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**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE
EUROPEAN PARLIAMENT**

**Translating the Monterrey Consensus into practice:
the contribution by the European Union**

{SEC(2004)246}

EXECUTIVE SUMMARY

The Monterrey Consensus, adopted by the International Conference on Financing for Development (FfD) in Mexico, 18-22 March 2002, reflected a number of critical commitments *"to address the challenges of financing for development around the world, particularly in developing countries."* The European Union, which as a collective is responsible for more than 50 % of the worldwide Official Development Assistance (ODA), is a key partner in the FfD process. The Union defined its contribution to the FfD process in eight explicit commitments, adopted at the European Council in Barcelona on 14 March 2002.

In this monitoring report for 2004, the Commission updates its analyses of the state of play in the implementation of the Barcelona Commitments and makes recommendations for further action in certain fields. For the first time, the contribution by the future Member States that will join the Union on 1 May 2004 is also covered. The report shows that the Union remains firmly engaged in the FfD process and is on track for meeting its 2006 targets for increase in the volume of Official Development Assistance (as a share of GNI). Some Member States, which have not yet met the UN target of 0.7% ODA/GNI, have chartered new steps and set a timetable for reaching this goal.

A number of concrete measures have also been taken to meet the commitments which focus on aid untying and debt relief. The progress on Global Public Goods, trade related assistance and innovative sources of financing is also promising, although the initiatives in these fields are being carried forward by individual Member States (and others) rather than by the Union as a whole. The Commission believes that no major further initiatives on Community level need to be taken in relation to these commitments during 2004, and that the focus should be on finalising and reaching conclusions on the various ongoing activities.

In contrast, few concrete steps forward have been taken to achieve closer co-ordination of policies and harmonisation of procedures (Commitment II). This is striking since the conclusions of the Barcelona Summit request that concrete steps should be taken before 2004. This Communication is therefore focused on proposals for further, concrete steps in this field, such as

- Closer coordination between EU donors in the field of development policy, which should inform the Member State's own aid systems as well as the Union's joint position in the international aid debate;
- Closer coordination of multiannual programming and analytic work;
- The establishment of a common framework for aid implementation procedures, which could take the form of a Directive.
- The establishment of a local EU Action Plan for coordination and harmonisation in any partner country where two or more EU donors have a cooperation programme.

1. BACKGROUND: THE MONTERREY CONSENSUS AND THE CONTRIBUTION BY THE EUROPEAN UNION

The Monterrey Consensus, adopted by the International Conference on Financing for Development (FfD) in Mexico, 18-22 March 2002, reflected a number of critical commitments *"to address the challenges of financing for development around the world, particularly in developing countries."* The Monterrey approach is comprehensive, emphasising that trade, finance and development are closely interrelated. It is therefore an important framework to guide the international community's common efforts at the national, regional, international and systemic levels and an important platform for achieving the Millennium Development Goals (MDG).

The European Union, which as a collective is responsible for more than 50 % of the worldwide Official Development Assistance (ODA), is a key partner in the FfD process. Acting collectively at Monterrey, the Union contributed significantly to the overall positive outcome of the Conference. The Union defined its contribution to the FfD process at the European Council in Barcelona on 14 March 2002, and pledged to

- Examine the means and timeframe for each EU Member State to reach the UN target of 0.7% ODA of Gross National Income (GNI), with an intermediary target of 0.39% by 2006, by which year the Member States should reach the target of at least 0.33% of GNI individually;
- Improve aid effectiveness through closer coordination and harmonisation, and take concrete steps to this effect before 2004;
- Take measures with regard to untying of aid to Least Developed Countries (LDC);
- Increase its Trade Related Assistance (TRA);
- Support the identification of relevant Global Public Goods (GPG);
- Support reforms of the International Financial Systems and strengthen the voice of developing countries in international economic decision-making; and
- Pursue the efforts to restore debt sustainability in the context of the enhanced Heavily Indebted Poor Countries (HIPC) initiative.

The events in the world since 2002 have further underlined the need for the Monterrey consensus to be fully implemented as soon as possible. It is therefore important to monitor the extent to which donors and recipient countries alike respect their commitments. In this context, the Union has an opportunity to demonstrate its sustained commitment to common solutions for global challenges by staying on track and delivering on its promises.

The Commission is mandated to report annually on the extent to which the EU Member States and the Commission implement the Barcelona Commitments and contribute to the FfD process¹ and to propose corrective measures wherever sufficient progress is not demonstrated. The monitoring exercise is a good opportunity for collective benchmarking and ensures transparency on the action taken by the Union. The first report of this kind was approved by the General Affairs and External Relations Council (GAERC) in May 2003, and demonstrated that the EU and its Member States had made a good start in their efforts to meet the Barcelona commitments, in particular on the pledges concerning increase in EU ODA.² The report formed the basis for a positive and constructive EU input to the first High Level Dialogue on FfD (in the context of the UN General Assembly) in October 2003.

In this monitoring report for 2004, the Commission updates its analyses of the state of play in the implementation of the Barcelona Commitments and makes recommendations for further action in certain fields. For the first time, the contribution by the future Member States that will join the Union on 1 May 2004 is also covered. The considerable and laudable efforts, which the future Member States have made to shoulder the '*acquis communautaire*' in the field of development policy and in relation to the Barcelona commitments, should be especially noted.

A detailed description of the state of play in the implementation of the eight Commitments is set out in Annex 1³ to this Communication. It shows that the Union remains firmly engaged in the FfD process. The Union is on track for meeting its 2006 targets for increase in the volume of ODA (as a share of GNI). Some Member States, which have not yet met the UN target of 0.7% ODA/GNI, have chartered new steps and set a timetable for reaching this goal.

