

Eurodad briefing on the EU communication package on aid effectiveness and the Monterrey process, 9 April 2008

The EC has released documents presenting the EU position on aid effectiveness, the MDGs and on the Financing for Development (FfD) process.¹ Such a communication has been produced annually since 2003 and this year it aims to “position the EU and ensure that Member States are united in promoting a common vision for ambitious results on the Millennium Development Goals, aid effectiveness and financing for development”. It aims: “to make a contribution to the formulation of a European common position, with an eye to the Accra and Doha meetings and the high-level UN event in September 2008.”

The documents contain some very useful statements, and much language that civil society groups can use in their interactions with Member State officials. Eurodad recommends that specialists on specific issues should read the relevant documents for themselves. This briefing gives a heads-up with the main sense of the contents and material that members and allies can use. The documents explain that “the Commission is responsible for monitoring [the FfD and MDG] undertakings within the Union”, but also make clear that the Commission has little direct enforcement power to make national governments change their practices. Civil society has a role to fill this gap.

The EC has produced one overarching communication, and five more detailed Commission staff working papers covering [the MDGs](#), [financing for development](#), [aid for trade](#), [policy coherence](#) and [aid effectiveness](#). This is Eurodad’s response to this package (particularly the FfD and the aid effectiveness sections) on the aid, debt, capital flight and International Financial Institution issues we work on. Eurodad welcomes the language on aid levels and aid effectiveness but regrets the limited treatment and lack of new language on other important development finance issues, notably debt and capital flight.

On aid effectiveness the main points in the EC papers are:

- “Member States are invited to confirm their political commitments and their financial targets for 2010 and 2015. They need to fulfil their commitments concerning the predictability of aid, notably by drawing up reliable provisional multiannual timetables of their financial flows”.
- “The division of labour has to be put into practice. The Code of Conduct adopted in May 2007, implementation of which is still at the embryonic stage, has to be implemented more proactively; all the actors, including EU operators on the ground, have to shoulder responsibility for doing this. The Commission will make specific proposals for each country”.
- “Donors should use country systems, as the Commission did by increasing the proportion of budgetary aid overall and by sector”.
- “Management by results makes us reassess how our conditions are conceived and applied”.
- “There has to be predictability in flows, in programming and in disbursements”.
- “Cofinancing must be stepped up. Community cofinancing has met with less success than bilateral cofinancing, but should pick up following changes to the legal framework”.
- “The Commission invites the Member States to make a major effort to forecast their aid for trade and to join it in drawing up, by the end of the year, ‘European aid-fortrade packages’ and in setting up regional funds to support the EPAs and regional integration processes where the ACP regions concerned so desire”.

1. The EU Aid effectiveness roadmap to Accra

A key element in this year’s EC Spring development finance package is the “EU’s Aid effectiveness roadmap to Accra and beyond: from rhetoric to action, hastening the pace of reforms”. The title of the document echoes calls on aid effectiveness at last week’s OECD DAC meeting in Paris where one developing country representative for “no more nice words, what we want to see it is action”. Indeed the EC argues that the next six months are “critical for development” and “it is time to quicken the pace of reform”.

¹ This briefing does not analyse the two documents, *Policy Coherence for Development Climate Change/Energy/Biofuels, Migration and Research* or *Aid for Trade monitoring report 2008*. Other civil society groups are better-placed to do so. Once they become available Eurodad will link from here to allies who assess these.

The package carries a clear and fairly balanced analysis, with many useful figures and comments which advocates can use to press their governments to move forward on this important agenda. An example: the EC estimates that “completely untying aid could result in an estimated €6.5 billion increase in ‘value for money’”. The overall assessment in the EC’s Citizen Summary of the spring communications package is stark, “the Commission concludes that fundamental principles of Aid Effectiveness are not yet being respected”.

Strong EU input required for action in Accra

The paper importantly stresses the need for an **ambitious, forward looking agenda** at the High Level Forum in Accra in September which does not just measure the state of play, but makes commitments beyond it. The EC rightly states that the EU should be playing a leadership role in improving aid quality worldwide. The EU played an important role in agreeing the Paris Declaration in the first place. If we are to see meaningful action in Accra, the EU again needs to lead the way with strong commitments moving forwards. The EU has produced a one-page “(Joint) Input” which frames its ambition for Accra. This input is published in the package (Annex 1).

The paper recognises that donors are operating in very diverse situations; nonetheless this should not be an excuse for any country to get left behind. The call for EU member states to act fast is somewhat tempered by the recognition that change takes time.

