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ANNUAL REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

Keeping Europe's promises on Financing for Development

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1. INTRODUCTION

The EU is the biggest aid donor in the world, and its share of total ODA is growing. It is taking long-term, far-reaching commitments on development finance and their timely delivery to contribute to the achievement of the Millennium Development Goals (MDG):

- In 2002 the EU committed to a target of 0.39% of their combined Gross National Income (GNI) to Official Development Assistance (ODA) by 2006. In 2006 the EU not just met but exceeded this target increasing their ODA to 0.42% of GNI and by disbursing, in 2006, a record high of € 48 billion[1]. In 2005 Africa received the most substantial part of EU aid. Overall one third of EU ODA was used for social and administrative infrastructure to fight poverty and 10% for humanitarian assistance.

- In 2005 the EU set further targets of collectively 0.56% ODA/ GNI by 2010 to bridge the financing gap for finally attaining the 0.7% ODA/ GNI goal by 2015[2]. These historic EU commitments account for almost 80% of promised G8 aid increases for Africa. The EU is on track to meet both.

- One Member State dedicated in 2006 just over 1 % of its GNI to ODA. Three others reached over 0.8% ODA/ GNI. Other Member States, who seemed to be off track just few years ago have scaled up their aid substantially. The ten Member States who adhered to the EU in 2004 have collectively doubled their aid since their accession.

- The Union also leads the international Financing for Development process because it is already implementing aid better and faster. In addition to signing the Paris Declaration on Aid Effectiveness the EU has introduced joint analyses and multi-annual strategic planning of country assistance provided by the EC and the Member States[3] and is in the process of agreeing an EU Code of Conduct on Division of Labour in Development Policy[4].

However, this progress cannot be taken for granted and should not hide certain issues, specifically:

- big variations in aid budgets between Member States:

- the use of one off measures which sometimes disguise the overall trend in aid volumes;

- the need for more effective aid disbursement to ensure that it reaches those who need it.

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1 In order to collectively provide, by 2006, at least 0.39% of the EU GNI as ODA, Member States committed to increase their ODA; those with ODA of 0.7% ODA/ GNI committed to maintain the high levels; all other Member States committed to achieve at least 0.33% ODA/GNI.

2 The second intermediate collective target for 2010 is based on individual baseline targets, i.e. Member States that have not yet reached an ODA of 0.51% of their GNI undertake to reach that level; Member States undertake to achieve the 0.7% ODA/GNI target by 2015 and those which have achieved that goal commit themselves to remain above that target; Member States that joined the EU after 2002 strive to achieve or maintain, by 2010, a minimum of 0.17% ODA/GNI and of 0.33% by 2015. This commitment is combined with the promise to provide collectively at least 50% of the agreed ODA increase to Africa

3 Council Conclusions of April 2006. '*Financing for Development and Aid Effectiveness: Delivering more, better and faster*'.

4 Based on the Commission Communication COM(2007) 72, 28.2.2007.

The Commission hereby presents its fifth annual report on EU progress towards implementing the historic commitments agreed in 2002 ahead of the Monterrey Conference and further shaped by the European Council prior to the UN World Summit in 2005 to accelerate progress towards the MDG[5]. The EU commitments are, moreover, core parts of the European Consensus for Development. The UN High Level Dialogue on Financing for Development in late 2007, the Third High Level Forum on Aid Effectiveness in Accra and the 'Monterrey follow-up' conference to be held in Doha in 2008 will again discuss how to scale up aid and to deliver aid more effectively and efficiently.

This Communication builds on the opinions of the 27 EU Member States (EU-27) expressed in their responses to the monitoring questionnaire of late 2006. A detailed analysis of the survey is contained in the accompanying Commission Staff Working Paper[6].

2. EU AID LEVELS COULD REACH RECORD HIGHS THROUGHOUT 2006-2010

2.1. EU global performance surpassed its objectives while some Member States have yet to strengthen their efforts

The EU achieved its first intermediate collective ODA goal one year ahead of schedule, i.e. in 2005, and confirmed its excellent performance in 2006: the combined EU ODA of € 48 billion represents an ODA/ GNI ratio of 0.42%, exceeding the 0.39% target. The collective outcome for the 15 Member States, who alone subscribed to this target in 2002 (EU-15), was even more impressive, as they reached 0.43% ODA/GNI. Undoubtedly debt relief to Iraq, Nigeria and post-tsunami aid contributed to the peak of EU ODA in 2005-06.

