Towards more and better EU Aid: the 2006 aid effectiveness package

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PURPOSE : to present the Commission's communication on the financing of development and aid effectiveness - the challenges of scaling up EU aid 2006-2010.

CONTENT : in the run-up to the UN Millennium Review Summit in September 2005, the EU took historic new commitments to accelerate progress to achieve the Millennium Development Goals (MDG). The new commitments will further reinforce the EU's position as the world's biggest aid donor. They comprise new targets for Official Development Assistance (ODA): **through progressive ODA increases the EU will collectively provide0.56% of its GNI by 2010, as an intermediate step to achieving the UN target of 0.7% by 2015**. This commitment is combined with the promise to provide fifty percent of increased aid volumes to Africa; additional commitments concerning innovative sources of financing for development further debt relief and International Public Goods; better coordinated and more effective aid at EU level as well as implementation of the Paris Declaration on Aid Effectiveness, including more predictable aid mechanisms, notably budget support, mitigation of exogenous shocks, aid untying and reform of the international financial institutions; trade-related assistance (TRA), for which the Council further specified commitments prior to the WTO Ministerial in Hong Kong.

The Council invited the Commission to monitor the implementation of these commitments and to report progress annually on the financing and effectiveness of aid, including for Africa. This Communication provides the first such assessment of the implementation of the extended set of EU commitments and is based on the Member States' contributions in the annual monitoring survey of late 2005. The main issues can be summarised as follows:

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

Preliminary estimates show that the majority of Member States have introduced the necessary measures to attain the 2010 ODA targets: six Member States will provide 0.7% or more of their GNI as ODA, with Sweden keeping its ODA at 1.0% of GNI and Luxembourg endeavouring to attain that level. A further four Member States will allocate around 0.6% of their GNI for development aid and others foresee progressive year-on-year increases to reach 0.51% ODA/GNI. This commitment is combined with the promise to **provide fifty percent of increased aid volumes to Africa.** The Commission invites the Council to call on other donors to commit more substantially to ensuring proper financing for the MDGs, notably in Africa.

- Commitment on innovative sources of financing: in 2005, the Council considered the most promising options for innovative sources of financing for development. As a result of this process, two proposals received the support of some Member States: i) the International Finance Facility (IFF) for Immunisation (IFF-Im), launched in September 2005 by France, Italy, Spain, Sweden and the UK as a mechanism to bring forward in time resources already pledged to partner countries for immunisation programmes,

involves a EUR 3.3 billion commitment over ten years; first disbursements are expected in 2006; ii) a solidarity levy on airline tickets to facilitate the financing of existing ODA commitments. Against this background, the Commission proposes that the Council should continue to consider innovative sources of finance, including by monitoring the implementation of current initiatives.

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

- **Commitment on aid effectiveness:** since 2004, both the EU and the donor community at large - together with beneficiary countries - agreed to concrete aid effectiveness deliveries. A comprehensive Action Plan on the effectiveness of EU aid brings together nine deliverables that the EU will have to further develop in 2006 and implement in the field until 2010 (see COM(2006)0087).

- **Commitment to creating more predictable, less volatile aid mechanisms:** for the best performing developing countries, a rolling multi-year framework and less frequent verification of conditionality are key elements to achieving greater predictability in budget support disbursements. However, while a number of Member States mentioned budget support as their preferred aid instrument, only Portugal and the UK seem willing to move to multiannual budget support with a less than annual review of conditionality in the sense indicated by the Council Conclusions of May 24, 2005. The Member States agreed on the importance of ensuring more predictable aid and expressed interest in the ideas put forward by the Commission for a multi-annual "MDG contract" that should focus on well performing countries and offer greater assurances of predictable funding in exchange for enhanced planning, monitoring and performance by beneficiaries with respect to the MDG. The Commission will further analyse this issue, including through informal working groups with experts from interested MS, like-minded donors and relevant international organisations.

- **Mitigation of the impact of exogenous shocks:** through the European Development Fund (EDF), the Commission has earmarked EUR 25 million in support of the Global Index Insurance Facility (GIIF), under preparation by the WB during 2005. The GIIF will include a re-insurance facility allowing insurance coverage for indexable price risks related to weather, disaster and commodities in developing countries and is expected to be operational by mid-2006. Following discussions with the ACP group on an EU-ACP Natural Disaster Facility the Commission is now also processing a financing proposal for capacity building in disaster prevention/preparedness in the ACP regions, budgeted at EUR 12 million from the 9th EDF. The Commission invites the Council to contribute to supporting the Global Index Insurance Facility (GIIF) in order to facilitate the access of developing countries to market-based insurance instruments.

- **Commitment on untying of aid:** in December 2005, the EC adopted two regulations that open access to all EC external assistance. The Commission recommends that the Council should continue its efforts to promote the further untying of food aid and food aid transport, in line with the negotiation mandate adopted in view of the revision of the London Convention.

- **Reform of the international financial institutions:** the vast majority of MS are in favour of more systematic joint statements by EU Member State representatives on the Governing Boards of IFIs and of a more formal coordination mechanism among EU Member States for World Bank issues of strategic importance to the EU.

- **Trade and development:** Following the Council of May 2005, the EU further deepened its commitments concerning Trade-Related Assistance (TRA). At the G8 Summit Commission President

Barroso pledged to increase EC aid for trade to EUR 1 billion p.a. In December 2005, the Council agreed that Member States will strive to collectively increase their TRA to EUR 1 billion p.a. by 2010. The combined EU contribution should thus reach EUR 2 billion. The Member States and EC also pledged to provide adequate and predictable funding of an enhanced and strengthened Integrated Framework (IF), EUR 10 million has been earmarked as EC contribution to the enhanced IF. The Commission is ready to examine possibilities for pooling Member States and EC funds to enhance the effectiveness of TRA, and will review, in future editions of this report, the delivery of the Commission and Member States on these commitments.

Conclusion: the EU, albeit with some difficulties, gives signs to be prepared to meet its intermediate ODA targets 2006. Working towards the 2010 targets will require supplementary efforts and credible action supported by public opinion. The Communication on EU development activity should be strengthened. Some Member States are introducing innovative sources of financing, whereas the Multilateral Debt Relief Initiative responds to the EU's concern pertaining to debt sustainability of poor countries. Concrete deliverables on aid effectiveness must now be agreed, e.g. the joint EU framework for country strategies and the Action Plan.