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

**Annual Report 2009 on the European Community's Development and External
Assistance Policies and their Implementation in 2008**

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The year 2008 posed challenges for the European Union and its development partners across the world. Soaring food and energy prices and the global financial crisis tested the EU's ability to meet ongoing aid commitments and deal with new needs. The European Commission responded swiftly to offset the impact of high food prices on poor countries. The European Union demonstrated its reliability by setting up a €1 billion Food Facility for 2008-2010 from the EU budget by the end of December. In the meantime, the Commission increased its budget for humanitarian food aid from the emergency aid reserve with €140 million and redirected money earmarked for food security to the most vulnerable populations. Furthermore, it called up €200 million from the unallocated reserve in the 10th European Development Fund (EDF). The Commission also undertook to increase levels of macro-financial assistance to countries in need on a case-by-case basis. Despite the economic crisis, the EU and its Member States reaffirmed their commitments to increase development assistance in coming years. Responding in a flexible and effective way to the situation as it unfolds will remain a key objective for 2009.

A truly global dimension

The global nature of the EU's external policies was clearly evident in 2008 as the EU deepened its relations with partners across the world and sought their cooperation on global issues like climate and energy, trade liberalisation and the attainment of the Millennium Development Goals of 2000 by the target date of 2015.

In May, the EU put its relations with Latin America on a new footing at a summit meeting in Lima. Leaders from the two sides adopted an agenda for joint action to focus on two themes: social cohesion and sustainable development. The EU held its first-ever summit with South Africa in July. Georgia became an unscheduled centre of attention in August as a result of the conflict with Russia. The Commission quickly put together a three-year package of up to €500 million. It mobilised a first payment of €60 million for internally-displaced persons in Georgia before the end of the year.

The EU devoted a lot of attention in 2008 to its neighbours in eastern Europe and in the Mediterranean basin. It launched the Union for the Mediterranean with its southern partners in July, while in December the Commission proposed a new Eastern Partnership for its eastern neighbours. Negotiations on a new partnership agreement with Russia, frozen by the EU because of the conflict with Georgia, were unblocked at an EU-Russia summit in November. During the year, the EU provided a total of €498 million in assistance to the Palestinians mainly to cover the running costs of the Palestinian Authority and to support the Palestinian Reform and Development Plan.

Throughout the year, the EU and its African partners started work on the eight thematic partnerships which are part of the ambitious joint strategy adopted at their Lisbon summit in December 2007. The two sides also strengthened their dialogue on global issues, including the impact of the financial crisis, climate change and governance in international institutions. Following on China's increased involvement in Africa, the Commission made proposals for three-way cooperation, EU-China-Africa, to find common solutions to common challenges.

The Commission pressed for more regional cooperation and economic integration among African-Caribbean-Pacific (ACP) partners as a means to promote growth, trade and development. It focussed efforts on negotiations for regional Economic Partnership Agreements (EPAs), with groups of sub-Saharan countries and with ACP countries in the Caribbean and Pacific regions. ACP states also benefited from the regional component of the new EDF, such as a contribution of €300 million to the African Peace Facility, support for ACP institutions and for the Global Fund to fight AIDS, tuberculosis and malaria.

During the year, the Commission continued efforts to conclude formal agreements with strategic Asian partners, China and India, as well as with South Korea and members of ASEAN (the Association of South-East Asian Nations). Assistance to ASEAN concentrates on its integration efforts as outlined in the ASEAN economic community blueprint, and builds on European experience with regional integration tools such as statistics, customs and common standards. The Commission also pursued negotiations for comprehensive Association Agreements (political dialogue, development cooperation and preferential trade) with the Andean Community and with Central America.

Getting the policies right

The unforeseen events of 2008 did not distract the EU and the European Commission from their development priorities. During 2008, the Commission reviewed progress towards the Millennium Development Goals at mid-way. It assessed EU technical and financial assistance in the context of the eight MDGs. The Commission prepared the EU's agenda for action on the MDGs in June. This sets milestones for 2010 to make up lost ground on core social (particularly health) and environmental targets. For the Lower and Middle-Income Countries, cooperation concentrates mainly on supporting policies to reduce poverty.

In fact, these events reinforced the need for more policy coherence, particularly on big issues like climate change, where the EU is at the heart of the process, and world trade. The EU's high profile on climate change can directly benefit the poorest and most vulnerable developing countries as witnessed by the operational launch of the Adaptation Fund agreed at the UN Climate Change Conference in Poznan, Poland, in December 2008. The first Voluntary Partnership Agreement under the FLEGT (Forest law enforcement, governance and trade) initiative was concluded with Ghana in September 2008.