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5 Council Conclusions of May 2005. '*Millennium Development Goals: EU Contribution to the Review of the MDGs at the UN 2005 High Level Event*'. The EU promises also comprise additional commitments concerning innovative sources of financing for development, debt relief and Global Public Goods, better coordinated and more effective aid, including more predictable aid mechanisms, mitigation of exogenous shocks, aid untying and the reform of the international financial institutions.

6 Financing for Development from Monterrey 2002 to Doha 2008 - Progress report 2007 - SEC(2007) 415.

Table 1: EU ODA levels 2004-2006

	2004		2005		2006	
	ODA in million €	ODA in % of GNI	ODA in million €	ODA in % of GNI	ODA in million €	ODA in % of GNI
Official Targets						EU-15: 0.33
Austria	1175	0,50	1266	0,52	1205	0,48
Belgium	1178	0,40	1580	0,52	1568	0,50
Bulgaria	NA	NA	NA	NA	2	0,01
Cyprus	4	0,03	4	0,03	16	0,11
Czech Republic	87	0,11	109	0,11	124	0,12
Denmark	1639	0,83	1696	0,81	1780	0,80
Estonia	4	0,04	5	0,05	8	0,07
Finland	547	0,36	726	0,46	658	0,39
France	6820	0,41	8067	0,47	8324	0,47
Germany	6064	0,27	8112	0,36	8247	0,36
Greece	258	0,15	309	0,17	306	0,16
Hungary	56	0,07	80	0,10	96	0,12
Ireland	489	0,39	578	0,42	794	0,53
Italy	1982	0,14	4096	0,29	2926	0,20
Latvia	7	0,06	8	0,07	9	0,06
Lithuania	8	0,04	12	0,06	15	0,08
Luxembourg	190	0,86	206	0,86	232	0,89
Malta	8	0,18	7	0,17	7	0,15
The Netherlands	3384	0,67	4116	0,81	4343	0,81
Poland	95	0,05	165	0,07	239	0,09
Portugal	830	0,59	303	0,21	312	0,21
Romania	NA	NA	NA	NA	3	0,00
Slovak Republic	23	0,07	45	0,12	44	0,10
Slovenia	25	0,10	30	0,11	35	0,12
Spain	1962	0,24	2428	0,27	3028	0,32
Sweden	2191	0,78	2706	0,94	3161	1,03
UK	6339	0,36	8662	0,47	10049	0,52
EU 15 TOTAL	35047	0,35	44852	0,44	46932	0,43
EU 10 TOTAL	316	0,07	467	0,09	592	0,10
EU 25 TOTAL	35364	0,34	45318	0,42	47524	0,42
EU 27 TOTAL					47529	0,41

ODA in € million at current prices. Coloured cells contain information supplied by Member Sttates, other cells are Commission data or calculations. EU-12 total and EU-27 total GNI and ODA figures in 2004 and 2005 do not include the GNI of BG and RO.

The front-runners ensuring the EU's success are the nine Member States that have either achieved the 0.7% target or decided to reach it prior to 2015. Particularly outstanding is the commitment of Sweden (SE) now allocating 1% of its GNI to aid and Luxemburg (LU) that is set to follow by 2012. Member States that registered much lower ODA levels a few years ago, e.g. Germany (DE) and Spain (ES), have demonstrated that scaling up is possible when the political will is there. Nevertheless Spain missed the 0.33% individual baseline by € 142 million. The 10 Member States that joined the EU in 2004 (the EU-10) have doubled their

ODA since the accession and have demonstrated their commitment to the "acquis communautaire".

The Union's output would have been even more impressive if Greece (EL), Italy (IT) and Portugal (PT) had also lived up to the agreed 0.33% ODA/GNI individual target on time. They have pledged to catch up with the group by 2007 (EL, PT) and 2008 (IT), but their difficulties so far illustrates the general risk entailed in "one-off" ODA boosts in single years (PT: ODA-counted debt relief for Angola in 2004; IT: contribution to multilateral agencies in 2005) that are not sustained by policy changes ensuring gradually growing aid budgets. To avoid a widening gap between the Member States' performance in delivering on shared promises, continuing efforts are required by Member States trailing below the minimum baselines.

