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EUROPEAN COMMISSION

Brussels, 28.6.2010
COM(2010)335 final

REPORT FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT

Annual Report 2010 on the European Union's development and external assistance policies and their implementation in 2009

SEC(2010)773

Responding to global challenges

Throughout the world, 2009 was a difficult year. The impact of the 2007-2008 food price crisis was aggravated by the economic and financial crisis which created a world recession. The European Union acted rapidly to soften the negative impacts on its partner countries. It also strengthened its efforts to ensure that the crises did not call into question the progress towards the Millennium Development Goals (MDGs) achieved in recent years.

The EU Food Facility put in place at the end of 2008 to deal with the food price crisis provided one platform for concrete action. Of the €1 billion pledged under the facility, €837 million were allocated by the end of 2009. The aim of the facility is to bridge the critical gap between emergency aid and medium to long-term development assistance. The economic and financial crisis which began in the second half of 2008 made matters worse, especially in the poorer countries. It is estimated that between 40 million and 80 million people in developing countries will be forced into absolute poverty because of the crises. On the basis of proposals from the European Commission in April 2009[1], a set of comprehensive, timely, targeted and coordinated measures were agreed. As a result, €215 million were already committed by the end of the year under the so-called Vulnerability FLEX (V-FLEX) mechanism to help 11 African and two Caribbean countries reduce funding shortfalls in their 2009 government budgets. €160 million were paid by the end of 2009 with the remaining €55 million due in the first quarter of 2010. In addition, the 2009 mid-term review of Country Strategy Papers was particularly timely, enabling the EU to adapt its individual cooperation programmes to evolving realities.

The European Commission played a proactive role in various international fora (notably within the G8, the G20 and the UN) to ensure that the effects of the financial and economic crisis on the poorest countries were fully taken into account and that specific measures were taken to help them.

The year 2009 was also marked by increased efforts to address the impact of climate change. In the run-up to the Copenhagen climate negotiations in December 2009, the EU intensified its cooperation and dialogue with developing country partners. The Commission issued a Communication on *Stepping up international climate finance: A European blueprint for the Copenhagen deal* to help developing countries combat climate change[2]. In December, the EU agreed on 'fast-start' funding of €2.4 billion annually for 2010-2012, to assist developing countries in adapting to climate change and in moving to low-carbon strategies. The intention was also to prepare them for handling the bigger amounts of funding for mitigation and adaptation pledged for the period post-2012. In 2009, the Global Climate Change Alliance (GCCA) received an allocation of €35 million to support poor countries most vulnerable to climate change, in particular the least-developed countries and small island developing states. In February 2009, the Communication *EU Strategy for supporting Disaster*

[1] In a document entitled “Supporting developing countries in coping with the crisis”

[2] COM/2009/475 final of 10.09.2009.

Risk Reduction in developing countries[3] was published. It aims to reduce the burden of disasters on the most vulnerable countries.

Active relationships around the world

During 2009, the European Union held summit meetings with key global players such as China, India and Russia.

Political relations with Latin America continued to strengthen in 2009. In September, the Commission adopted a Communication setting out a new policy framework for relations between the EU and Latin America. The Latin America Investment Facility was adopted in December with funding of €10.8 million to attract additional investments in favour of transport, energy, environment, and to support the social and private sectors.

Negotiations with the African, Caribbean and Pacific (ACP) countries on the second revision of the Cotonou Agreement were officially launched in May 2009. The year also saw the start of the 10th EDF mid-term review process which will consider progress to date and update the cooperation strategy and financial allocations of the countries concerned.

The strategic relationship with Africa was further enhanced in the framework of the Joint Africa EU Strategy, to jointly tackle continental and global challenges. Political dialogue was intensified and the set-up of implementation roadmaps in the eight thematic partnerships resulted in concrete progress benefiting to both continents.

Building on South Africa's strong involvement in conflict management in Africa, the EU and South Africa significantly stepped up their dialogue on peace and security matters in 2009.

The first EU-Pakistan summit took place in Brussels in June 2009. The EU also completed negotiations for a Partnership and Cooperation Agreement with Iraq in November 2009, with the aim of signing it in 2010, providing the first-ever basis for contractual relations between the EU and Iraq.