In 2008, the Commission increased efforts to integrate issues like gender, the environment, and the rights of children and indigenous people fully into the development process. In February, the Commission proposed a package of measures focussing on children in external actions. It sets a number of priorities at regional and

global level in relation to child labour, child trafficking, children affected by armed conflict and violence against children. During the year, the Commission took steps to make sure that other EU policies which impact on development cooperation and assistance do so positively. These include not only trade but also agriculture, energy, research and development, migration, security and tax policy as well. During 2008, a number of Caribbean and Pacific countries undertook the commitment to implement the principles of good governance in the tax area which was among the criteria taken into account to allocate the 10th EDF Governance Incentive Tranche.

The Commission has moved democratic governance to the top of its agenda as a marker and reference point in planning and delivering its technical and financial assistance. It sees democratic governance as a policy area to be supported *per se* as well as a cross-cutting issue incorporated into all aid programmes in all sectors. It is also a central theme in any policy dialogue. During 2008, the Commission defined a methodology to analyse and address the governance issue in its sector operations. The challenge is that promoting democratic governance is a highly sensitive process and one which is specific to each country.

In 2008, the Commission worked hard to make its aid more effective by creating coherence and synergy between the relevant geographic and thematic instruments which promote democracy and human rights. In this context, geographic programmes are devoted mainly to institution-building and democratic processes such as elections. They provide electoral assistance, support for parliaments, human rights and civil society institutions, and the media. As the EU's main thematic tool, the European Instrument for Democracy and Human Rights (EIDHR) is the concrete expression of the importance the EU gives to this policy. The EIDHR can intervene in places where the EU is not normally present and, more crucially, even without the agreement of third countries. Its main beneficiaries are groups and individuals who are struggling for democracy, human rights and fundamental freedoms within civil society.

Since the despatch of the first EU election observers to Russia in 1993, EU Election Observation Missions (EOMs) have become a highly-visible tool of European diplomacy. In 2008, the European Commission sent EU EOMs to monitor national elections in 10 countries in Asia, Africa and Latin America: Pakistan, Bhutan, Nepal, Cambodia, Rwanda, Angola, Ecuador, Guinea-Bissau, Ghana, and Bangladesh. The European Commission is continuing its training programme for election observers in 2009.

More and better aid

The amount of aid handled by the Commission, including its Delegations, has increased steadily and substantially over recent years. The value of funds committed during 2008 reached €9.33 billion, an increase of more than 90% since 2001. Despite the late ratification of the 10th EDF, the Commission was able to commit €4.89 billion from this source by the end of the year. In this effort, the Commission mobilises its various financial instruments: the EDF for ACP countries, the Development Cooperation Instrument for Asia and Latin America, and the European Neighbourhood Policy Instrument for eastern Europe and the southern Mediterranean countries.

The European Union has been the driving force behind efforts to make aid more effective by channelling it through country systems to reinforce local ownership and reduce transaction costs for partner countries. The Third High-Level Forum on Aid Effectiveness in Accra, Ghana, in September laid special emphasis on the division of labour among donors, the use of country systems, the predictability of aid, mutual accountability for results and less conditionality.

The output from the Forum, the Accra Agenda for Action (AAA), sits well with the EU's own aspirations. The AAA involves a wider range of partners, donors and recipients than ever before. Partner countries themselves, emerging-country donors, middle-income countries and non-state actors, all play an increasingly important role. Looking beyond the AAA, the Commission will continue discussions with Member States on how to carry forward the aid effectiveness agenda at a European and international level. It is a question of value for money – for the beneficiary countries, and for the European taxpayer.

As part of its response to the commitments on the use of country systems and aid predictability, the Commission finalised its proposals for the MDG-Contract, which will provide longer-term, more predictable form of general budget support targeted at good performing countries with a proven track record of successfully implementing budget support. MDG-Contracts were initially approved for seven ACP countries (Burkina Faso, Ghana, Mali, Mozambique, Rwanda, Uganda, and Zambia), representing over 40% of programmed general budget support in the 10th EDF.

During 2008, the Commission worked intensively to reform its technical cooperation and project implementation units. It adopted the so-called 'backbone strategy' in July. This defines a series of principles including focus on development of local capacity, a demand-led approach, partner country ownership throughout the management cycle of operations, and strong result-orientation.