2.2. Good prospect to reach the next milestone targets by 2010

In contrast with the global ODA outlook that foresees lower aid levels in 2007-2008 the Union's aid levels are expected to rise throughout 2007–2010 in line with the EU pledge for 2010. Improved economic growth prospects mean that the EU could mobilise, an, extra € 27–30 billion annually compared to 2006, thus more than the initially projected € 20 billion. The amounts that Member States are forecasting remain vulnerable to GNI developments and might not meet the targets. The forecast figures of several Member States are not yet underpinned by clear year-on-year budget increases, but depend on ad hoc developments. While debt relief grants have become instrumental in attaining higher ODA levels in the short-term and have, since 2005, constituted the lion's share of aid from Austria (AT) at over 50%, France (FR), DE, IT and the UK (for each around 1/3 of total ODA), they are insufficient over time. To maintain the dynamics required to get to the 2010 targets an accelerated mobilisation of programmable funds is warranted, including recourse to innovative sources of financing, where necessary. PT – despite a planned impressive 148% ODA increase in the period 2006-2010 - is not yet on track to meet the next EU individual target. Also, some of the EU-12 (the Member States that have joined since 2004) have yet to demonstrate how they intend to further increase their aid volumes in the run-up to 2010.

Table 2: Forecasts and assumptions for achieving the 2007–2010 goals

	2007		2008		2009		2010	
	ODA in million €	ODA in % of GNI	ODA in million €	ODA in % of GNI	ODA in million €	ODA in % of GNI	ODA in million €	ODA in % of GNI
Official Targets								EU-15: 0.51 EU-10: 0.17
Austria	870	0,33	901	0,33	939	0,33	1512	0,51
Belgium	1799	0,55	2030	0,59	2288	0,64	2561	0,68
Bulgaria	16	0,06	31	0,11	46	0,14	60	0,17
Cyprus	14	0,10	16	0,10	17	0,10	19	0,10
Czech Republic	128	0,11	147	0,12	171	0,13	230	0,17
Denmark	1863	0,80	1956	0,80	2054	0,80	2152	0,80
Estonia	9	0,07	11	0,07	13	0,07	15	0,07
Finland	746	0,42	796	0,43	870	0,46	1395	0,70
France	9180	0,49	10581	0,54	11982	0,59	13383	0,63
Germany	9426	0,40	10605	0,43	11784	0,47	12963	0,51
Greece	683	0,33	799	0,36	1057	0,45	1262	0,51
Hungary	98	0,11	106	0,11	127	0,13	148	0,14
Ireland	813	0,51	942	0,55	1018	0,55	1199	0,60
Italy	4072	0,27	5218	0,33	6974	0,42	8730	0,51
Latvia	10	0,06	13	0,06	16	0,07	19	0,07
Lithuania	19	0,07	23	0,08	26	0,08	40	0,11
Luxembourg	254	0,90	274	0,91	300	0,92	336	0,95
Malta	8	0,17	9	0,17	9	0,17	9	0,17
The Netherlands	4532	0,81	4702	0,80	4916	0,80	5136	0,80
Poland	305	0,11	352	0,12	439	0,14	574	0,17
Portugal	517	0,33	588	0,37	660	0,39	768	0,44
Romania	59	0,05	115	0,10	171	0,14	228	0,17
Slovak Republic	57	0,12	69	0,14	82	0,16	95	0,17
Slovenia	40	0,13	46	0,14	52	0,15	64	0,17
Spain	4305	0,42	5464	0,50	6524	0,56	7676	0,62
Sweden	3328	1,02	3486	1,02	3655	1,02	3730	1,00
UK	9572	0,46	11156	0,52	12740	0,56	14324	0,60
EU 15 TOTAL	51960	0,46	59498	0,51	67759	0,55	77126	0,60
EU 12 TOTAL	765	0,10	938	0,11	1168	0,13	1499	0,16
EU 27 TOTAL	52724	0,44	60436	0,48	68927	0,52	78626	0,57

ODA in € million at current prices.
Source: coloured cells contain information supplied by Member States, other cells are Commission data or calculations.

2.3. On track to deliver on the UN goal for Least Developed Countries (LDC) by 2010

Further to the World Summit Outcome of 2005 and the Monterrey Consensus all EU-15 countries either already allocate at least 0.15% ODA/GNI to LDC or intend to reach this level by 2010. Six other Member States are willing to agree to a minimum ODA share for LDCs. The nexus of support to the neediest (LDC, aid “orphans”, fragile states), poverty reduction and the achievement of the MDG will be centre-stage again at the Accra and Doha conferences of 2008.