As part of the European Neighbourhood Policy (ENP), the Neighbourhood Investment Facility funded 25 projects in 2008-2009 in transport, environment and energy as well as social and private sectors, with grants totalling €170 million. This helped to mobilise €7.35 billion of investments from international financial institutions.

Working towards the MDGs

Overall progress has been made in recent years on various MDG targets and indicators. However this progress is uneven and some countries and regions, especially in Sub-Saharan Africa, are lagging behind. In addition, the prospects for sustained progress are coming under threat from the global economic crisis, combined with climate change and the effects of previous food and fuel shocks.

[3] COM(2009) 84 final of 04.03.2009

During 2009, the European Commission drew up preparatory documents in the core MDG areas of human development like health, education and gender equality. The adoption of these policies in 2010 will shape the internal EU debate on MDGs and feed into the EU contribution to the UN's MDG Review Summit in September 2010. The Commission's concern is for the EU to agree a comprehensive approach on how to accelerate progress towards attaining the MDGs by 2015 and how to consolidate the gains so as to make them sustainable. Several initiatives, including a Communication on tax governance in developing countries and a review of thematic policies in the field food security were also included.

The Commission supported health, education, employment, social protection and culture through a variety of instruments and channels, including budget support, with the aim of strengthening national systems and adapting aid to national policies.

As a board member of the Global Fund to fight AIDS, Tuberculosis and Malaria (GFATM) and representing the EU as a major contributor (€872.5 million from 2002 to 2009), the Commission continued to play an active role in this initiative and also became actively involved in the Global Alliance for Vaccines and Immunization (GAVI). As a permanent member of the board of the Education for All – Fast Track Initiative, the Commission focused on aid effectiveness, the needs of fragile states and governance issues.

The Commission has redoubled efforts to advance the gender equality MDG. In 2009, support went to non-state actors to fight adult illiteracy and promote women's property ownership.

In line with MDG 7, the Commission also focused on major environmental issues, such as climate change, desertification, biodiversity, fisheries and forest preservation. Support for increasing the ability of developing countries to implement multilateral environmental agreements also continued.

During the year, the Commission continued efforts to improve the availability and quality of MDG data held by developing countries. Studies of data were undertaken and support provided to improve the statistical capacity of developing countries. The picture is much brighter than in previous years, but significant deficiencies remain in the indicators used to measure the MDGs.

Keeping policies relevant and focused

The European Consensus on Development[4] set out for the first time a common vision on development on the part of the EU and its Member States. The main components are: more aid, better aid, improved policy coherence for development, and focus on Africa. In 2009, four years after its adoption, the Commission undertook a preliminary assessment of the implementation of the Consensus, which has become a widely accepted and valuable reference for all development actors.

Aid alone is not enough to help the poorest countries to develop, and the Commission has tried hard in recent years to ensure that all EU policies are in line

[4] The Consensus was endorsed in December 2005 by the Presidents of the Commission, Council and Parliament.

with its efforts to attain the MDGs. This is why Policy Coherence for Development (PCD) is an additional and necessary contribution to development.

In September 2009, the Commission issued its second major report, covering 12 policy areas which impact on development. These are trade, environment, climate change, security, agriculture, fisheries, social dimension of globalisation, employment and decent work, migration, research and innovation, information society, transport and energy. Another area where the Commission is looking for positive synergies with development objectives is good governance in taxation.

The report shows clearly the strong impact the EU has through its wide array of policies, processes and instruments on developing countries. In the areas of research, environment and energy, EU policies have been particularly positive. In research, the EU and developing countries work together in areas of interest for developing countries, such as health or food security. Researchers from developing countries are encouraged to participate in research programmes and mobility schemes. In environment policy, the EU has taken the lead in the protection of forests across the world. Under its Forest Law Enforcement Governance and Trade (FLEGT) initiative, the EU imports only certified timber from its partner countries, in order to fight illegal logging. In the energy sector, the binding target under the Renewable Energy Directive (20% of energy from renewable sources by 2020) will stimulate exports of biofuel from developing countries. A sustainability scheme obliges biofuels importers to comply with environmental criteria and to report on possible negative economic and social impacts in third countries.