A number of concrete measures have also been taken to meet the commitments in relation to aid untying and debt relief. The progress on Global Public Goods, trade related assistance and innovative sources of financing is also promising, although the initiatives in these fields are being carried forward by individual Member States (and others) rather than by the Union as a whole. The Commission believes that no major further initiatives on Community level need to be taken in relation to these commitments during 2004, and that the focus should be on finalising and reaching conclusions on the various ongoing activities.

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¹ Conclusions adopted by the General Affairs and External Relations Councils in November 2002 and May 2003 respectively

² Commission Staff Working Document "*Follow-up to the International Conference on Financing for Development Monterrey - 2002*" - *Monitoring the Barcelona Commitments*"; reference SEC (2003)569, 15 May 2003. See Council Conclusions of the General Affairs and External Relations Council of 20 May 2003, document 9379/03(Presse 138) p. 20

³ SEC(2004)246

2. THE COMMITMENT TO INCREASE FINANCIAL RESOURCES FOR ODA

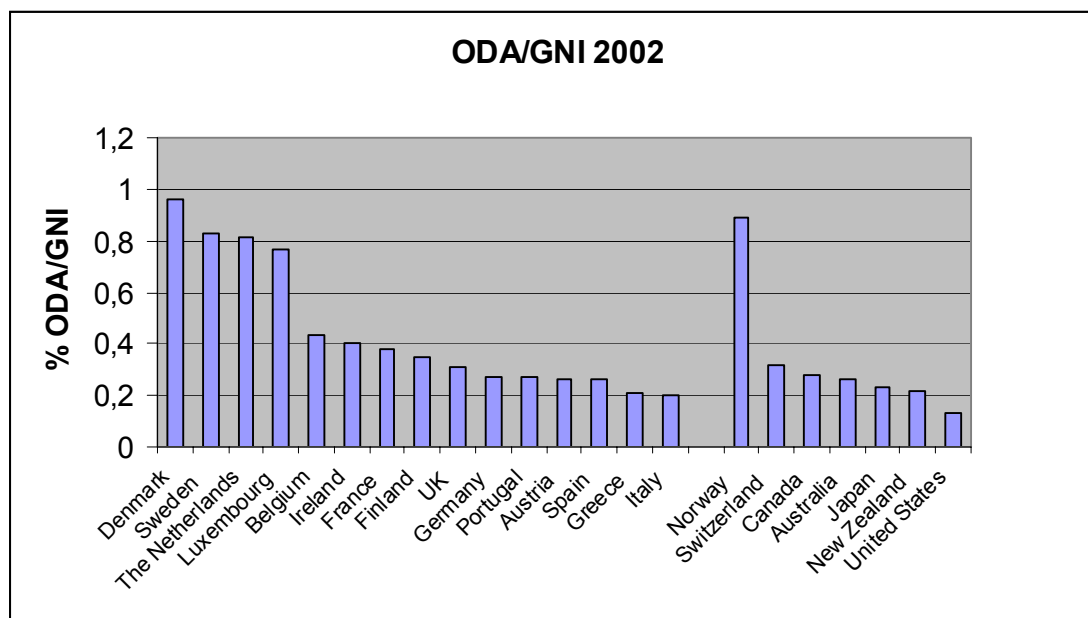
The Barcelona conclusion reiterates the commitment by each Member State to generate sufficient financial resources to achieve the MDGs and, in this context, to reach the UN goal of 0.7% ODA/GNI. The Member States that had not yet reached the 0.7% target committed themselves – as a first significant step – to increase their ODA volume within their respective budget allocation processes to at least 0.33% of GNI by 2006. This individual commitment was coupled with a collective commitment to reach an EU average of 0.39% ODA/GNI by 2006.

The implementation of the commitment on ODA is well on track. In spite of a difficult budgetary situation in many Member States, the EU countries increased their ODA in 2002 by 5.8% in real terms compared to 2001, and provided 0.35 % of their collective GNI (see Annex 1, Table 1).⁴ This was beyond the forecast that Member States made last year and that amounted to an ODA/GNI ratio of 0.34 %.

ODA rose significantly in Sweden, France, Greece and Italy compared to 2001, and also increased in Belgium, Finland and Portugal, while it decreased in Austria, Denmark, the Netherlands, Spain and the United Kingdom. ODA fell markedly in Austria (by -8.4 %) and Spain (by -10.3%) compared to their 2001 levels, which had been boosted by exceptional debt relief operations.

The EU average ODA/GNI ratio remains above the effort of most other OECD countries, except Norway:

Diagram 1: ODA/GNI contributions in 2002: The EU compared to other DAC Members



Data source: OECD/DAC statistics on Net Official Development Assistance in 2002, published on 27 January 2004

⁴ It should be noted that the Member States' contribution to Community aid (via the EU budget and the European Development Fund) are included in these statistics. The total volume of resources channelled via the EC in 2002 was 6 561 M US\$.

- The United States increased its ODA by 15% in real terms in 2002 to \$13.2 billion, representing 0.13% of its GNI. This increase was mainly due to additional and emergency funds in response to the 11 September 2001 terrorist attacks as well as new aid initiatives, especially in relation to health and humanitarian aid.
- Japan remained at the level of 0.23% of GNI, while Canada and Norway made considerable increases; by 0.06 and 0.09 percentage points of GNI respectively.
- The ODA contribution of GNI by Switzerland and New Zealand fell with 0.02 and 0.03 percentage points respectively from 2001 to 2002.

