



COMMISSION OF THE EUROPEAN COMMUNITIES

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Annex to the :

Communication from the Commission

Accelerating progress towards achieving the Millennium Development Goals

FINANCING FOR DEVELOPMENT AND AID EFFECTIVENESS

Impact assessment

{COM(2005)133 final}

1. INTRODUCTION

The Monterrey Consensus, adopted by the International Conference on Financing for Development (FfD) in Mexico, 18 – 22 March 2002, contains a number of critical commitments “*to address the challenges of financing for development around the world, particularly in developing countries.*” The FfD Conference emphasised the shared responsibility of donors and recipient countries in achieving the Millennium Development Goals (MDGs). It addressed the two parallel issues of ensuring the necessary “means” (i.e. financing) and the most effective “ways” (i.e. aid effectiveness) for achieving the Millennium Development Goals (MDG)¹. Progress should be made on both axes.

The European Union (EU), collectively representing more than 50% of worldwide Official Development Assistance (ODA)², is a key partner in the FfD process. At Monterrey the EU contributed significantly to the overall positive result of the Conference, through the so-called “Barcelona commitments”³ – composed of:

- *Commitments on ODA volume and sources* – as increased ODA volumes, innovative sources of financing, initiatives concerning GPG and debt relief for Heavily Indebted Poor Countries (HIPC);
- *Commitments on aid effectiveness* - closer coordination of policies and harmonisation of procedures, untying of aid, trade related assistance (TRA), the reform of the International Financial System.

The eight commitments were triggered by a Commission Communication providing the essential elements for the final EU position in Monterrey⁴. Mandated by the Council the Commission has, since 2002, ensured the monitoring of progress through annual reports to the Council in 2003 and 2004, including proposals for better implementation. This Communication makes proposals how the EU could contribute to the international debate on Financing for Development.

2. THE ISSUE

The Monterrey Consensus also reflected a differentiated approach as to the responsibilities of donor and recipient countries and the elements related to the financing for development.

In September 2005 *the UN High Level Event (HLE)*, five years after the Millennium Declaration, will take stock of the progress achieved to meet the MDGs by 2015. This event will include a separate meeting on financing for development and will be prepared by the UN

1 In the G8 Africa Action Plan, endorsed by the Kananskis Summit of 2002, it was expected that the Monterrey pledges would trigger an additional US\$ 12 bn/yr by 2006: “*in aggregate half or more of our new development assistance could be directed to African nations that govern justly, invest in their own people and promote economic freedom.*”

2 EU Member States and EC managed fund (EC budget and EDF)

3 Council Conclusions of 14 March 2002 on the UN Conference on FfD (Monterrey)

4 COM 52002) 87 final of 13.2.2002 (Preparation of the International Conference on Financing for Development (Monterrey, Mexico, 18 – 22 March 2002); Council Conclusions of 14.03.2002 on the UN Conference on Financing for Development

High-level Dialogue on FfD. The EU has committed to make a substantial European contribution to the High Level Event and to stimulate the international debate⁵.

2.1. Requests from the Council

The European Council of December 2004 confirmed the EU's commitment to the MDGs and asked the Commission to present to the Council "*concrete proposals on setting new and adequate ODA targets for the period 2009-2010, while taking into account the position of the new Member States*". These proposals shall be based on consultations with individual Member States. The EU leaders also decided to "*explore innovative ways of financing*" and have asked the Commission to submit relevant proposals with a view to the 2005 HLE. The Council also said that "*the EU will reconsider, among other things, long-term solutions to the debt burden*"⁶.

The specific reference to three of the eight "Barcelona commitments" (ODA levels, innovative financing sources, debt) reconfirms the consensus of 2002 that the EU wants to speak with "one voice" and to contribute to the international Financing for Development process through a joint approach. The Commission is expected to provide appropriate proposals for further discussion at the EU level.