Transparency

Transparency about aid is raised in a couple of places, but there is no strong recommendation for real improvements in this area as CSOs have been demanding. The document says for instance that there are “challenges, lessons and bottlenecks that we must address in a candid and transparent manner”. A short section about parliaments highlights that their ability to scrutinise government development policies is often undermined by “sizeable inaccuracies in the budget estimates of aid flows from donor governments”. The report recommends that “donors and partners need to work together to ensure that budget estimates are more realistic”. It stops short of explicitly calling for improved transparency and disaggregating of information.

Progress and pitfalls

The EC’s chosen key issues it lays out under a section entitled “drivers of progress” echo some of the **six key priorities** as [set out by developing countries](#), namely division of labour, predictability, untying, and to a lesser degree conditionality. They also include “enhanced use of country systems” and “situations of fragility” in their list.

- More **predictable** aid is one area which seems least controversial amongst donors in theory. The EC has a positive initiative – the MDG contracts. These new instruments are to be rolled out in countries that are deemed to be “strong performers”, providing budget support over six years, with disbursement of money linked to mid-term progress reviews. This is in contrast to current budget support agreements where “annual application of conditionality measures [impose] a significant and costly degree of unpredictability”. The MDG contracts require the support of EU Member States – and ideally other multilaterals – if their potential is to be realised. Elsewhere in its report the EC features complaints by parliamentarians that “Donors and partners need to work together, to ensure that budget estimates are more realistic”.
- **Enhanced use of country systems** is an area where the EC itself already performs well, given the high percentage of EC aid spent as budget support. According to the report, “general and sector budget support has reached the unprecedented level of 45.6% of the new national programme of the 10th EDF” against a target of 50%.
- **More results, less conditionality** – The messages on conditionality are mixed. It is positive that the EC is calling for a drastic reduction in the number of conditionalities. At the same time, however, the paper confuses the issue by suggesting that conditionality can “strike a balance between maximising partners’ policy ownership and their accountability to domestic tax payers.” Conditionality cannot bring about ownership, and it goes against accountability to citizens. It is very worrying that the EC is not taking a stronger position on reducing policy conditionality. Europe cannot continue to dictate policy in developing countries from European capitals.
- **Untying aid.** The EC estimates that “completely untying aid could result in an estimated €6.5 billion increase in ‘value for money’”. 11 EU Member States have completely untied their aid, as per the current definition. This however does not include crucial elements such as food aid and technical assistance. The EC is supportive of calls for extending the DAC recommendation to all HIPC countries, and, more vaguely supports “further untying” on technical assistance, food aid and food transport aid. The Paris monitoring survey showed that only Ireland, Luxembourg, Sweden and the UK had reached the Paris target by 2005.
- **Division of labour** - the EC’s flagship project in the aid effectiveness agenda – gets the most attention. The Commission recognises that there is some resistance to the EC’s Code of Conduct in developing countries, partly because of concerns that it will be a donor-imposed carve up of who pays for what, where. This agenda has been thwarted by insufficient commitment to this voluntary code by Member states. Implementation instruments such as silent partnerships, delegated cooperation, or co-financing

are little used. The section sums up: "too many EU donors are still present in too many countries, with too many projects with limited impact". France, Sweden, the Netherlands and UK are praised for reducing the numbers of countries where they operate, and Denmark receives plaudits for concentrating its sector presence.

- **Joint programming** – a related issue – is said to show "mixed results". "While the push for joint analysis and multi-annual planning is moving forward, the use of the EU Common Framework for Country Strategy Papers (CFCSP) has been limited to only three real cases (i.e. Somalia, Sierra Leone, and South Africa)". Beyond that the Commission highlights, however, that the EU has made "a fundamental contribution" to the development of half a dozen donor-wide joint assistance strategies. But this is still very little to report. Difficulties include multiple procedures and poor communications. A further, interesting, tension is that between "EU and donor-wide harmonisation processes (in particular the Joint Assistance Strategy)".

Progress on EU commitments to date

In addition to the Paris commitments, the EU committed to four additional EU targets in the Council conclusions in 2005. These are:

- to channel 50% of government – to government assistance through country systems
- to provide all capacity-building assistance through coordinated programmes
- to avoid setting up any new project implementation units
- to reduce the number of uncoordinated missions by 50%
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At present, it looks like the EU collectively is well on track to meeting the first and last of these commitments, but they are miles off the mark their Project Implementation Unit (PIU) target (Currently there are 204 PIUs, with a target of 64 and no new ones) and a long way from meeting their target of technical assistance (currently only at 35%)

New frontiers

The report includes a section on "new frontiers" for development cooperation. This recognises the challenge for the EU to incorporate the twelve newer member states that joined the EU after the Paris Declaration was signed. To date, four of these countries – Czech Republic, Hungary, Poland and the Slovak Republic – have formally adhered to the Paris Declaration. The remainder have committed to the principles as part of their accession to the EU.

