisms with highest revenue generation potential. Mechanisms to spend revenues from innovative sources need to comply with agreed international aid effectiveness principles and avoid creating parallel spending channels.

3.1.5. Using ODA to leverage more private flows

Working together with the **private sector** as a driver of inclusive growth and sustainable development is an area where the EU has long seen great potential. The EU and the Member States use various incentives (investment guarantees, dedicated funds, preferential loans, support for joint ventures, etc.) to encourage private capital flows to developing countries and support a stronger international framework for responsible corporate behaviour. The EU and its Member States could use more blending of loans and grants or use funds in equity or risk-sharing instruments, to mobilise additional funding - including from the private sector - to

⁷ As its part of the collective developed countries' commitment to provide new and additional resources approaching USD 30 billion for that period.

⁸ According to the Member States' replies to the Commission's annual survey on Financing for Development, see Volume II, Annex 4 of SEC(2011) xxx. The figures provided by the Member States have been slightly adjusted as compared to the preliminary data provided for the EU fast start finance Report for Cancun adopted by the Council on 6.12.2010.

⁹ See Commission Staff Working Document SEC(2011)487 of 08.04.2011 on "Scaling up international climate finance after 2012".

¹⁰ Council Conclusions of 15.06.2010 on the Millennium Development Goals.

cover the investment needs of our partner countries. This will be addressed in the forthcoming policy proposals on the future EU development policy.

Migrants' remittances, whose private nature the EU underscores, are another significant flow to developing countries that can contribute to development. Remittances from the EU to developing countries, even by a conservative assessment¹¹, are about the same as total EU ODA. Fluctuations in these flows can have a big impact on the living conditions of recipients in developing countries. The EU promised to lower the cost of and facilitate remittance transfers¹². To that end, in 2010, the EU and the Member States continued to work on several fronts, e.g. improving data, increasing transparency and competition in the payment services' market, financing remittance-related projects, supporting financial services in developing countries, and improving migrants' financial literacy. The cost of sending remittances fell in some EU Member States but rose in others¹³. Challenges remain: (i) to get precise data on the major corridors, sending costs and informal flows from the EU; (ii) to extend cost reductions to the recipient side in developing countries; (iii) to design enabling environments; and (iv) to improve financial access and financial literacy.

3.1.6. Supporting developing countries' trading capacity through Aid for Trade

Trading on regional and international markets has great potential to support inclusive growth and has been an important motor of many development success stories. The EU has consistently supported developing countries in using trade as a tool for development. As part of its joint Aid for Trade strategy, the EU as a whole agreed to action to increase aid for trade and enhance its impact. The EU's combined annual aid for trade was EUR10.5 billion in 2009¹⁴, maintaining the all time high recorded the year before. EU and Member States' trade-related assistance — a subcomponent of aid for trade — increased substantially in 2009, to a collective EUR3 billion, well above the spending target (for 2010 onwards) of EUR2 billion per year.

In 2009, Africa became the biggest recipient of both combined EU trade-related assistance and aid for trade. The 2009 data also point to a strong increase in aid for trade to the African, Caribbean and Pacific States, at EUR3.6 billion. The proportion of EU and its Member States' aid for trade to LDCs remained stable at 22% of the total.

Reports from the EU field offices point to moderate improvement in the processes that underpin both the volumes and the effectiveness of aid for trade, such as addressing trade in the policy dialogue between EU donors and partners; increasing partner country demand for aid for trade; coordination to develop and implement trade strategies; trade needs assessments; joint operations and harmonisation, and including strategic economic regional integration priorities in national development plans and trade strategy. All these strands require continued, intensive attention. In LDCs, the Enhanced Integrated Framework for trade-related assistance offers a special opportunity to help these countries enhance attention to trade related issues and increase effective aid for trade.

¹¹ <http://data.worldbank.org/data-catalog/world-development-indicators>.

¹² Council Conclusions of 11.11.2008 Common EU position for the Doha Financing for Development Conference.

¹³ <http://remittanceprices.worldbank.org/>

¹⁴ 2010 data not yet available.

3.1.7. *Need to pre-empt future debt crises in developing countries*

The EU and its Member States are doing their share to contribute to the full implementation of the Multilateral Debt Relief and Heavily Indebted Poor Countries Initiatives. Debt sustainability and the risk of possible debt distress among low and middle income countries will have to be taken into account when increasing the use of blending loans and grants in support of developing countries. In order to avoid new debt crises, support for improved capacity for sound debt management and for responsible lending and borrowing practices is needed.

3.2. **Impact of EU aid**

3.2.1. *Using aid better*

The EU has driven international efforts to use aid more effectively. The aid effectiveness principles set out in the Paris Declaration and Accra Agenda for Action have been incorporated into the EU Operational Framework on Aid Effectiveness¹⁵, which contains commitments and milestones that allow the EU and its Member States to gauge their progress in spending ODA more effectively. While there is some improvement on several indicators, more action is needed to reach the overall goal of maximising value for money. The aim has to be to improve the developmental impact of EU aid as a whole. This avenue will be further examined in the Communications on EU joint aid programming and on a common EU position for the Busan conference later in 2011. In Busan, the evidence on implementing aid effectiveness principles will be reviewed in the wider context of development. A future challenge will be to capture the role of aid effectiveness principles in high-impact aid and to further strengthen their implementation at country level.