2.1. The roadmap to 2006 and beyond

Assuming that current trends continue, the Commission estimates that in 2006 all of the current Member States will have reached or exceeded the individual target of 0.33% ODA/GNI. The projected collective ODA/GNI ratio of the current Member States in 2006 is 0.43 (see Annex 1, table 2).

Some Member States (Greece, France and Italy) have increased the pledges for one or several intermittent years while Austria, Belgium and Luxembourg have revised their annual pledges slightly downwards. Belgium has, however, also committed itself to attaining the UN target of 0.7% ODA/GNI by 2010, and Austria remains committed to the individual target of 0.33% by 2006. Luxemburg remains well above the UN target of 0.7% for the whole period.

Ireland and France have also made firm commitments for which year the UN ODA target of 0.7% of GNI should be reached (Ireland by 2007 and France by 2012). Finland has extended its perspective to 0.44 % by 2007. Denmark will gradually reduce its assistance year-by-year, but will remain above 0.8 % of GNI.

The data available for acceding countries, which will join the Union on 1 May 2004, indicate that they provided 0.03% of their collective GNI in ODA in 2002.⁵ This may appear far off the targets for ODA/GNI ratios as set by the Barcelona commitments. It must however be kept in mind that the acceding countries face special constraints and most have a GNI per capita which puts them in the Part II of the OECD/DAC classification. All acceding states have nevertheless started to make the transition to becoming donors and shoulder the part of the '*acquis communautaire*' relating to development policy, including the Barcelona Commitments. The progress during 2002 in defining the policy frameworks for foreign aid and creating the institutional framework for the implementation is promising. The work the Commission currently undertakes with those countries indicates a promising readiness to engage in a process of policy development and setting up of an institutional framework.

Initially, most of the ODA from the acceding countries will be provided through the contributions to the EC (via the EU budget and the European Development Fund) and their contribution to multilateral institutions. The transition to also providing additional bilateral aid will be gradual and differentiated, and will depend on the

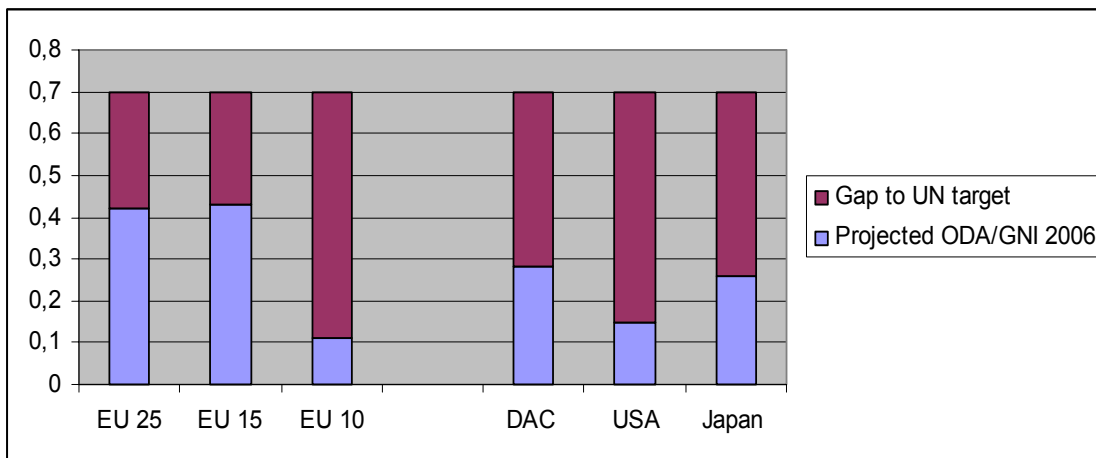
⁵ "The Consequences of Enlargement for Development Policy", prepared for the European Commission by Development Strategies, IDC, 31 August 2003. See pp 58-60. The study is available on the Internet, http://europa.eu.int/comm/development/body/organisation/assess_enlarg_en.htm

starting point of each of the countries concerned. The Czech Republic aims to reach a total of 0.13 % and the Slovak Republic 0.16 % ODA/GNI by 2006; which are notable increases from the levels provided in 2002. The 2006 ODA/GNI target for Lithuania is 0.08-0.1; also that a significant increase from an estimated ratio of 0.025 in 2003.

Accession countries other than those mentioned above have not been in a position to make firm projections for the provision of ODA. A study carried out in 2003 however suggests that some of them (notably Slovenia, Cyprus and Malta) could have the possibility of progressing rather faster and could reach 0.15% ODA/GNI rates by 2006, while others (e.g. Poland, Hungary and the Baltic countries) could reach 0.1% ODA/GNI in the same period, with some increase in their non-EC budgets.⁶ Calculations on the basis of these data suggest that the ten accession countries would increase the ODA contribution from 0.03% of their collective GNI in 2002 to 0.11% in 2006. This would represent more than tripling the nominal amount (from €107 million to a projected €389 million).

If the assumptions outlined above hold true, the EU as a whole will provide 0.42 % of its collective GNI in ODA by 2006, or €38.5 billion. Thus, the Union would actually exceed the Barcelona targets, in spite of the changing landscape for development policy due to the 2004 enlargement. In comparison, the OECD/DAC estimates that the DAC average will be 0.28 ODA/GNI (see diagram 2).⁷

Diagram 2: Projected ODA/GNI in 2006: The EU compared to the DAC average, US and Japan, including the gap to the UN target of 0.7 ODA/GNI



Against this background, the Commission invites the Member States to maintain or increase the annual ODA pledges for the period up to 2006, in order to safeguard the progress the EU is making to deliver on its commitments made at the Monterrey conference. It is particularly important that current Member States honour their pledges in order to not jeopardise the collective target for 2006 after enlargement.