2.4. Effective focus on Africa

Since 2002 Europe's annual aid to Africa has doubled and reached almost € 14 billion in 2005. Almost half of the EU aid already goes to Africa, and half of its aid promised on top of 2006 ODA volumes annually has been pledged to the continent as part of the EU-Africa strategy. When the OECD/DAC definite ODA statistics 2006 become available later this year the Commission will establish a baseline chart, against which future EU allocations to Africa can be assessed. In line with the overall outlook on EU scaling-up of aid the outlook for allocating an additional annual € 10 billion or more of combined EU aid to Africa is promising.

2.5. But critical challenges need to be tackled

In order to further demonstrate that the EU keeps its promises on development finance, and leads in delivering aid more effectively and efficiently the following issues require attention:

- Longer-term **predictability of aid flows** is a prerequisite to achieving the MDGs. While some Member States are acting on national plans to gradually scale up their aid, the ODA flows of other Member States are more volatile, in quantity or in composition. Against this background, it is crucial that all **Member States establish national timetables, by the end of 2007, to ensure gradually rising aid levels year-on-year**.

- In particular those Member States that have neither reached the 2006 targets nor prepared for getting to 2010 milestones need to demonstrate better how they will bridge the remaining gap in the spirit of securing **fair burden-sharing between Member States**. Their undertakings should be underpinned by redoubled **outreach activities to win public opinion for higher aid volumes**. The Commission is ready to support this course.

- **Additionality of debt relief**: in 2005, the net ODA volumes excluding debt relief grants of those three Member States that together represent 55% of the EU's total aid, either decreased (DE –5.5%, FR –0.7%) or only marginally increased (UK +0.9%). This seems to go against the Monterrey Consensus and the Council Conclusions of April 2006[7].

- In order to ensure the comparability of aid volumes Member States need to **strengthen their ODA reporting capacities** and **methodology**. Current EU DAC members should **call on the DAC to adapt its outreach strategy accordingly in relation to <u>emerging donors</u> namely to the 12 EU countries that are not DAC members**; the Commission can assist this process.

- **Preparedness for efficient and effective use of rapidly rising aid volumes**: Member States will provide 90% of the additional EU aid bilaterally. As the lion's share is supposed to be programmable aid, EU donors must urgently review their structures and operative and aid modalities to deliver more aid, better and faster. This process needs to include:

    - national plans to **strengthen capacity** to implement scaled-up ODA, otherwise scaling up remains a question of commitments, but disbursement could lag behind;

    - the **speedy and practical application** of the forthcoming **EU Code of Conduct on Division of Labour in Development Policy**;

    - **increasing use of any different disbursement channels**, such as **common European instruments** that emerge, as a result of the European Consensus

[7] Council Conclusions of April 2006, footnote 1 to paragraph 24.

– to **implement joint policy objectives**, such as the EU-Africa Strategy or far-reaching EU Partnership/Association Agreements, *for instance through voluntary contributions to the EU Trust Fund for Infrastructure in Africa*;

– to **respond to global challenges**, e.g. related to external shocks such as climate change, natural disasters, commodity price variations or major threats to public or animal health;

– to facilitate **delivery of joint EU commitments**, e.g. aid for trade;

and which contribute to enhancing the EU profile and visibility in the world.

3. SLOW BUT STEADY PROGRESS IN IMPLEMENTING INNOVATIVE SOURCES OF FINANCING

Progress in 2006 was based on considerable efforts by some EU Member States which also attracted the participation of non-EU countries. FR and UK decided to devote together estimated annual revenues of more than € 200 million from an airline ticket tax for an International Drug Purchasing Facility (UNITAID). UK, FR, IT, ES and SE (together with Norway) raised the first US$ 1 billion on capital markets for the International Finance Facility for Immunization (IFFIm) to vaccinate children. Recently, the UK and IT (together with Canada, Norway, Russia and the Bill & Melinda Gates Foundation) launched the first **Advance Market Commitment** (AMC) to speed up the development and market introduction of a new vaccine for the pneumococcal disease in developing countries; a further pilot for a malaria vaccine is being considered.

The new instruments provide stable and predictable sources of finance. Their main advantage consists in locking in long-term budgetary commitments. This, however, might entail additional transaction costs and require considerable administrative and political efforts.