2.2. The review of the "Barcelona commitments"

The Communication provides an update on the state of implementation of the eight "Barcelona Commitments", which the EU had taken in the context of the Monterrey Conference on Financing (FfD) in 2002. It assesses which of them need to be renewed (Official Development Assistance (ODA), innovative sources of financing, debt relief) and where progress within the EU or on the international arena justifies a review of commitments (coordination and Global Public Goods (GPG)) and presents concrete proposals for new political EU commitments.

2.3. The legal basis

The established monitoring of progress on the Monterrey and Barcelona commitments through the Commission follows up the obligation of the EC and the Member States to respect and take account of the objectives they have agreed to in the UN framework (Art. 177 (3) Treaty/ Art. III 316 (2) Constitution). With regard to coordination and complementarity of development policies the Commission Art. 180 Treaty/ Art. III 318 Constitution entitles the Commission to take useful initiatives to promote coordination within the EU.

Based on the monitoring process the Communication makes proposals to trigger a political process within the EU and eventually at the international level which should, in the medium- and long-term, lead to more specific thematic proposals and possibly to legislative initiatives, either within the individual Member States or at EU level, as and where Community competences exist.

5 Council Conclusions of 22-23 November 2004, 14724/04 (Presse 325) page 26

6 Council Conclusions of 22-23 November 2004, 14724/04 (Presse 325) page 26

3. MAIN OBJECTIVES

3.1. Overall objective

The wider objective of this Communication is to support the achievement of the Millennium Development Goals (MDG), in particular MDG 8 (develop a global partnership for development) and other internationally agreed development goals.

3.2. Specific objectives

The Communication responds to the following objectives:

To follow up the Council request to the Commission to report annually on the progress of the EU achieved towards meeting the “Barcelona commitments”⁷.

To follow up the Council request to submit proposals regarding new ODA targets for 2009/2010 and on innovative sources of financing (see above 1.2) for the definition of an EU position in view of the HLE.

To contribute to the agenda building for the international debate in the area of finance for development.

3.3. Operational objective

The Communication shall foster a debate within the EU which triggers updated and reinforced “Barcelona II-type commitments”.

4. THE POLICY OPTIONS

4.1. No-change scenario

The no-change scenario is a non-option in the light of the specific requests of the Council to the Commission to present proposals for the review of at least some of the Barcelona commitments (ODA, innovative sources of financing).

4.2. Proposed changes

The Communication looks into the individual “Barcelona commitments” one by one, provides elements for further EU actions and makes proposals for a reinforcement of several Barcelona commitments.

5. IMPACTS

The approach taken consists in concrete proposals on the eight “Barcelona commitments”. The proposals are based on the results of the **annual survey** to the Member States, which are a key instrument for the monitoring of progress to achieving the EU commitments. This time the questionnaire took account of the fact, that new ideas were to be presented in view of the UN HLE and included questions to explore the readiness of the Member States to advance to

⁷ Conclusions adopted by the General Affairs and External Relations Councils in November 2002 and May 2003 respectively.

a renewal of EU commitments. The results of the survey have been analysed in the **Staff Working Document “EU Follow-up to the Barcelona Commitments and operationalisation of the Monterrey Consensus”**⁸, which complements the Communication. The Communication also takes account of **available and ongoing studies and the international debate** with regard to the MDG⁹ and the different aspects of Financing for Development and Aid Effectiveness - as illustrated hereafter with regard to the impact on the individual Barcelona commitments.

The **overall impact** of the Communication pertains to the availability of concrete proposals for further joint EU actions and commitments. Their adoption would enable the EU to demonstrate its continued commitment to meeting its longstanding and repeated political pledges in the UN framework towards reaching the Millennium Development Goals and to ensure a sound framework for Financing for Development. A uniform EU position on Financing for Development as Europe’s contribution to the HLE would **strengthen the European voice in the international debate and reinforce Europe’s position at the UN level**. More importantly, reinforced EU commitments will allow the Member States and the Community to **comply with the Treaty obligation fixed in Art. 177 (3) Treaty (= Art. III 316(2) Constitution) to respect and take account of agreements reached in the UN framework**.