⁶ Idem, pp. 58-60.

⁷ Source: Statement by Mr Manning, Chairman OECD/DAC, at the World Bank Development Committee, Dubai 22 September 2003

In addition, the Commission invites the Member States that have not yet attained the UN benchmark of 0.7% ODA/GNI, or yet committed themselves to a year by which this target should be reached, to examine their timeframe for increasing their ODA provision over the next few years.

3. COMMITMENT II: COORDINATION OF POLICIES AND HARMONISATION OF PROCEDURES

At the Barcelona Council, the EU Member States agreed to take concrete steps to coordinate aid policies and harmonise implementation procedures before 2004 in order to improve aid effectiveness. This commitment was reiterated in the EU input, presented by the Greek Presidency, at the High Level Forum on harmonisation in Rome, February 2003. Unfortunately, the Commission notes that the results in terms of coordination and complementarity fall short of the objectives. This Communication is therefore focused on proposals for further, concrete steps. Coordination should become a political reflex, making the Union an efficient partner to the partner countries and to other stakeholders in the international donor community. This would contribute significantly to the continued success of the FfD process and be a crucial contribution to the operationalisation of the Monterrey consensus.

3.1. The objective to achieve coordination and complementarity: 30 years of good intentions

The political commitment to achieve closer coordination and complementarity between bilateral and Community aid was by no means invented at the European Council in Barcelona. The Barcelona Commitment should be seen in the light of Treaty obligations, which have existed since the Maastricht Treaty from 1992. In addition, numerous Council Conclusions, Resolutions and Guidelines, the first of which dates back as far as 1974, address the importance of the so-called 'Three Cs' (see Box 1).

Box 1: Examples of Council Conclusions, Resolutions and Guidelines and other key events relating to coordination and complementarity between Community and bilateral aid

- July 1974: Council Resolution on Harmonisation and coordination of the cooperation procedures of Member States
- November 1976: Council resolution on coordination
- June 1984: Council Resolution on coordination of cooperation procedures of within the Community.
- 1986: Council resolution on coordination.
- November 1992: Council declaration on “Horizon 2000” includes references to the importance of coordination and harmonization.
- May 1993: Council resolution on coordination of aid policies
- December 1993: Council resolution on operational coordination, including the decision to try closer operational coordination on a pilot basis in 6 countries (Bangladesh, Costa Rica, Ivory Coast, Ethiopia, Mozambique, Peru).
- October 1994: The pilot exercise is launched
- June 1995: Council Resolution on Complementarity between development policies and actions of the Union and those of Member States.
- December 1995: Commission reports on the results of the initiatives in the 6 pilot countries (COM(95)700).
- 1996: Council conclusions on operational coordination
- June 1997: Council conclusions on operational coordination
- March 1998: the Council adopts operational ‘Guidelines for strengthening the operational coordination between the Community and the Member States in the field of Development Cooperation’.
- September 1998: EU DGs meeting discusses ways to improve on operational coordination
- May 2000: Council conclusions on Operational Coordination between the Community and Member States, on the basis of a Commission report on the implementation of the 1998 Guidelines.
- October 2000 / General Affairs Council adopts Conclusions on the Effectiveness on the Union’s External Action, and calls on the Commission and the Member States to achieve reinforced coordination and complementarity
- November 2000: adoption of the Development Policy Statement, which refers to coordination and complementarity (paragraphs 29 to 39) , and the Common Framework for Country Strategy Papers, which was presented as a main tool for coordination and complementarity
- May 2001: The Council adopts reinforced guidelines for operational coordination, applicable to all countries and regions that receive Community assistance.
- March 2002: Foreign Ministers at the European Council in Barcelona adopts conclusions “to take concrete steps on co-ordination of policies and harmonisation of procedures before 2004, both at EC and Member States level, in line with internationally agreed best practices including by implementing recommendations from the OECD Development Assistance Committee Task Force on donor practice” Closer EU coordination initiated in four focal countries (Vietnam, Mozambique, Morocco, Nicaragua).
- 17 November 2003: The Council adopts conclusions on the Annual Report on EC aid in 2002, and emphasises the need for closer local coordination between the Commission and the Member States (see paragraph 8).

The reasons for strengthening coordination, as well as the approach to be adopted, have in principle remained the same since 1974. Co-ordination of Community and bilateral aid policies and programmes will help reducing the transaction costs for recipient countries and achieve better efficiency and impact of EU aid. By virtue of its position as the world’s largest donor by far in financial terms, the Union should exercise leadership in the global aid process. The importance of coordination of aid policies for better policy coherence, and for the emerging European identity in the External Action of the Union, has also often been emphasised. The coordination process should be pragmatic, should take place in the partner country as far as possible and should focus on systematic information sharing in order to identify opportunities for complementarity between Community and bilateral aid. Systems for co-financing on the basis of harmonised procedures should be sought in order to reduce the transaction costs for partner countries and finally, common sector policies should be defined in order to inform and facilitate the policy dialogue with the partner country.

A number of ad hoc initiatives have certainly been taken over the last decade to operationalise the Council’s decisions. Status reports generally point to improvements in the exchange of information between the Commission and Member States, in particular on the field level, and numerous formal and informal discussions with the Member States and the Commission have been held on this question.