Most of the revenues arising from innovative mechanisms will be delivered through existing channels and organisations that are experienced in working in the health sector of developing countries. Although this avoids setting up parallel structures, aligning these initiatives with partner countries' health strategies remains a challenge.

The vast majority of EU Member States are not considering effective participation in innovative sources in the foreseeable future, for either development purposes or for global public goods.

The Commission encourages Member States that are currently not participating in any of the initiatives to continue analysing their effectiveness with a view to possibly broadening participation and mobilising additional and more stable sources of finance. It also recalls that innovative sources cannot substitute ODA and recommends that Member States' efforts in implementing innovative sources of financing do not distract from other important priorities of development finance.

4. VIGILANCE REQUIRED TO ENSURE CONTINUED DEBT SUSTAINABILITY IN DEVELOPING COUNTRIES

In addition to the continuing impact of the extraordinary debt relief (Iraq, Nigeria) the implementation of the Heavily Indebted Poor Countries (HIPC) Initiative continued. The Multilateral Debt Relief Initiative (MDRI) reinforces efforts to further reduce HIPC debt by providing 100% cancellation of debt stock vis-à-vis the International Development Association (**IDA**, WB), **African Development Fund** and **IMF**, but does not cover outstanding loans from the Inter-American and other regional Development Banks. The Commission encourages reinforced, internationally coordinated endeavours to support low-income countries in their efforts to avoid unsustainable debt situations. These undertakings should encompass improved debt management, include new creditor countries in the debate on the debt sustainability framework and address the free-rider problem (i.e. the possibility that debt relief cross-subsidises lenders that offer non-concessional loans to post-HIPC countries). **The Commission proposes that the Council** calls on the Member States to further consider, in the appropriate international fora, on how to promote responsible lending and borrowing, including by improving developing countries' debt management and promoting dialogue with new lenders.

5. AN EU AID FOR TRADE STRATEGY UNDERSCORES THE COMMITMENTS ON TRADE AND DEVELOPMENT

The Commission recommends that the Council and the European Parliament support the proposals presented in the Communication 'Towards an EU Aid for Trade strategy – the Commission contribution'[8].

6. AID EFFECTIVENESS – EU TO MAKE BETTER USE OF AVAILABLE TOOLS

Aid effectiveness is at the forefront of the EU's policy agenda and is referred to in all its initiatives. Since its adoption in 2006 most of the time-bound deliverables of the Aid Effectiveness Action Plan "Deliver more, better and faster" have been initiated or completed:

(1) **Joint multi-annual strategic planning** shall be implemented, over time, in all countries as a means to improve complementarity**.** In pursuance to the Council Conclusions of April 2006, it started in ACP countries where the programming of the 10^{th} EDF has provided an opportunity to kick-start the efforts toward joint programming with other donors in the field.

The experiences vary greatly as far as the state of progress and participation of donors are concerned. Efficient coordination mechanisms have facilitated the elaboration of **joint analysis of country situations**. The drafting of c**ommon response strategies** is also progressively materialising in most selected countries[9] such as DRC, Dominican Republic, Ethiopia, Ghana, Haiti, Kenya, Mali, Sierra Leone, Somalia, South Africa, Tanzania, Uganda and Zambia. Based on the flexible and gradual nature of joint programming the processes are

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8 Commission Communication - COM(2007) 163, 4.4.2007.

9 According to the Council criteria (Council Conclusion 51): "a) the existence of a Poverty Reduction Strategy or equivalent, b) the existence of a sufficient number of active EU donors, revising their programming, c) the existence of local coordination processes, d) specific considerations for fragile states, and e) a positive field assessment".

adapted to specific country situations and, where relevant, use other processes such as Joint Assistance Strategies.

Due to the evolving nature of the process, these data are subject to constant changes. However, they show that, despite some significant achievements, results have been hampered by the heterogeneous nature of Member States' programming mechanisms and the gap between positions expressed by headquarters and at field level. In order to help overcoming obstacles, provide technical support and improve links between headquarters and field, the Commission has organised joint missions, e.g. in Haiti and Somalia, and set up a specific network of EU experts.

(2) The **Code of Conduct** to promote the **Division of Labour** among EU donors is expected to be adopted by the Council in May 2007.

(3) The first edition of the **European Development Days** was successfully held in November 2006 and will now be held every year.

(4) A revised **EU Donor Atlas**, including first regional (West Africa) and country (Mozambique) editions has been compiled.