Building on these experiences and the lessons learned, the Council of Ministers endorsed[5] in November 2009 five areas for priority action within the existing framework of 12 policy areas: trade and finance, climate change, food security, migration, and peace and security.

The drive to make the EU's external policies more development-focused has to be matched by sound domestic policies in the developing countries. For the EU, governance is crucial for combating poverty through improving the investment climate and public finance management, reducing corruption, improving good governance in the tax area and revenue collection for development, strengthening 'checks and balances' institutions to improve accountability and stability. While recognising that improving democratic governance is an internal process in each country, the Commission is determined to address democratic governance both as a specific policy area and as a cross-cutting issue concerning all programmes and sectors. The EU continues to raise, for instance, gender equality and women’s rights in political and human rights-related dialogues with partner countries on a regular basis. In some countries, the Commission supports projects addressing the issues of children affected by armed conflicts and of violence against children. For the first time in 2009, a regional workshop on indigenous peoples, minorities and caste-based discrimination, was organised, focusing on south and south-east Asia. Good governance and the respect of human rights in partner countries not only improve the quality of EU aid but belong to fundamental EU values.

[5] Policy Coherence for Development – Establishing the policy framework for a whole-of-the-Union approach (COM(2009)458 final

European aid – bigger amounts, better used

The EU (27 member states and the European Commission) reconfirmed its position as the foremost provider of development aid in 2009, accounting for more than half[6] of global Official Development Assistance (ODA), or €48.2 billion. The Commission alone committed €12 billion and disbursed €10 billion.

In 2009, the Commission continued to make its aid more effective. It has been in the forefront of initiatives adopted by high-level fora on aid effectiveness organised by the Organisation for Economic Co-operation and Development/Development Assistance Committee (OECD/DAC). In order to accelerate progress and demonstrate concrete results in time for the next forum in Seoul in 2011, the Commission has acted as catalyst and coordinator to improve synergies among Member States. This allowed the adoption by the Council of an EU operational framework in November 2009 which focuses on the three main aid effectiveness priorities agreed at the last forum in Accra in 2008: reducing aid fragmentation through donor division of labour, increasing the use of country systems, and improving the quality of technical cooperation. In this context, the Commission adopted an ambitious action plan in January 2009.

The Commission maintained its preference for delivering aid in the form of budget support (see below) and has reformed the way it provides technical assistance to make its benefits more sustainable. It works more closely with other donors, and even delegates to EU Member States the responsibility for implementing some EU support programmes. The EU has untied aid to an exceptional extent and has also changed its approach to conditionality and taken steps to make its aid more predictable and transparent.

The Commission works closely with international organisations, particularly the UN and the World Bank group. In 2009, agreements for a total of €935 million were signed with the UN family, representing around 10% of total EU aid commitments. Agreements signed with the World Bank group came to €469 million. Although these funds are managed by international organisations in accordance with their own procedures, the Commission checks that the funds are correctly managed in line with EU standards and, where applicable, procedures. Operational agreements setting out the terms of reference for these checks (verifications) were signed in 2009 with the UN, the World Bank group and the International Monetary Fund. The agreement with the IMF also made it easier for the Commission to cooperate with it on anti-money laundering programmes.

Regarding cooperation between the European Commission and local authorities, 2009 witnessed the first implementation stages of the strategy defined by the Commission in its 2008 Communication on *Local authorities: actors for development*[7]. The first "Assizes of decentralised cooperation" bringing together more than 300 representatives of local authorities from the EU and developing countries were held in Brussels in December 2009. Throughout the year, cooperation

6 EU 15 members of the Organisation for Economic Co-operation and Development/Development Assistance Committee (OECD/DAC) represent 56 % of all DAC members' ODA

7 COM2008(626) of 08.10.2008

with non-state actors was pursued, both in terms of their involvement in defining development strategies and their role as implementers of development actions.

Providing budget support

Budget support is a preferred mechanism for aid delivery of the Commission, in line with the principles of increasing local ownership, promoting capacity development in partner countries, ensuring alignment of aid with national policy, and reducing the transaction costs of aid delivery.