Closer EU coordination has been tested twice on a pilot basis in a limited group of countries. The first trial was undertaken in 1994/95 and covered a sample of countries. In 1995, the Commission proposed to extend and generalise the lessons learned from the pilot cases.⁸ This led to the establishment in 1998 of guidelines on operational coordination, which were completed in 2001 after a second round of field assessments. These Guidelines⁹ were very comprehensive and for example covered instructions to engage in close coordination at all levels of aid implementation but with particular attention to the multi-annual programming process, leading to joint programmes and joint analysis. The Guidelines were applicable to all countries that receive EU assistance but unfortunately appear not to have been duly disseminated and implemented.

In order to stimulate further action, the Member States agreed to take new initiatives in Vietnam, Mozambique, Nicaragua and Morocco in 2002. The first field status report showed promising results. This collective process starts to show interesting outcomes in the four countries. A comprehensive model for budget and sector support has been developed in Mozambique and interesting tests for the definition of sector leadership amongst the donors are taking place in Morocco. In Vietnam, a local EU Action Plan for coordination was established in May 2003 while in Nicaragua, the EU has chosen to push coordination and harmonisation under the Government leadership as a case for ownership. On the level of interaction between headquarter offices, an increasing amount of analytic/diagnostic work within particular sectors is undertaken jointly by groups of EU donors and in many sectors, the Commission is coordinating networks of experts, that have drafted Guidelines and other tools. The Community's Country Strategy Process and the creation of Country Fact Files¹⁰ over the last few years, have been good opportunities for closer alignment of programmes and exchange of information.

But in spite of these encouraging elements of progress, the results unfortunately fall far short of the ambitious objectives the Union has set for itself. The survey carried out to prepare this Communication, shows that the coordination within the Union is not structured, nor is it systematic or generalised throughout the partner countries in which several EU partners are present (see Annex 1 for detailed results). The efforts undertaken have not resulted in the desired complementarity and division of labour according to comparative advantages. The Commission finds it disappointing that the survey also reveals that many Member States remain reluctant to move from words to action, and do not show readiness act on the letter and spirit of the Union's obligations to coordinate more closely. In fact, some appear to back-pedal on the

⁸ COM(1995)700

⁹ Contained in Council Document 5431/01 DEVGEN 12/RELEX 9, 18 January 2001

¹⁰ Country Fact Files are a new instrument designed to contribute to the improvement of the coordination, coherence and complementarity of the European Union's external actions. They are a response to a specific request from Foreign Ministers in the GAERC who, in December 2002, discussed and agreed a CFF format. Country Fact Files include basic economic and social indicators as well as data covering Community actions and those of the Member States. In addition they offer brief political and economic assessments of the country, an overview of any disputes between the country and the EU, a summary of the Community's development cooperation strategy, information about all agreements with the EU/EC, and the essentials of Community policy. They include contact details for the Commission Delegation and Member States' Embassies. The CFFs focus on developing countries where coherence between development cooperation activities and other EU policies is of great importance.

Barcelona Commitment by calling into question the added value and role of EU coordination:

- A majority of Member States are not willing to start using the Communications on various matters of development policy, which have been approved by the Council, as reference documents for bilateral assistance;
- Several important tools and frameworks, such as the Common Framework for Country Strategy Papers, a set of ten core indicators for measuring results and Guidelines for various sector policies, are not applied by Member States in their bilateral aid programmes, although these tools have been developed together with experts of Member States;
- A majority of Member States are not willing to rationalise the strategic programming exercise by engaging in EU-wide multi-annual programming;
- Only one of the current Member States, along with five of the acceding countries, are prepared to explore the possibility to establish an EU-wide aid implementation procedure.

3.2. The case for EU coordination in the field of development cooperation

The Commission considers that the lack of progress, and apparent lack of political will to move forward, is detrimental to the partner countries, to the Member States and to the Union. An important opportunity for (a) promoting ownership and reducing transaction costs in aid delivery, (b) reinforcing the coherence of the Union's External Action and (c) accommodating the new Member States efficiently in the donor community is being lost. The Union should make full use in the field of development of its experience of and capacity for integration and harmonisation, which has already been demonstrated in various and complex policy areas.

First, the EU Member States and the Community provide more than 50 % of worldwide ODA and make up the biggest donor group in the world. The Union must take its responsibilities, which follow from that position within the donor community. In particular, the Union should consolidate the policies and procedures which govern the implementation of aid from European partners in order to reduce transaction costs for partner countries, which arise from having to deal with implementation procedures of multiple donors. Such measures should be taken in the short term, without waiting for all development partners to progress simultaneously, and without waiting for partner countries to develop sufficiently solid governance systems to substitute for donor procedures. Immediate donor coordination efforts for short term efficiency gains are also all the more critical in the light of the difficulties in translating innovative forms for cooperation into practice, such as the public/private partnerships ("Type II initiatives"), which were given much attention in the Monterrey Consensus and in the World Summit on Sustainable Development.

Secondly, closer coordination would equip the Union to exercise the political leadership, which should follow with its collective financial weight in the donor collective and enable the Union to be a motor in the international aid debate and in international institutions. For example, without effective EU coordination in the FfD Conference, the Union would most likely not have been able to contribute so successfully to the positive outcome. The policy mechanisms and institutional framework for achieving policy alignment and harmonisation of procedures are already in place at the level of the Union. This institutional framework should be fully exploited to foster concrete results, which can subsequently feed into wider coordination processes. Furthermore, the above-mentioned survey shows that a *de facto* development policy consensus is emerging within the Union; centred around the MDG/PRSP process, sector-wide approaches and multi-annual programming leading to the identification of focal sectors for each donor. Thus, there is fertile ground for building a closer policy community on development matters.