The overall impact on the **social, environmental and economic situation of beneficiary countries and especially the poor pockets of their populations** will be positive, as increased financing for development will contribute to reaching the Millennium Development Goals and other development objectives, as agreed between the European donors and the aid recipients.

Specified hereafter are possible impacts of the reinforcement of existing commitments on financing for development and aid effectiveness.

5.1. New ODA targets

The Communication’s proposals consist of different elements:

The suggestion to establish two intertwined targets to be reached by 2010: an individual threshold (baseline target) for Member States, differentiating between EU15 and EU10 and a collective average for the EU 25. This corresponds to the methodology, which had been used by the EU for the definition of the joint EU position for Monterrey, and takes account of the special situation of the ten new Member States, which are emerging donors with a still low level of ODA volumes.

The request to those of the EU 15, who have not yet done so, to establish, by 2006, a firm timetable to achieve the long-established and agreed UN 0.7% ODA/ GNI target.

The request to the ten new Member States to establish a firm timetable to reach the “Barcelona acquis” by 2015.

These elements shall contribute to the definition of new individual and collective ODA targets within the EU. The Commission believes that new targets have to be sufficiently ambitious in order to credibly ensure that the EU can collectively reach 0.7% ODA/ GNI by 2015, the target date for achieving the MDG. The 0.7% ODA/ GNI target was established by the UN

8 SEC (2005) : ISC was launched on 25.02.2005)

9 E.g. The UNDP Millennium Project Report: Investing in Development – A Practical Plan to Achieve the Millennium Development Goals, 2005.

General Assembly in 1970 and has since been repeatedly reconfirmed by different UN Summits, e.g. on Least Developed Countries¹⁰, at the Monterrey Conference on Financing for Development and at the Johannesburg Summit for Sustainable Development¹¹. The recent Millennium Project Report argues that a collective donor effort is required to reach the MDG by 2015, involving levels of 0.54 % ODA/ GNI and that all donors should reach the 0.7% by 2015 to support development MDG and other development assistance priorities¹².

Increased ODA targets will ultimately influence **the national budgets of EU Member States**. It is, at this stage, difficult to estimate the concrete impact on budget processes. Overall, the share of allocations for official development assistance within national budgets, is very small; this even in those Member States that have already achieved the UN 0.7 % target. Against this background the impact ODA allocations, which would gradually increase over a period of ten years, on the overall size of national budgets of EU Member States is expected to remain limited. However, in the case of Italy the current declining trend of ODA remains a concern in view of the achievement of the collective EU goal by 2006, as agreed in Barcelona in 2002; particular efforts will be necessary to achieve the current individual target (0.33%) and to sustain budget allocations to ensure further increases towards reaching a more ambitious individual and collective target by 2010.

Regarding the **achievement of the 0.7 % ODA/ GNI target by the EU15** four Member States (Denmark, Luxemburg, the Netherlands and Sweden) have already achieved these goals and have committed to keep their ODA at least at that level. Four other Member States (Belgium, France, Finland and the United Kingdom) have already fixed firm timetables to achieve this target prior to 2015.

Concerning the **ten new Member States** the proposal to achieve the “Barcelona acquis” by 2015 implies that Governments should **align their policies progressively towards the “acquis communautaire” in the field of financing for development**, established by the EU15 at Barcelona in 2002: The individual commitment of EU15 Member States pertained to increasing the ODA levels at least to the baseline of 0.33 % by 2006. The new EU 10 Member States benefit from a of a transition period of ten years to adapt their budget policies accordingly. This seems to be a **fair** proposal in terms of **burden sharing between the EU Member States**, especially since the EU15 would equally have to make substantial efforts over the same period to achieving each the 0.7% target, and a **good demonstration of the joint efforts of the EU as a collective**.