3.2.2. *Global financial governance, empowering developing countries*

The EU has consistently advocated a stronger voice for developing countries in international financial institutions. In 2010, both the IMF and World Bank approved major governance reforms, e.g. increasing developing and transition countries' voting and quota shares. The EU must help ensure that they are implemented swiftly in both institutions. For the next World Bank shareholding review in 2015, the EU believes contributions to the International Development Association, the World Bank's concessional lending arm, should be permanently and sufficiently included in the formula on voting rights, thus setting the right incentives for all shareholders to ensure the long-term financial sustainability of the institution. The EU should also strengthen coordination in international financial institutions to speak with a single voice on key concerns.

4. **CONCLUSIONS**

Building on the findings of the Report, the Commission recommends that the following steps be taken.

- (1) The EU and the Member States should strengthen their support to developing countries' efforts in **mobilising domestic resources for development in line with the principles of good governance in tax matters.**

¹⁵ Consolidated text of 11.01.2011, Secretariat General of the Council 18239/10.

- (2) Having missed the 2010 intermediary **ODA target** of 0.56% of GNI, the Member States should, in line with their commitment of 2005:
- (a) confirm the EU's collective commitment to increasing ODA to 0.7% of the combined GNI by 2015. Based on the clear evidence that development policy at EU level can offer high value added, the ODA volumes of the EU itself should play its part in this increase¹⁶;
 - (b) confirm that they will reach their individual ODA targets, as each Member State not fulfilling its part of the agreed targets undermines the EU's collective efforts towards the 0.7% goal:
 - the EU-15 to reach at least 0.51% of ODA/GNI as soon as possible and 0.7% of GNI by 2015, while those already above that level undertake to sustain their efforts;
 - the EU-12 to strive towards ODA levels of at least 0.17% of GNI as soon as possible and 0.33% of GNI by 2015;
 - (c) take concrete national actions to achieve the targets, including by establishing multiannual action plans and enshrining ODA targets in national legislation;
 - (d) share forward-looking data on their individual actions, showing the path of increase of ODA budgets year on year in the lead-up to 2015, and present this data as part of the Council's annual ODA report to the European Council.
- (3) The **Member States should confirm and deliver on the collective commitment to increase ODA to Africa**: EU ODA to Africa has not increased at the same pace as overall EU ODA. Member States should step up efforts to provide at least half of the ODA increase to the African continent. The EU and its Member States should coordinate their activities to provide more ODA to the African countries most in need.
- (4) The **Member States should confirm and deliver on the commitment to increase ODA to LDCs**: They should coordinate the poverty focus of their aid increases and reach the target of providing at least 0.15% of their GNI to the LDCs. All EU Member States need to contribute to that goal.
- (5) The EU and its Member States should consider strengthening the implementation of **aid effectiveness** commitments by focusing on enabling partner countries to fully lead their own development and manage aid including through:
- (a) developing further **jointly programming** of aid of the EU as a whole; the Commission will present a proposal later in 2011;
 - (b) **reinforcing** the existing **EU Fast-Track Initiative on Division of Labour** by expanding it towards a broader support network for implementing the EU Operational Framework on Aid Effectiveness;

¹⁶ The EU Budget Review, COM(2010)700 of 19.10.2010.

- (c) based on the EU's experience in implementing Aid Effectiveness commitments, work together towards a **results-oriented Busan outcome** that focuses on how to maximise the contribution of Aid Effectiveness strands to development results at partner country level. The Commission will present a proposal for a common EU position for Busan later in 2011.
- (6) In the context of **Aid for Trade**, the EU and its Member States need to:
- (a) **enhance Aid for Trade support to LDCs**, e.g. by increasing attention to the capacity of LDCs to formulate and implement trade development strategies in support of inclusive and sustainable growth; special attention needs to be given to harnessing the potential of the Enhanced Integrated Framework for Trade-Related Assistance to LDCs as a tool for stakeholder coordination and strategy development;
 - (b) **improve the effectiveness of aid for trade** identified at country level, e.g. by making better use of trade needs assessments, enhancing the effectiveness of platforms intended to support the development of trade-related strategies; and acting on opportunities for increasing joint operations;
 - (c) further **step up support for regional integration**, also through assistance provided at national level;
 - (d) support partner countries' own monitoring of results and of the impact of aid for trade and the progress of their trade development strategies.
- (7) **Innovative sources of financing** have great potential to help bridge the development financing gap. Member States should focus efforts on innovative mechanisms with significant revenue generation potential and ensure that a substantial share of the revenues thereby generated is used for developing countries.
- (8) ODA and **climate finance** are complementary, both aim at supporting developing countries building a 'climate-proof' future for themselves:
- (a) EU donors and developing countries alike need to have a single, climate-compatible development strategy that covers both adaptation and mitigation;
 - (b) EU donors should encourage other actors to implement climate finance actions in compliance with agreed aid effectiveness principles.
 - (c) According to the Cancun Agreements, climate finance must be 'new and additional' on which there is a wide range of differing views. Further progress is needed to identify a sound approach which ensures that climate financing does not jeopardise the fight against poverty and progress towards the MDGs, as agreed by the European Council in 2009.