Vertical funds and regional cooperation (e.g. municipality to municipality) are another two areas briefly covered. The paper calls for a cautious approach to vertical funds and warns against problems of proliferation and fragmentation.² In the case of the latter a few positive examples are highlighted, but the section is primarily descriptive. Given that presumably similar challenges of duplication or siloing could arise from this kind of decentralised cooperation, more analysis on the lessons and challenges would be useful.

Moving forwards

It is critical for development that the EU makes joint strong commitments on the key issues it has outlined. The report prides itself that "since 2005, the new EU donors have all committed to the principles of the PD through the European Consensus and that the Czech Republic, Hungary, Poland and the Slovak Republic have formally acceded to the Paris Declaration".

Nearly all EU Member States are supportive of further progress on untangling aid. The one or two detractors must realise that their foot-dragging means delivery of poor value for money aid to developing countries. It is not an excuse for EU countries to hide behind lack of progress from across the Atlantic. And without an explicit commitment to reducing conditionality, developing country demands will have gone unheard.

The key principles of ownership and accountability are the bedrock of the Paris Declaration. These need to be upheld. The success or failure of Accra falls at the feet of the donors. The EU should lead the way with a strong position and with Ministerial representation at the High Level Forum itself.

² Eurodad is planning a seminar on vertical funds in June 2008 to be followed by a publication analysing the challenges of vertical funds and aid effectiveness. We welcome and recent analysis on this issue. Please send any inputs to lhayes [at] eurodad.org

2. Financing for Development - the European Union's contribution to Doha and beyond

On development aid the Commission praises the European Union for “shoulder[ing] the lion's share of global aid commitments and of pledges to Africa”, and for being “at the forefront of the international Financing for Development process and the aid effectiveness agenda”.

However it summarises the disappointing ODA figures released by the OECD DAC last week. “EU aid decreased from €47.7 billion in 2006 (corresponding to 0.41% of the EU's collective Gross National Income (GNI)) in 2006 to €46 billion in 2007 (equivalent to 0.38% in 2007). While the 15 EU countries, which had pledged to achieve together, by 2006, a minimum of 0.39% by 2006, remained above that level (0.40%), the overall collective EU result is below that collective target”. This is explained as a result of slow progress by Greece, Italy and Portugal, a fall-off in debt cancellation treatments by the UK and France, and by the entry into the EU of Romania and Bulgaria “with relatively big economies and very low ODA levels”. Spain and Germany, on the other hand, are praised for their scaling up.

Aid to Africa is shown to be on the increase even when debt relief grants are stripped out. The document summarises the situation in a contradictory manner. The slip in EU aid is considered “transitory” yet “current aid estimates indicate that the collective EU target of 0.56% ODA/GNI by 2010 agreed by the Council in 2005 may not be met”. The Commission therefore calls for the “reinvigoration of the EU efforts to ensure increasing aid levels again as of 2008”. Eight countries have agreed year on year timetables for aid increases while a further 5 have national political processes under way. The failure of EU countries to move in a linear fashion to implement the agreed 2010 and 2015 targets has already deprived developing countries of €5 billion in ODA and may altogether lose them €17 billion by 2010.

The document also reviews progress on **innovative finance mechanisms** such as the airline ticket tax, the International Drug Purchasing Facility (UNITAID), the International Finance Facility (IFF), as well as a particular focus on climate change-related funding. The Commission concludes that tests of additionality, transactions costs and effectiveness are needed for such instruments.

On Debt, the EC communication falls very short of the CSO demands and expectations that have been largely circulated internationally. The debate on odious and illegitimate debt has further been developed with the publication of papers on the topic by UNCTAD and the World Bank. The recognition of odious and illegitimate debt is not noted by the EC, and the principles of responsible finance.

We welcome the fact the communication recommends that “the EU should act to prevent litigation by aggressive debt distressed funds”, namely vulture funds. CSOs have clearly expressed concerns that the predatory action of vulture funds is directly linked to the absence of an independent, fair and transparent debt resolution process. The EU should support such an instrument.