Thirdly, the EU's development assistance must form part of a coherent external relations policy, underpinned by effective multilateralism. Although development cooperation is a shared competence between the Union and the Member States, several key external policies are developed and implemented exclusively at the level of the Union. Without coordination of development cooperation policy and programmes within the Union that support and interplay with other external actions, a crucial opportunity for policy coherence towards developing countries, and for strengthening the external identity of the Union in the world, is lost.

Finally, in 2004, the Union has a historic opportunity to prevent further proliferation of policies and procedures among donors as a result of the EU enlargement, which will take place on 1 May 2004. The acceding countries are in a process of setting up bilateral aid programmes in order to meet the requirements of the *acquis communautaire*. The survey shows that a vast majority are ready to engage in closer coordination and harmonisation within the EU and base their aid programmes on a common platform. The accession countries will of course also enrich the existing body of knowledge with their past experiences both as donors and recipients of aid. This window of opportunity should not be ignored.

3.3. The added value of EU coordination and the role of EU coordination within wider coordination processes

The initiatives for stronger EU coordination in the area of development cooperation should naturally be seen in the light of international developments. In particular, the last decade has seen a steady increase in the importance of focusing on partner country ownership of the development process, of sector wide approaches and donor coordination, and of focusing on results and improved aid effectiveness.

The Union and its Member States have played a crucial role in bringing about these shifts in the international aid debate, and the Commission considers that there is no contradiction between deepening EU coordination and engaging in wider donor coordination processes. Dialogue within the EU is and should remain firmly anchored in the international aid effectiveness debate, which takes place primarily within the DAC of the OECD and culminated in the Aid Effectiveness High Level Forum in Rome in February 2003. The Commission fully subscribes to the objective that the donor community as a whole can and should implement the Rome Declaration and make a qualitative leap towards institutionalising and systematising the coordination initiatives across sectors and partner countries. Any EU initiatives therefore need not, and should not, be EU exclusive, but open to all donors sharing the EU's perspective, and any output should feed into the OECD/DAC process.

3.4. Harmonisation among donors as a stepping stone to harmonisation with the partner country's procedures

Many Member States are in favour of harmonising around the partner country's procedures rather than among donors. While the Commission fully subscribes to this ultimate goal, many partner countries' governance systems currently do not satisfy the reporting and monitoring requirements, to which the donors are subject (e.g. vis-à-vis the national Parliaments). The survey also shows that the level of deconcentration to the field for implementation of bilateral aid is comparatively low and many EU donors face legal constraints to use procedures other than their own.

Against this background, the Commission believes that the intention to harmonise around the partner country's procedures should be a long-term goal. In order to reduce transaction costs in the short to medium term, the EU should reduce the number of different procedures applied by EU donors and establish, while taking account of existing regulatory constraints, core "minimal EU implementation requirements". The transaction costs for partner countries would be drastically reduced, while the donors' reporting requirements would be satisfied. The minimal

requirements should serve as a benchmark and be flexible enough to be adapted as soon as the quality standards are met to the partner country's own procedures.

3.5. Complementarity: a missed opportunity

Coordination is a tool to achieve better complementarity among donors, or to put it differently, avoid overcrowding in countries or sectors, which appeal to many donors, and underinvestment in more challenging areas. Complementarity is about the choices that individual donors make and the international aid effectiveness debate has so far not tackled the issue of how to achieve complementarity on a large scale.

The survey shows that there is great scope for complementarity within the Union. All Member States and the Commission have a policy of geographical and/or sectoral concentration. There are currently important overlaps in terms of sector focus and gaps in terms of country coverage in some parts of the world, while only a EU few donors are active in certain more challenging countries and sectors. The Joint Statement on Development Policy by the Member States and the Commission of November 2000 was the first noticeable attempt to define a concrete framework for complementarity. But unfortunately, it was limited to the Commission in terms of identifying the added value of each donor. The Commission considers that potential for a division of labour among the EU donors should be investigated in further detail.

3.6. Proposals for further action

It is time for the Union to break with the habit of re-stating policy goals and commitments and take decisive new steps, on the level of dialogue between Headquarters as well as on local level, to translate its ambitious objectives into action:

(a) On the level of Headquarters-to-Headquarters

- The EU institutions are important fora for exchange of ideas and perspectives on development policy in order to stimulate policy convergence. The debate on sector and/or thematic policies should henceforth be used to develop and solidify joint positions and actions. Such joint positions could take either Community policies or bilateral policies as their starting point. Conclusions which are adopted by Member States should serve as flexible, state-of-the-art frameworks for bilateral action.
- The joint positions in the field of development policy should inform the Member State's own aid systems at both headquarters and field level, as well as the Union's joint position in the international aid debate (such as the OECD/DAC). The EU should have a common position in the next High Level Forum on harmonisation in 2005.
- Sector and thematic guidelines that are discussed in the Expert Groups that have been set up for most major sectors and themes should apply to bilateral assistance as well as to Community aid. Such Guidelines should serve as a common platform for the dialogue with partner countries. The progress in this respect should be assessed before the end of 2005.