The Commission further increased the share of development aid delivered in the form of **budget support**, its preferred delivery vehicle when conditions allow. Budget support, where funds are transferred to the national treasury of the beneficiary country, is gradually replacing direct project-linked funding. During the year, budget support commitments represented 39% (€3.86 billion) of all commitments from the EC budget and the EDF.

The funds are provided either as general budget support (GBS) or sector budget support (SBS) where the focus is on one sector. In 2008, GBS commitments made up 60% of all new budget support operations, amounting to €2.3 billion. The main beneficiaries were ACP (21 countries), Asian (Laos and Vietnam), and Latin American (Honduras). As for SBS, 2008 saw not only an increasing use of this aid vehicle but also a greater diversity in the sectors covered, especially in non-ACP countries¹. Total SBS commitments amounted to €1.5 billion, about 40% of new budget support operations committed in 2008. SBS operations represented 18% of new budget support commitments for the ACP region, nearly 60% in Asia, and up to 100% among the EU's eastern and southern neighbours and South Africa. In the latter cases, budget support operations are concentrated in areas such as justice,

¹ For the purpose of this document South Africa is treated separately from the ACP region

legislative support, energy, trade and competitiveness. In Asia, most of the commitments were in the social sectors. In Latin America, the main sectors were water management, education and employment. Although in ACP countries SBS focused on traditional sectors (roads, health and education), some new sectors like justice, professional training, decentralisation are also emerging.

The Commission is currently developing, in consultation with other donors and Member States, a comprehensive methodology for evaluating both general and sector budget support operations at country level. This methodology will be tested in 2009-2010 and subsequently refined. In 2008, a comprehensive overview of EC general budget support programmes was also undertaken covering 46 programmes. It reveals that on average 70% of the variable tranche of payments which is based on specific performance indicators was disbursed. This is an indication that targeted results were achieved at a fairly high level.

One of the criteria beneficiary countries must demonstrate in order to qualify for budget support is their ability to manage public finances. Effective **public finance management** (PFM) is essential to ensure that governments are accountable for European taxpayers' money entrusted to them for the benefit of their population.

As with most other donors (including the IMF and the World Bank), the EC uses an initial dynamic PFM diagnosis as the baseline for measuring progress over time. From June 2005 to the end of 2008, so-called PEFA² assessments were carried out in 55 ACP countries. All ACP countries and nearly all other countries around the world benefiting from EC budget support had completed a PEFA assessment by end-2008.

The Commission has committed itself to make budget support more effective and transparent by strengthening PFM assessments, improving the structure and formulation of financial agreements, refining further the eligibility criteria for budget support and risk assessments, and improving reporting systems.

In future, budget support operations will increasingly be used to meet the financing requirements of developing countries. The Commission will continue to look after the special needs of fragile states.

Focus on results

The Results-Oriented Monitoring (ROM) system has become an integral part of implementing most Commission programmes. It provides a transparent, rapid and comprehensive review of how a project is progressing at a given point in time. It is carried out in all regions of external cooperation by independent experts. Using a well-structured and robust methodology, findings are presented according to internationally agreed criteria³. After eight years, ROM has proved its usefulness not only at project level to inform on project performance, but also at macro level to support management decisions, and at programming level to provide qualitative data for analysis.

² Public Expenditure & Financial Accountability is a methodology applied by the EC and other leading donors to assess public financial management by beneficiary countries.

³ Relevance and design, efficiency, effectiveness, impact and sustainability.

In 2006,-2008, more than 530 completed projects were monitored by the ROM *ex post* methodology. A 2007 study examined its potential benefits and confirmed *ex post* ROM as a cost-effective and flexible tool. For ongoing projects, the ROM methodology has been streamlined and improved, so as to better cover important topics such as the mainstreaming of gender and environmental issues. The need to move forward from purely quantitative to more qualitative analysis of ROM data was also tackled in 2008.

In addition, eight evaluation reports were completed in 2008: four geographical, one thematic and three on aid delivery modalities. Twelve new evaluations were initiated. Ten concern individual countries while the other two deal with conflict prevention and peace building, and employment and social inclusion. The Commission takes into account the results of these evaluations to improve the quality and impact of its external assistance. In general terms, the evaluations showed a good performance in terms of relevance and effectiveness of EC programming and implementation. Areas where more efforts are needed include: synergy between activities; mix of modalities for delivering aid; and coherence between country and regional aid. The EC has also undertaken efforts to increase the visibility of its activities especially when funds are channelled through International Organisations or through budget support.