Budget support is a mechanism where funds are transferred to the national treasury of the beneficiary country provided it meets agreed conditions for payment. During 2009, the Commission committed €2.4 billion of EU aid funds for external cooperation[8] in this way. The funds are provided either as general budget support (GBS), which supports the implementation of a national development policy/strategy, or as sector-specific budget support (SBS), to help the partner country to make progress in a given sector.

In 2009, GBS commitments made up 35% of all new budget support operations, amounting to €869 million. All 23 beneficiary countries were in the ACP region. In 2009 about 10% of new GBS operations were made to countries in fragile situations (see box).

The use of SBS rose slightly in 2009. Total SBS commitments amounted to €1.6 billion, about 65% of 2009 new budget support operations. It was used for virtually all the new budget support operations outside the ACP region. In the EU neighbourhood countries and South Africa, budget support operations are concentrated on vocational education and training, public health reform, water and waste water management, transport, environment and employment, and primary education. In Asia, all commitments were made in the social sectors. In Latin America, the main sectors were education and social cohesion. In the ACP region, SBS operations concentrated on traditional sectors (roads, health and education), with some emerging new sectors like decentralised agriculture and human resources development.

Based on a presentation to the OECD/DAC, the EU is now testing a new methodology for evaluating budget support. Pilot evaluations were launched during 2009 in Tunisia, Mali and Zambia. If the pilot tests prove positive, the agreed methodology providing for harmonised evaluation procedures in all beneficiary countries will be available by mid-2011.

The Commission's geographic evaluations finalised in 2009 show that in nearly all countries and regions the shift towards budget support had a positive impact for instance on dialogue with partner countries, donor coordination, public financial management and policy reforms in the beneficiary countries. However, these findings are based on a limited number of cases and cannot be generalised.

The strengthening of public finance management (PFM) systems continues to be essential to the provision of budget support, to ensure that governments are

8 This covers only aid managed by the EuropeAid Cooperation Office.

accountable for the utilisation of their budgets, to their own taxpayers and to those of the European Union. The Public Expenditure and Financial Accountability (PEFA) diagnostic tool, developed by the Commission with the World Bank and some other organisations, is used to establish baselines for measuring whether countries are making progress within their PFM systems. From June 2005 to the end of 2009, PEFA assessments were carried out in 105 countries, of which 62 are from the ACP region. This covers almost all the countries which benefit from EU-funded budget support.

Training courses are delivered to improve the capacity of Commission staff to design and implement budget support programmes. These courses are usually open to officials from partner governments and to staff from other donor agencies.

The European Commission believes that for some fragile states in post-crisis or post-conflict situations budget support provides the best means of aid, even if these countries do not formally qualify for it. In the Commission's view, budget support can facilitate stabilisation and avoid further economic and political deterioration. This is why it drew up new guidelines in 2009 to adjust the criteria for budget support to their specific situation. As a result, budget support programmes will be designed in such a way that risks are mitigated while ensuring a proper use of the window of opportunity immediately following a conflict or a crisis situation.
→ **See 5.1.2 in full Report for further information.**

Working for results

The Commission takes pains to measure the impact of its development cooperation actions. This is an important priority shared by all donors. It helps to direct aid to where it is most effective. Until now most donors have focused more on input, spending and technicalities and less on results, impact and sustainability. Measurement of results, impact and sustainability of projects and programmes is pivotal to assess the effects of aid on actual poverty eradication.

In practice, the Commission has sought to raise its standards in recent years in aid implementation, quality control, accountability and results monitoring. It has engaged in a reform of its processes in order to make them simpler, more focused on quality and results, and in line with internationally agreed objectives on aid effectiveness. The Commission has also developed more dynamic forms of partnership with beneficiaries and with other donors and has simplified its procedures and clarified the rules for delivery and implementation.

In 2009, efforts concentrated on:

- The implementation of the reform of the Commission's technical cooperation to improve aid effectiveness. The key elements at this stage were to develop guidance and to establish a system for monitoring the results of the reform;

- The adoption of a number of methodology instruments in 2009 in order to simplify and streamline the implementation of EU external aid;

- The development of skills and capacity of staff involved in delivering external assistance at Headquarter and Delegation level;

- A revision of the main quality tool implemented at the design phase in the project's lifecycle, which is a peer review mechanism called oQSG (office Quality Support Group) and which in 2009 covered nearly 100% of eligible projects and programmes.