The fact that some EU Member States currently experience difficulties with Euro rules, as they exceed the budget deficit criterion of the stability pact (Germany, France, Greece and Italy as well as the Czech Republic, Cyprus, Hungary, Malta, Poland and Slovakia) has been taken into account in the proposal for new ODA targets. In line with the MDG quinquennial review process (MDG+5 in 2005, MDG+10 in 2010 towards reaching the target by 2015) the Council should fix a new interim target for 2010. The target date approach gives some leeway to the Member States to decide on the mode and timing of the adaptation of their national budget to the new interim target. In the coming years the ODA volume of the EU10 will

10 Programme of Action for the Least Developed Countries for the Decade 2001-2010 para 83, which was adopted in Brussels on 20 May 2001.

11 Johannesburg Declaration para 22; Johannesburg Plan of Implementation para 85.

12 Millennium Project Report, Overview page 58.

automatically rise substantially due to their contributions to the Community budget and to the European Development Fund (EDF).

5.2. Aid effectiveness: Coordination, complementarity

The Commission's monitoring report 2004¹³ focused on the coordination of policies and harmonisation of procedures. Its recommendations triggered the EU report "Advancing coordination, harmonisation and alignment: The contribution of the EU" and was endorsed by the Council, in November 2004¹⁴. This EU Report has in turn become an essential input into the international harmonisation and alignment debate at the OECD/DAC High Level Forum II (HLF II) in Paris in March 2005. The proposals of the Commission are twofold: a call for credible implementation of the time-bound objectives of the EU Report and a call for concrete progress for enhanced complementarity of aid between EU Member States and between Member States and the Community-managed aid. If adopted, the proposals would lead to **"better value for money"**, in that available funds could be used more effectively, by reducing transaction and administrative costs and by avoiding duplication of funding. Concrete joint action by the Member States and the Community alike would essentially **honour the Treaty obligations (Art. 180 Treaty = Art. III 318 Constitution)** of Member States and the Community.

5.3. Untying of aid

Untying of aid is another area for further action to achieve "better value for money" and thus improve aid effectiveness. The existing EU commitment concerns DAC recommendations for the untying of aid towards LDCs and has been met. Further progress should be achieved in other areas:

As proposals for the untying of EC aid are currently in the legislative process and the EU is also pursuing concurrent changes in the Annex IV of the Cotonou Agreement, there is a **call to rapidly complete this legislative work in the Council and the European Parliament.**

Regarding bilateral aid, the Commission requests the **compliance of Member States' tender procedures for bilateral aid with Single Market Rules.**

An important field, where tied aid of non-EU donors creates distorting effects concerns Food Aid, Food Aid Transport and the access of recipient countries to donors' aid¹⁵. Here a solution at international level is required (discussions in the framework of the DAC).

5.4. Trade Related Assistance

The proposals of the Communication are of practical nature and focus on improved and effectiveness of Trade Related Assistance, thus also serving the already exposed objectives of **enhancing the quality and cost-efficiency of available aid funds.**

13 The Communication from the Commission to the Council and the European Parliament "*Translating the Monterrey Consensus into practice: the contribution by the European Union*"; Council Conclusions of the GAERC of 29.04.2004; Council Doc. 8973/04 of the 29.04.2004.

14 Council conclusions of the GAERC 22-23.11.2004; 14724/04 (Presse 325) p. 37.

15 EC- funded study on untying and the area of food aid, 2004.

5.5. International Public Goods

The Communication builds upon the groundwork done by the International Task Force on Global Public Goods, which was established after the Johannesburg Summit on Sustainable Development in 2002 and is expected to submit a time-bound and fully-costed Action Plan during the first semester of 2005. The Commission and ten Member States have been closely following the work in the Group of Friends of the Task Force. Moreover, in the regular monitoring survey Member States have expressed their broad agreement to the proposed priority International Public Goods and to the idea of establishing an Action Plan at the EU level, based on the analysis of the forthcoming Action Plan of the International Task Force. An eventual EU Action Plan will depend on further preparatory work, but would ultimately support - at least some of - the Goods (trade, knowledge, peace and security, financial stability, global commons, in particular natural resources, eradication of communicable diseases). Due to the global implications of many of these subjects a joint EU Action Plan would not only improve the well-being of Europe's citizens but also strengthen Europe's voice in the international debate to ensure progress at the global level.