Working together

More donor coordination, particularly through sharing expertise and concentrating activities (division of labour), is important for increasing aid effectiveness. It is now practised in many countries. Tanzania, Mozambique, Uganda, Ghana, Burkina Faso and Mali are examples of sub-Saharan African countries where coordination is advanced and a clear division of labour is applied. In December 2008, a conference on EU donor coordination in Latin America was organised by the Commission and the French EU Presidency. In Afghanistan, a joint EU contribution on aid effectiveness was prepared as part of a response to the Afghan National Development Strategy. In Occupied Palestinian Territory, the EC created an efficient instrument, PEGASE, to deliver aid including contributions by Member States. Since it was launched in February 2008, PEGASE had disbursed (in the 12 months to 31 January 2009) €409.2 million in direct financial support. It has also managed over €31 million from 14 EU Member States of which 78% was disbursed in the same period.

The Commission continued to channel part of its development aid through the United Nations, the World Bank and other international organisations where this was the most effective means of delivery. In Iraq, most of the EC €785 million support since 2003 has been channelled through the IRFFI (the International Reconstruction Fund Facility in Iraq), a multilateral mechanism established in 2004. Two major evaluations completed in 2008 came to the conclusion that the Commission, the World Bank and UN agencies have benefited from this increased cooperation, which has been facilitated through financial and administrative framework agreements. These have made it possible for the Commission to provide assistance in countries where conditions on the ground were too difficult and hazardous for it to establish its own delivery channels. However, a new strategic approach needs to be considered, and visibility must be reinforced.

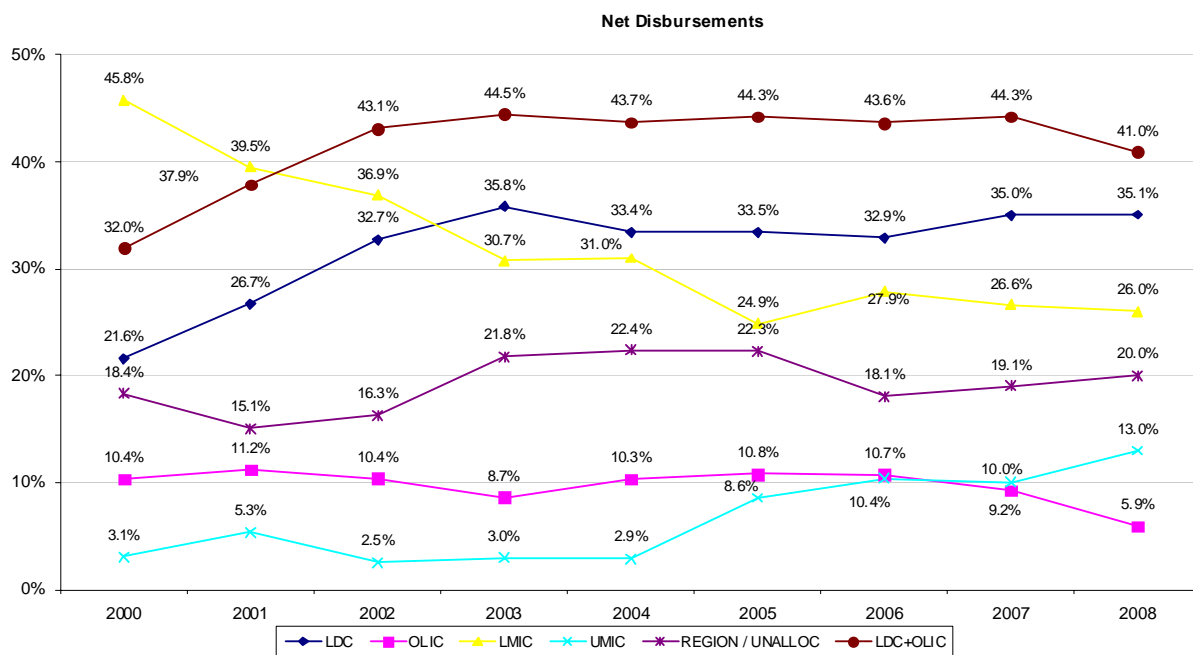
In addition, the Commission strengthened its cooperation with the UN and the World Bank for responding to post-crisis situations and for planning recovery operations by way of a joint declaration signed on 25 September 2008. The initiative establishes a common platform for the delivery of an effective and sustainable international response after disaster- and conflict-related crises. All donors and partners are invited to join this effort.