(5) A baseline for the **four additional EU commitments** regarding the Paris Declaration has been set, through an EU Roadmap exercise on harmonisation which reported on local processes on aid effectiveness. The Commission restates its intention to meet the 50% objective for aid via country systems through budget support.

(6) All **obstacles to co-financing** under EC rules have been removed.

7. SPEEDIER PROGRESS REQUIRED TOWARDS MORE PREDICTABLE AID MECHANISMS

Budget support, the recognised key instrument for ensuring medium-term, policy-performance-based support to developing countries, remains a favoured instrument for 13 Member States. Some are increasingly willing to consider general budget support on top of sector budget support. The Commission is developing the concept of general budget support as a possible way to increase aid predictability, incorporating clear eligibility criteria and a focus on results. Budget support ought to be based on mechanisms ensuring ex post information and accountability A possible arrangement could include longer-term budget support, guaranteeing certain levels of annual support, subject to safeguard clauses.

8. MITIGATING THE IMPACT OF EXOGENOUS SHOCKS: STRONGER SUPPORT BY MEMBER STATES IS WARRANTED TO SUPPORT EMERGING CONCEPTS

Increasing the resilience of developing countries to external economic shocks (price vulnerability) and natural events (disasters, climate change and pandemics) is a common goal of EU development policy. In 2006 tools for this were conceptualised and piloted, but they have attracted little attention and progress remains limited.

- **Revenue vulnerability**: The Netherlands (NL) and the **Community** (EC) are renewing their support for the Commodity Risk Management Group (CRMG) in the WB, which has shown that market-based instruments for risk reduction related to external price movements are feasible. FR has developed risk management initiatives for cotton and envisages piloting a new integrated mechanism in selected countries within an emerging joint donor approach.

- **"Disaster risk reduction" (DRR)**: In 2005-2006 the **EU** spent over € 3.5 billion on disaster-related support, of which only an estimated **three percent** went to **ex-ante assistance**. Interest in broader strategic approaches to disaster preparedness is increasing but much broader support by the Member States is required. In order to offer a common approach in 2008 the Commission will propose, a joint "EU strategy for DRR", building on available experience (e.g from the 9th EDF Natural Disaster Facility) and aligned with international initiatives.

- FLEX is the EC's mechanism for ACP countries aimed at safeguarding reforms that could be put at risk as a result of short-term fluctuations in export earnings. With a view to reinforcing its anti-cyclical nature, proposals for making FLEX-assistance available earlier and more easily will be discussed with Member States and the ACP group.

The Commission suggests that Member States

- strike a better balance **between ex-post** natural disaster responses **and ex-ante** risk reduction strategies, based on a common EU approach to disaster prevention/preparedness;

- strengthen support for piloting/ scaling up new instruments and methods to reduce adverse effects of external shocks on developing countries, distinguishing between market-based answers to shocks resulting from international price fluctuations and efforts to mitigate shocks caused by natural disasters;

- actively **participate in the International Task Force on Commodity Risk Management** to improve information exchange on novel risk management approaches.

9. UNTYING AID: INTERNATIONAL DEVELOPMENTS LAG BEHIND EU PROGRESS

The EU is untying more aid. The majority of Member States that are DAC donors have (almost) fully untied their ODA. Others have introduced new measures to further untie part of their aid. Some of the EU-10 have started to implement the DAC Recommendation on untying aid to LDC. The increasing use of budget support also contributes to the improved record of the Union's combined development assistance. Member States are encouraged to advance further towards fully untying their aid.

As the EC **internal market rules apply to Member States' ODA,** the Commission reaffirms its duty to pursue any infringement in this regard. Member States that are in the process of building their development cooperation systems, namely their procurement schemes, need to untie their aid in relation to all other Member States.

In 2006 the EC translated its untying regulations into the new financial cooperation instruments under the EC budget; in this context the support to non-state actors was also untied.

The Commission welcomes the extension of the scope of the DAC Recommendation (through lowering the threshold for its application), after years of impasse, and calls for further progress, i.e. to move from a trade approach limited to the issue of reciprocal access between donors to a more pro-poor approach centred on developing countries. This requires a further extension of the DAC Recommendation (focus on access for developing countries; promotion of local preferences). The Commission points to the EU agreement to further advance, within relevant international fora, on **untying food aid and food aid transport**.