5.6. Innovative sources of financing

The objective of mobilising additional and more stable sources of finance must guide the discussion on innovative finance sources and aid modalities and should, in the medium term, **lead to the provision of additional, more predictable and less volatile funding for official development assistance**. Several proposals exist and the World Bank and IMF have been mandated to continue their work on the International Finance Facility, global taxes (notably the "Landau report"/ work of the "Lula Group" comprising the Presidents of Brazil, Chile, France and the Prime Minister of Spain) as well as voluntary contributions¹⁶, including the analysis of their technical feasibility¹⁶.

There is work in progress at the international level and to which several Member States are substantially contributing. However, as many of the options currently out for discussion, require an almost universal consensus, which will be difficult to achieve in the nearer future, the Communication proposes that the EU should accelerate work on the most promising options for innovative additional sources of finance based on an agreed set of criteria to determine the most feasible options. In addition, the EU should explore the scope for a **European initiative** to develop new, more predictable and less volatile aid modalities. Such **joint EU position would strongly influence the international debate and trigger accelerated progress** there, as did the Barcelona commitments at Monterrey and the agreed EU common framework for coordination/harmonisation at the High Level Forum II in Paris. This would ultimately promote the availability of **additional financing sources and new aid modalities** for ODA and / or the achievements of International Public Goods.

5.7. Reform of the International Finance System

The Barcelona commitment related to the reform of the International Financial Institutions (IFI) will not be achieved; this is partly to due to the general and complex nature of the undertaking, which requires long-term efforts to achieve progress. The proposal for new commitments focuses on the enhanced development of joint European positions at the IFI,

16 Development Committee of October 2004 with the request to report at the next meeting (October 2005) on how to take such options forward.

and responds to the corresponding request of **Art. III 196 Constitution** to adopt appropriate measures to ensure unified representation of particular interest for economic and monetary union within the international financial institutions and conferences, after consultation of the Central Bank.

5.8. Debt Relief

Member States agree that major concerns regarding the debt situation of poor countries continue and require further reflection and action. The Commission has started to work on this issue¹⁷, and the relevant questions are high on the agenda at the competent international forums, e.g. IMF, World Bank, Paris Club, G7/8¹⁸, where there is work in progress on some of the most urgent aspects, which are recalled in the Communication (post-conflict countries, continued debt distress after debt relief, debt sustainability framework, exogenous shocks).

The current debt related Barcelona commitment refers to the implementation of the so called “HIPC” initiative for highly indebted poor countries and for which the “sunset clause” of the extended HIPC initiative is approaching (end 2006) the EU. The proposed elements for further EU action concern debt related problems of poor countries, which will continue beyond the HIPC initiative and for which a new EU commitment needs to be defined.

6. IMPLEMENTATION AND MONITORING

Reinforced Barcelona II-type commitments should be agreed by the Council preferably at the April GAERC 2005 to provide a timely EU contribution into the preparations of the UN High Level Event in September 2005, but at the latest prior to the Summit meeting.

The monitoring process will be twofold:

(1) Regarding the overall progress towards achieving the **Millennium Development Goals** the Commission had received a specific mandate to provide an EU Synthesis report five years after the Millennium Declaration (MDG+5 review), based on the national reports submitted by the Member States and the Community report. The future review process will depend on further requests of the Council and the results of discussions at and agreed follow-up to the UN High Level Event.