The EC rightly points out “the **high cost of clearing protracted arrears to multilateral organisations of countries** eligible for the HIPC initiative” as seen in Liberia in recent years. The EC finds that “while some action is being taken in this regard in the relevant institutions (IMF, World Bank; African Development Bank), some ACP countries face a similar situation for loans provided under earlier European Development Funds.” It says that EU Member States seem positive to find some solution for this problem, and recommends that “the European Investment Bank (EIB) should be asked to propose mechanisms to deal with the arrears owed to it. The Commission and the Council need to explore ways of minimising the cost of EDF arrears-clearance in the context of the HIPC initiative”.

On Debt sustainability, the Monterrey Consensus urges that “future reviews of debt sustainability should also bear in mind the impact of debt relief on progress towards the achievement of development goals contained in the Millennium Declaration.” But the EU communication does not consider this largely acknowledged proposal to make debt sustainability dependent on the ability to achieve the MDGs.

Furthermore, while the Monterrey Consensus states that debtors and creditors must share their responsibilities in resolving debt problems, the EU communication only reflects strong support for responsible lending practices among non-Paris Club and commercial creditors. On a more general basis, the communications calls on member states to apply the Debt Sustainability framework, which is a voluntary set of recommendations for creditors. It is time for a bold, new approach. Responsible lending will only be achieved via the adoption of a binding legal framework that fairly allocates the burden of irresponsible borrowing on both creditors and debtors. It would take account of both the origin and impact of the debts, and give equal treatment to both debtors and creditors. Such a framework could assume the form of an impartial and transparent process for resolving debt crises and disputes. It would also be more in line with the Monterrey Consensus' call for “a set of clear principles for the management and resolution of financial crises that provides for fair burden-sharing between public and private creditors and

between debtors, creditors and investors.”

As a step towards this goal, we encourage careful consideration of the [Charter on Responsible Financing](#), developed by Eurodad, which outlines the essential components of a responsible loan.

On domestic resource mobilisation, despite recent concerns on capital flight raised at the European level by the Liechtenstein scandal, the EC has said nothing. While the Monterrey Consensus demands the strengthening of tax cooperation and reduction of capital flight no mention is made by the EU on this issue. Automatic exchange of tax information between governments would help curb illicit or inequitable transfers of funds that undermine developing countries ability to mobilise domestic resources. Tax havens, many of which are European territories, should be dramatically reformed or closed completely. Estimates show that from \$500billion to \$800billion fly illicitly every year from developing countries, far more than global ODA figures, and much are channelled through tax havens. The EU should ensure that the fight against the illicit cross border flows are part of the Doha commitments in order to both strengthen domestic resources mobilisation and foster financial stability.

On Systemic issues, Eurodad supports the many experts who are concerned that financial regulation needs to be overhauled to benefit citizens in both developed and developing countries. The Monterrey consensus calls for global economic governance and for the strengthening of global financial stability. The European Council stated after the spring summit *“authorities in the EU should take regulatory and supervisory actions (...) [that] should focus on enhancing transparency for investors, markets and regulators, improving valuation standards, reinforcing the Union’s prudential framework and risk management in the financial sector and improving market functioning and incentive structures, including the role of credit rate agencies”*³ But these commitments are completely absent from the EU communication, as if they did not concern developing countries. Nevertheless, estimates show that financial crises have made developing countries lose around 25% of their GDP in the last 25 years. It is undeniable that this issue has huge development implications. This is why the EU must acknowledge this issue and its implications on developing countries on the road to Doha.

On International Financial Institution governance the EC finds that:

- A large majority of Member States (22) that together represent 25.92% of total votes in IDA would favour an increase of the basic vote.
- There is also strong support (14 Member States) for the option to open the posts of the World Bank President and IMF Managing Director to all countries.
- 11 EU countries would also consider a selective capital increase for developing countries.
- Increasing the Board size to create a third seat for African countries and introducing double majorities for strategic decisions are options that seven EU countries would also think about.

The Commission considers that capping the number of countries per constituency and establishing a third seat for African countries would be the best short-term option.

A majority of Member States indicated to the Commission that they are positive about the increasing EU coordination in these institutions. They feel there is room for more coordination on long-term strategic issues. The Commission detects “a notable shift in favour of a single EU seat although this remains, at present, a minority opinion”.

A further proposal that will be of interest to organisations tracking the IFIs is on climate change. It states “the Commission is convinced that climate policies in partner countries cannot be financed only with official development assistance and, in consultation with the World Bank, is studying the idea of a world loan drawing on the resources raised by auctioning emission rights on a future carbon market. A lot is at stake. The only solution is to act collectively.”

For in-depth briefings on the issues mentioned here, see: www.eurodad.org
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³ http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/99410.pdf