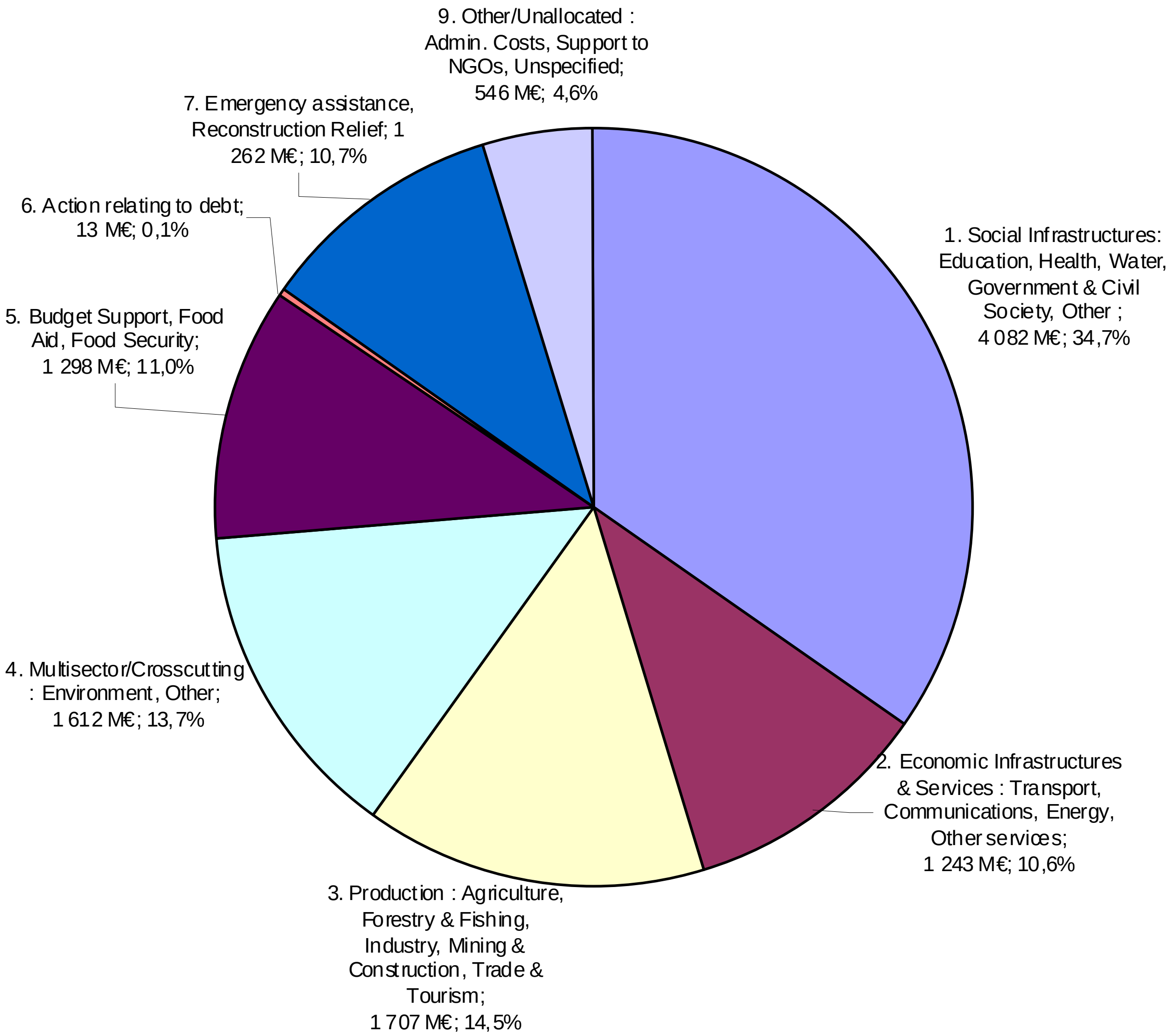
The Commission has an active programme of evaluations**:** 19 new evaluations were launched in 2009. The main conclusions from completed evaluations are that programming, implementation and effectiveness are good in most cases. Efficiency and sustainability are still considered the weakest elements. EU interventions do generate positive impacts but ownership by partner countries should be increased.