- By 2006, all Member States should work on the basis of multi-annual programming, based on the method set out in the Common Framework for Country Strategy Papers. The processes for programming and diagnostic work would thus be compatible within the Union, allowing for work-sharing and identification of focal sectors according to comparative advantages. The EU programming cycles should be harmonised around the national policy framework and budget cycle of each partner country.
- The EU should take initiatives to jointly develop key inputs for the multi-annual programming process, such as analysis of the political situation, macroeconomic and social context, the partner country's policy agenda, the coherence of all EU policies affecting the partner country, the donor matrix and performance indicators. These elements should, once adopted, be used as key inputs for the respective bilateral programming processes for the Member States and for Community aid. The process should take place in the field, be undertaken under the leadership of the partner country wherever possible and be open for participation by other donors that share the EU's policy perspective.
- Before the end of 2005, the Council should start debating a proposal by the Commission for a common framework for aid implementation procedures, which could take the form of a Directive. Such a Directive should be confined to the procedural requirements, which the EU donors place on recipient countries as minimal standards for the implementation of aid by those countries. It would serve as a platform for national implementation procedures and for dialogue on the best way to start using procedures of the partner country itself. Adopting that approach would probably lead to changes in the regulatory environment for the implementation of development aid both of the Member States and the Commission.
- On the basis of a study to be undertaken by the Commission, the key elements of a strategy for complementarity within the EU should be debated by the Member States before the end of 2004. Such a strategy should be operationalised by 2006, in the context of improved coordination of multi-annual programming.

(b) At local level

- The EU should establish an EU Action Plan for coordination and harmonisation in any partner country with where two or more EU donors have a cooperation programme. The main purpose of the Action Plan should be to identify the added value that the EU could bring to coordination processes managed by the government of the partner country, and the respective comparative advantages of the Union partners in the development partnership. The Commission proposes that such Action Plans are developed and agreed between local representations. As a first target, by the end of 2005 such Action Plans should have been approved for all partner countries where the EU contributes 50% or more of total ODA.
- The practice of an annual report on the state of play in EU coordination should be extended to all partner countries.

- The Member States and the Commission should undertake to step up information sharing and to open any donor-wide initiatives for joint analysis and diagnostic work in which they take part to all EU partners present in that country.

The Commission will undertake the relevant assessments in order to appraise the impact of the proposed measures and to quantify the gains already obtained from coordination, in terms of improved reduction of transaction cost for the partner country and aid effectiveness.

4. COMMITMENTS III TO VIII: UNTYING, DEBT RELIEF, TRADE RELATED ASSISTANCE, GLOBAL PUBLIC GOODS, REFORM OF THE INTERNATIONAL FINANCIAL SYSTEM AND DEBT RELIEF

A number of concrete measures have been taken to meet the commitments concerning aid untying and debt relief. The progress on Global Public Goods and innovative sources of financing is also promising, although the initiatives in these fields are the work of individual Member States rather than the Union as a whole.

4.1. Untying of aid

Untying of aid was recognised in Monterrey as one of the significant means of improving the effectiveness of aid. In order to support its added value, the European Union agreed in Barcelona:

- to implement the DAC recommendation on untying of aid to Least Developed Countries,
- to continue discussions in view of further untying bilateral aid, and to consider steps towards further untying of Community aid.

Significant progress has been made by most Member States and EU aid is progressing towards untying. The initiatives as well as the potential for further action with regard to untying are positive and spelled out in detail in Annex 1.

Against this background, the Commission invites the Council to:

- give a general endorsement to the proposals which will be sent by the Commission for a regulation and for a renegotiation of the relevant part of the Cotonou Agreement, which are in line with the conclusions adopted by the General Affairs Council in May 2003 and the European Parliament in September 2003;
- support the ongoing debates at International Level on further untying of aid beyond the DAC Recommendations, with in particular a specific emphasis on Food aid and on the access of recipient countries to donors' aid. In this regards, the ongoing studies by the OECD/DAC and the Commission on the added benefit and impact of further untying is to be encouraged.

4.2. Trade Related Assistance (TRA)

In Barcelona the EU committed itself to increasing assistance for long-term trade-related capacity building, productive capacity and measures addressing supply-side constraints in developing countries, as well as to provide immediate support for trade-related technical

assistance in order to improve the negotiating capacity of developing countries in trade negotiations, including by commitments made at the pledging conference of the World Trade Organisation (WTO) in Geneva in March 2002.

A considerable number of actions have been launched by the EC and Member States in order to meet the commitment. There is, however, a serious concern about the efficiency of the greater activity due to lack of co-ordination among the EU Member States and in the wider donor community. The lack of co-ordination has led to duplication and a generally poor level of complementarity. Most Member States see scope for better co-ordination at EU level, but also highlight the importance of wider donor co-ordination using WTO and OECD instruments such as the OECD Joint Database.

The action programme to improve the delivery of TRA contained in the Communication on Trade and Development (COM(2002)513 final) involves the review of existing mechanisms for EU Member States co-ordination and introduction of the necessary changes. The Commission and the Member States should collaborate closely in the broader frameworks for TRA in OECD and WTO. It would also be advantageous to establish co-ordination for TRA at recipient country level, wherever possible using existing mechanisms such as the Integrated Framework. The Commission also invites the Member States to enhance exchange of information and, as much as possible, co-ordination – including in multilateral frameworks and at the recipient country level.

4.3. Global Public Goods.

In the Council Conclusions on Monterrey and the World Summit on Sustainable Development (WSSD) in Johannesburg, the EU confirmed its commitment to tackling the issue of Global Public Goods (GPGs). Even though its proposal for the establishment of a global, participatory process on GPGs was not taken up in the final outcome documents of either event, an International informal Task Force on GPGs was launched at the WSSD by France and Sweden, in collaboration with the UN Development Programme (UNDP).