(2) For the **Financing for Development process** (Monterrey and Barcelona commitments) the monitoring framework has already been established in 2002 and will be pursued: The Council mandated the Commission to report annually on the degree of implementation of EU commitments¹⁹, and to propose corrective measures wherever sufficient progress is not demonstrated. Based on *annual surveys in form of questionnaires to the Member States* the Commission monitors the progress on the implementation of the “Barcelona commitments”. This monitoring is a good opportunity for collective benchmarking and ensures transparency

17 See the EC funded study “Beyond the HIPC Initiative” of March 2004.

http://www.europa.eu.int/comm/development/body/theme/hipc/docs/Beyond_HIPC_en.pdf#zoom=100.

18 For instance the IMF/ WB Development Committee in October 2004 discussed the debt sustainability and impact of exogenous shocks on low-income countries; G7 Finance Ministers meetings in October 2004 and February 2005.

19 Conclusions adopted by the General Affairs and External Relations Councils in November 2002 and May 2003 respectively.

on the action taken by the Union. *The first monitoring report of 2003*²⁰ fed into the preparations for the first UN High Level Dialogue on FfD in October 2003²¹, while the 2004 report focused on the coordination of policies and harmonisation of procedures.

The Commission will continue the annual monitoring on progress in the implementation of Monterrey and (reinforced) Barcelona commitments, as in the past.

7. STAKEHOLDER CONSULTATION

7.1. The Annual Monitoring Survey on Monterrey and Barcelona Commitments

Since 2002 the annual survey to the Member States is the key instrument of the Commission to assess the EU's progress on the Financing for Development process (Monterrey Consensus) and the "Barcelona commitments". The UN High Level Event (HLE) will take stock of the progress achieved towards meeting the Millennium Development Goals (MDGs) and will comprise a distinctive meeting on Financing for Development, which will be prepared by the UN High level Dialogue on FfD. This year's questionnaire submitted to Member States²² took these circumstances into account in the formulation of the specific questions: The survey contained questions relating to developments on the implementation of the eight EU commitments of 2002, at the international and EU level. Other questions concerned the possible reinforcement and renewal of the existing EU commitments.

The Staff Working Document "EU Follow-up to the Barcelona Commitments and operationalisation of the Monterrey Consensus"²³ complements the Communication. It provides a detailed description of the state of play on each individual commitment, as expressed in the replies of the Member States to the annual monitoring questionnaire, and trends regarding the possible renewal of the commitments.

7.2. Consultations with individual Member States on a new ODA target for 2010

As far as proposals for a new ODA target for 2010 are concerned, the Council has asked the Commission to consult with individual Member States²⁴. This particular consultation process has been launched:

Commissioner Michel already discussed different options in bilateral meetings with several Member States (amongst others France, Germany, Portugal, Spain and UK).

It is foreseen that Commissioner Michel and/ or S. Manservigi, the Director General of DG Development contact the EU Member States on the options for a higher ODA target, prior to the GAERC meeting in April, which shall take a position on the Commission proposals.

20 SEC (2003) 569 of 15.05.2003

21 The Commission Staff Working Document "Follow-up to the International Conference on Financing for Development (Monterrey – 2002) - Monitoring the Barcelona Commitments" SEC (2003) 569, 15.05.2003; Council Conclusions of the GAERC of 20.05.2003, document 9379/03 (Presse 138) p.20.

22 Follow up by EU Member States and the Commission of the Monterrey and Barcelona Commitments – Preparation of the 2005 report to the General Affairs and External Relations Council

23 SEC (2005) 453

24 GAERC 22-23 November 2004 14724/04 (Presse 325), page 26.

8. COMMISSION DRAFT PROPOSAL AND JUSTIFICATION

The proposed Communication responds to (1) the Council mandate to ensure the annual monitoring of EU progress in the Financing for Development process and to propose corrective measures where sufficient progress is not demonstrated as well as (2) the specific request of the Council to provide new proposals for a new ODA target and innovative sources of financing with a view to the UN High Level Event.