In 2009, a total of 1 548 results-oriented monitoring (ROM) reports were produced. This is an increase of 24% over 2008. Results for 2009 show that project performance improved compared to 2008.

In summary, the Commission has acted rapidly to address the problems caused by the crises of 2008-2009 and to ensure that the impact of its resources is maximised. The EU has shown the capacity to innovate and to adapt its aid instruments to meet new challenges. The dynamics of this process have created new synergies and more effective results.

The Commission will continue to work towards achieving the Millennium Development Goals, which are to be the subject of a major international review in 2010.

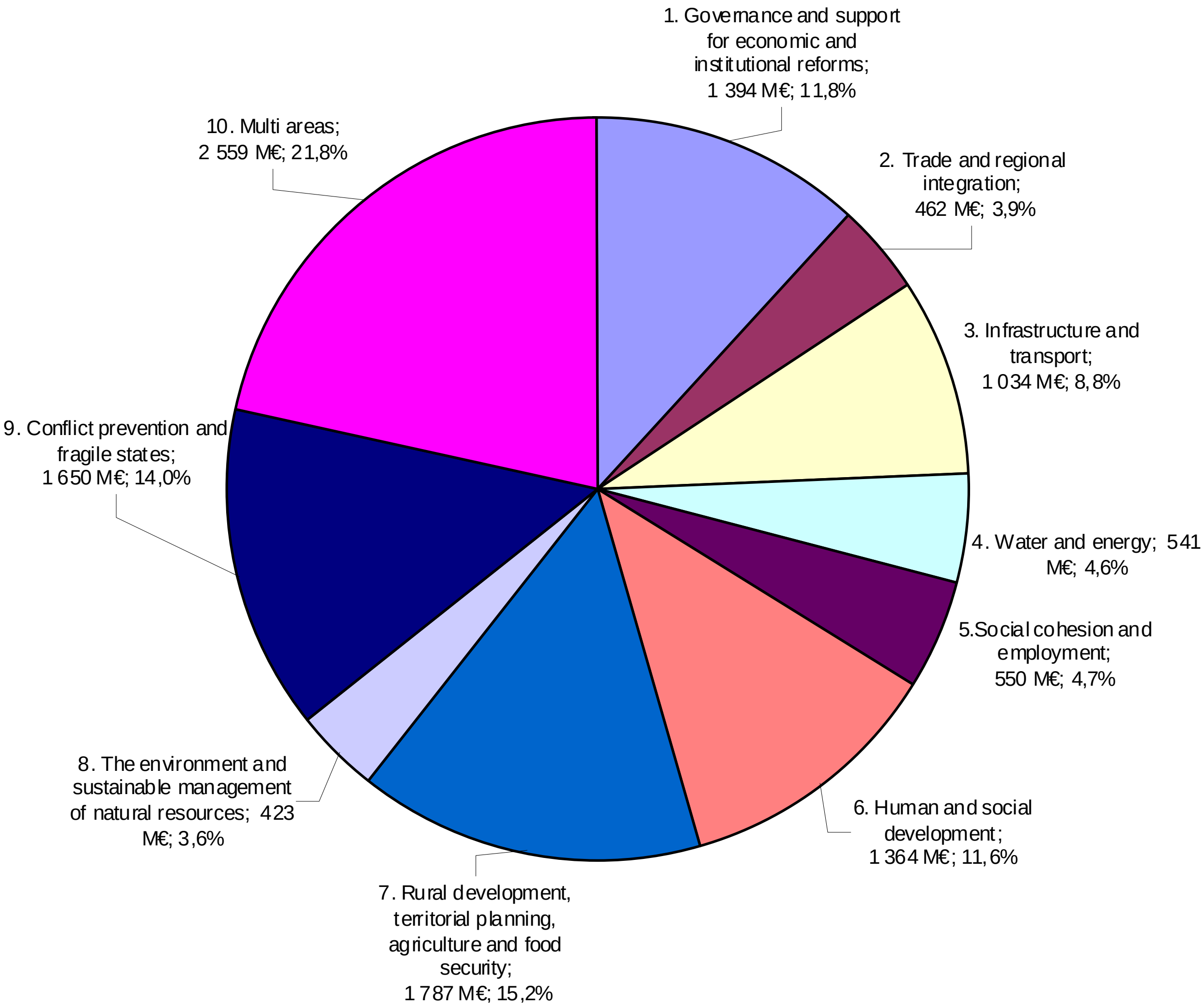
Graph 1: ODA sectoral breakdown



Commitments 2009 in € million

ODA resources managed by the European Commission.