The Commission and several EU Member States have actively supported the Task Force during its almost two years of existence. The Task Force aims to clarify and give a practical definition of the concept of GPGs and will analyse how successfully global public goods are currently being provided (e.g aviation safety, ozone restoration, marine pollution management, the combating of HIV/AIDS). It is expected that lessons can be drawn from these experiences on how to approach provision of other priority public goods

The Commission invites the Member States to:

- Agree to gradually open up the current process and to broaden its participation within the EU.
- Instruct the Commission to take a more active role and represent a European perspective within the International Task Force on GPGs.

4.4. Innovative Sources of Financing

In Barcelona, the Member States committed themselves to “further explore innovative sources of financing and taking into account the conclusions of the Commission Globalisation Report”. In 2002, six Member States indicated that they were pursuing such initiatives. Their

effort focused on international taxation mechanisms, public/private partnership and the HIPC initiative for the cancellation of poorest countries' debt.

Eight countries (including both Member States and new Member States) have indicated that they have taken the initiative to further explore innovative source of financing during 2003 and that they will continue being involved in such research in 2004 (see Annex 1).

4.5. Reform of the International Financial System

The Barcelona commitment is to influence the reform of the International Financial System by combating abuses of financial globalisation, strengthening the voice of developing countries in international decision making and, while respecting their respective roles, enhancing the coherence between the UN, International Financial Institutions and the WTO.

In the survey to prepare for this Communication, some Member States expressed interest in pursuing the issue of further EU coordination within the Boards of the World Bank and the IMF (see Annex 1). Generally, Member States expressed greater satisfaction with EU coordination in the IMF Board, in which there exists the formal anchor of the euro, and also because the Economic and Financial Committee (EFC) has established a specific sub-committee (SC IMF) to co-ordinate the EU position on IMF and related issues. Reflections are ongoing with the aim of establishing more formal procedures of co-ordination for World Bank issues.

4.6. Debt relief

The Barcelona commitment is to pursue the EU efforts to restore debt sustainability in the context of the enhanced Heavily Indebted Poor Countries (HIPC) initiative, so that developing countries, and especially the poorest ones, can pursue growth and development unconstrained by unsustainable debt dynamics.

Already by May 2003, all the current Member States of the Union had made the necessary provisions to ensure their own participation in the HIPC initiative. They also all go or have committed going beyond the requirements of the HIPC scheme by providing 100% debt relief on their pre-cut off date claims towards HIPC countries. Three of the acceding countries have also made a contribution to HIPC.

5. CONCLUSIONS

At the Monterrey FfD Conference, the Union was able to push the international development agenda forward due to the fact that it acted as a united group. This way, the Union contributed to putting the global platform for financing for development in place. The Union should continue to address the FfD challenge as a group and to carry the international agenda forward.

The European Union is firmly on track for meeting its commitment concerning the volume of ODA, and has taken a number of concrete measures to meet the commitments on aid untying and debt relief. The initiatives by individual Member States and the Commission concerning Global Public Goods, trade-related assistance and innovative sources of financing are also promising. The Commission particularly commends the progress made by the acceding countries, and their openness to increase their involvement over the next few years. The Commission believes that no major further initiatives need to be taken at Community level in

relation to these commitments during 2004, but that the focus should be on finalising and reaching conclusions on the various ongoing activities.

In contrast, the Commission believes that the Union as a whole must deliver better on the commitment to achieve closer co-ordination of policies and harmonisation of procedures (Commitment II). The Union must take its responsibility to reduce transaction costs on country level in the short term, without waiting for all development partners to progress simultaneously, and without waiting for partner countries to develop sufficiently solid governance systems to substitute for donor procedures. A better coordinated Union, in which coordination is a political reflex, would be an efficient partner for the developing countries and for other stakeholders in the international donor community. This would contribute to the implementation of the Monterrey consensus and the achievement of the MDGs.

Against this background, the Commission therefore invites the Council

- to maintain or increase the annual ODA pledges for the period up to 2006, in order to safeguard the progress the EU is making to deliver on its commitments made at the Monterrey conference. The Member States that have not yet attained the UN benchmark of 0.7% ODA/GNI, or yet committed to a year by which this target should be reached, are encouraged to examine their timeframe for increasing their ODA provision over the next few years;
- to endorse its proposals for a qualitative leap in relation to coordination, harmonisation and complementarity as set out in section 3.6;
- to give a general endorsement to the proposals, which will be sent by the Commission for a Regulation on untying and for a renegotiation of the relevant part of the Cotonou Agreement;
- to support the ongoing debates at International Level on further untying of aid beyond the DAC Recommendations, with in particular a specific emphasis on Food aid and on the access of recipient countries to donors' aid; to progressively open up the current process for addressing Global Public Goods and to broaden the participation within the EU in the Task Force set up for this purpose.

List of Acronyms

EC	European Communities
EU	European Union
FfD	International Conference on Financing for Development
DAC	Development Assistance Committee of the OECD
GAERC	General Affairs and External Relations Council
GNI	Gross National Income
GPG	Global Public Goods
HIPC	Heavily Indebted Poor Countries initiative
IFI	International Financial System
IMF	International Monetary Fund
LDC	Least Developed Country
MDG	Millennium Development Goals
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PRSP	Poverty Reduction Strategy Papers
TRA	Trade Related Assistance
UN	United Nations
UNDP	UN Development Programme
WSSD	World Summit on Sustainable Development
WTO	World Trade Organisation