10. STRENGTHEINING THE EU'S INFLUENCE IN THE INTERNATIONAL FINANCIAL INSTITUTIONS (IFI)

Despite the varying pace of progress, the EU coordination within the World Bank and the IMF has advanced. In particular EU Executive Directors at the World Bank have so far issued around 40 joint statements in an informal coordination setting and thus significantly augmented EU visibility and influence. Joint positions by EU Member States appear essential to further increasing the Union's visibility and influence in the IFI. Improved EU coordination in the IFI mostly relies on increased dialogue and information sharing. WB and IMF EU EDs meet weekly to exchange views on Board topics and decide on common positions where possible; the Commission is facilitating this coordination and aims to provide further support. There is scope for improving the EU coordination at the IMF, particularly in Washington.

The Commission also invited in 2007 the EU EDs of the three main regional development banks (African, Asian and Inter-American Development Banks) to Brussels to improve coordination with the Commission and dialogue among themselves. The meeting proved useful and will be regularly held.

The Commission also proposes

- to pursue systematic coordination meetings of EU EDs, with the Commission participating, at the WB and the IMF with a view to adopting common European statements on Board issues as often as possible;
- to improve EU coordination prior to the Spring/Annual Meetings; the Commission stands ready to provide the necessary support;
- the exchange of information and documents between EU EDs and the Commission, including timely and regular transmission of Board documents of the IFI (including regional development banks to the Commission);
- to reinforce the European voice within the WB while at the same time enhancing the voice of developing countries.

11. THE EU CONFIRMS SUPPORT FOR THE GLOBAL PUBLIC GOODS (GPG) BUT WILL NOT LINK ACTIONS TO THE RECOMMENDATIONS OF THE INTERNATIONAL TASK FORCE

The Report of the International Task Force on GPG – *Meeting Global Challenges* – was released in September 2006. Overall EU Member States' first reaction seems to have suffered from delays in finalising the report and the low profile it was given. While mostly aware of the report, Member States are not convinced it contributed substantially to the debate on GPG. The Commission sympathises with this perception, although it acknowledges the substantial analytical work and consultations with a broad range of actors undertaken by the Task Force.

There is **general agreement on the priority GPG** identified by the Task Force, especially for those related to **health** and the **environment**, but this support in principle is not backed up by strong views on specific financing for GPG.

Most Member States agree on the need for a reformed UN system, consistent with the recommendations of the High-Level Panel on UN System-wide Coherence, to strengthen the transparency of its operations and overall accountability; but there is not support for the report's key proposal for improved global governance, i.e. the Global 25 forum.

The Task Force's strategy for **financing** GPG receives mixed support: a majority of Member States is in favour of some proposals, which are plain and already agreed internationally. Other more innovative recommendations, which attempt to de-link GPG from development assistance, deserve attention, but very few Member States support them. In view of the above and of the Commission's own analysis of the report, it appears that the Task Force's proposals do not currently attract significant EU interest. Establishing an EU Action Plan for enhanced supply and financing of GPG at this point in time would therefore be premature and ill-advised. Despite this assessment, the EU has made notable progress to enhance the supply of priority GPG, such as in health and environmental matters, and it continues to take on the "responsible leadership" role strongly argued for by the Task Force. The opportunity for an overarching initiative for GPG may be reassessed in the future.

Meanwhile, the Commission will strengthen its action on environmental GPG through enhanced collaboration on alliance-building with developing countries. This enhanced collaboration aims at a second phase of the Kyoto Protocol (post-2012) that should serve different purposes, e.g. be both compatible with achieving the MDG and with limiting climate warming.

12. CONCLUSIONS

The combined EU ODA results 2006 exceeded expectations, but some Member States have yet to catch up and deliver agreed baseline aid levels. The overall prospects for the EU's attaining the next milestone ODA targets by 2010 are good, if core issues are addressed to sustain the EU's credibility as the largest provider of development finance and if public opinion supports scaling up. The speedy application of the EU Code of Conduct on Division of Labour in Development Policy is the best opportunity for a quantum leap in the effectiveness of EU aid. The nexus of trade and development must be dealt with under the joint EU Aid for Trade Strategy, which requires credible follow-up by all stakeholders. Overall there is progress, at varying pace, on most of the EU commitments, but greater efforts are necessary and more active Member State participation is required in several areas, e.g. regarding budget support and concepts to mitigate the impact of exogenous shocks.