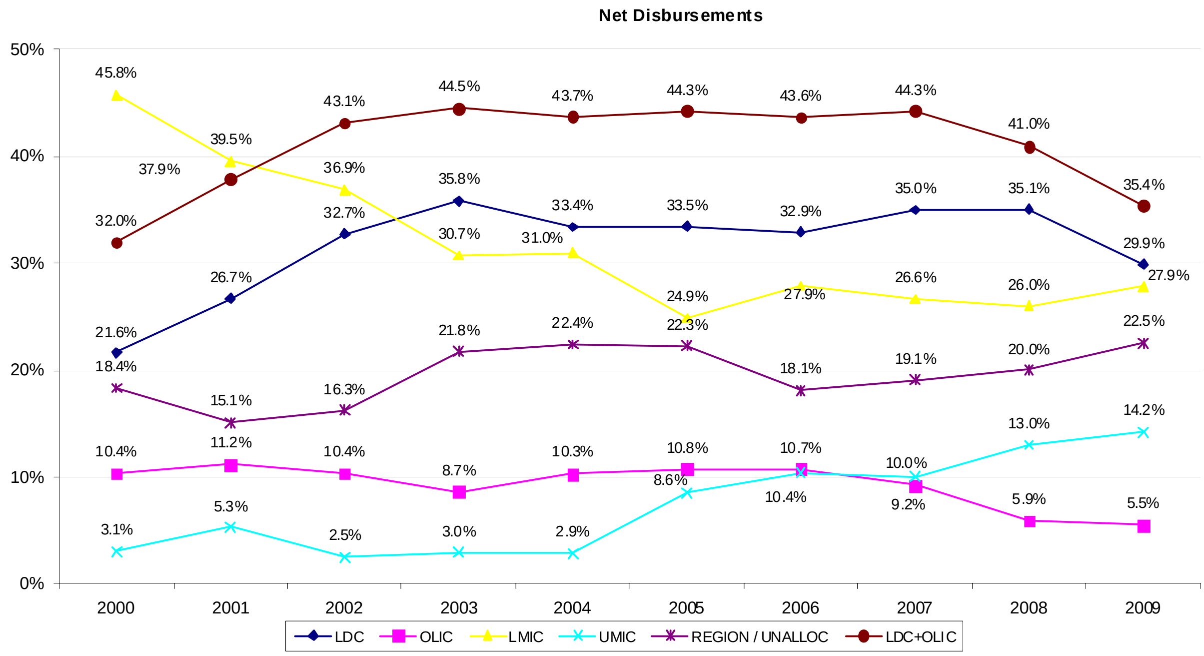
Graph 2: European Consensus: Areas relating to EU development cooperation



Commitments 2009 in € million

ODA resources managed by European Commission.

Graph 3: 2000-2009 Poverty focus



2000-2003 European Commission reporting to DAC (following the same method: LDCs/LICs country specific allocations -including EIB- /Total disbursements)
2004 Annual Report information
2005, 2006, 2007 Annual Report information according to DAC List of recipient updated in 2006
2008 Annual Report information - According to DAC List of recipient updated in 2008.
2009 Provisional figures Annual Report exercise - According to DAC List of recipient updated in 2008.

LDC : Least Developed Countries
OLIC : Other Low Income Countries
LMIC : Lower Middle Income Countries
UMIC : Upper Middle Income Countries
REGION / UNALLOC : Regional Programmes and Unallocated

The decrease of the % for the LDC can be in part explained by the increase of total ODA disbursements in particular to regional/unallocated programmes. These programmes also benefit the poorest countries.

In the new DAC list, which took effect in 2008, a number of OLICs have been reclassified as Lower Middle-Income Countries: Cameroon, Cape Verde, India, Republic of Moldova, Mongolia, Nicaragua, and Republic of Congo.