In 2008, the Neighbourhood Investment Facility (NIF) was established to pool together grant resources from the Commission and the Member States to leverage investments in partner countries provided by European public finance institutions. The lending operations mainly focus on mainly on three priority sectors: energy, transport and the environment. The facility approved 15 projects for financing via a total NIF contribution of €70.95 million. This leveraged loans from European finance institutions of €1.65 billion. In addition to the EC Budget contribution, Member States have to date pledged €37 million of direct contributions to the NIF Trust Fund for 2008-2010.

Finally, the Commission issued a policy paper on *Local Authorities: Actors for Development* to set out the first elements of a strategy which will capitalise on local authorities' experience as partners in development.

In 2009, the economic crisis will with no doubt make the situation of many countries more fragile. Attaining the Millennium Development Goals will become harder. This is why EU external assistance policy focuses on achieving concrete results, enhancing the flexibility of its aid instruments and fostering action on regional integration.

2000-2008 Poverty focus

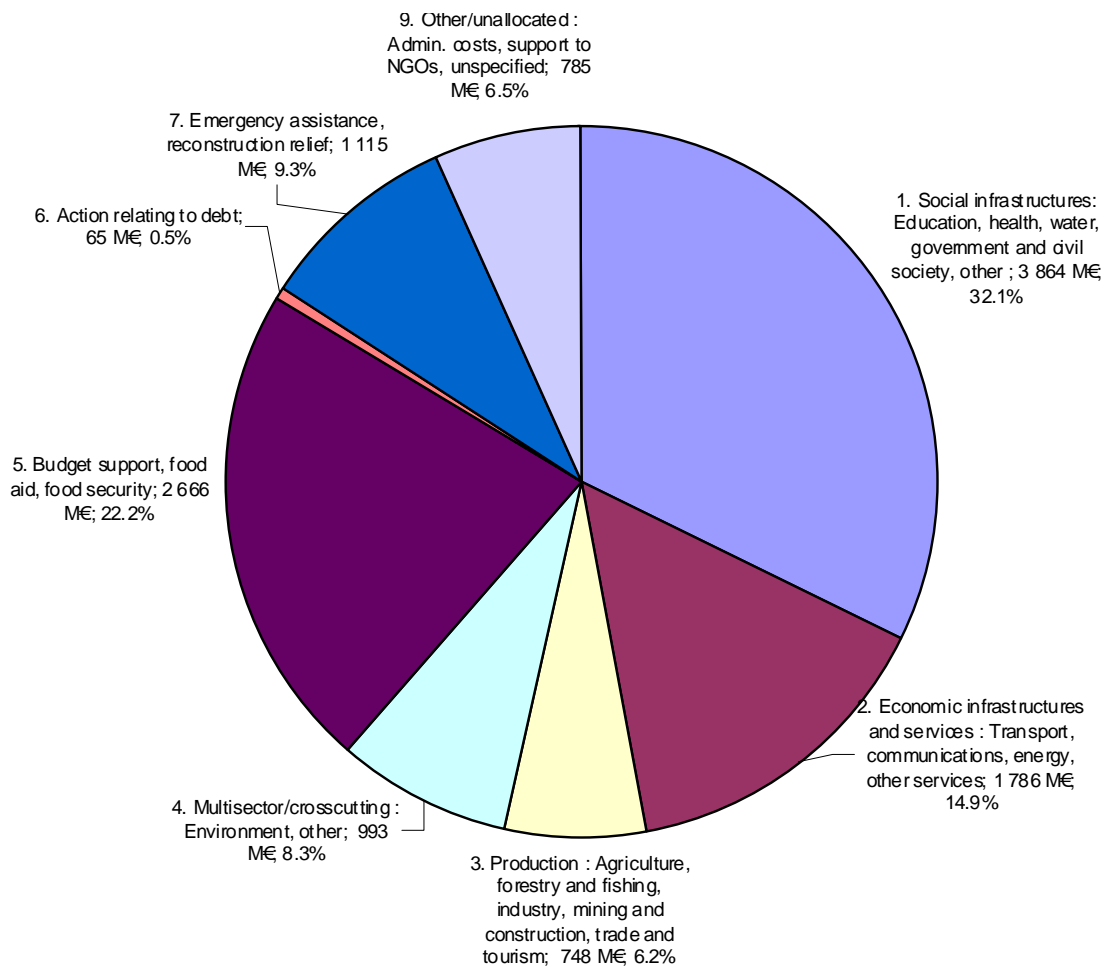


2000-2003 EC reporting to DAC (following the same method: LDCs/LICs country specific allocations -including EIB- /Total disbursements)
 2004 Annual Report information
 2005, 2006, 2007 Annual Report information according to DAC List of recipient updated in 2006
 2008 Provisional figures Annual Report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

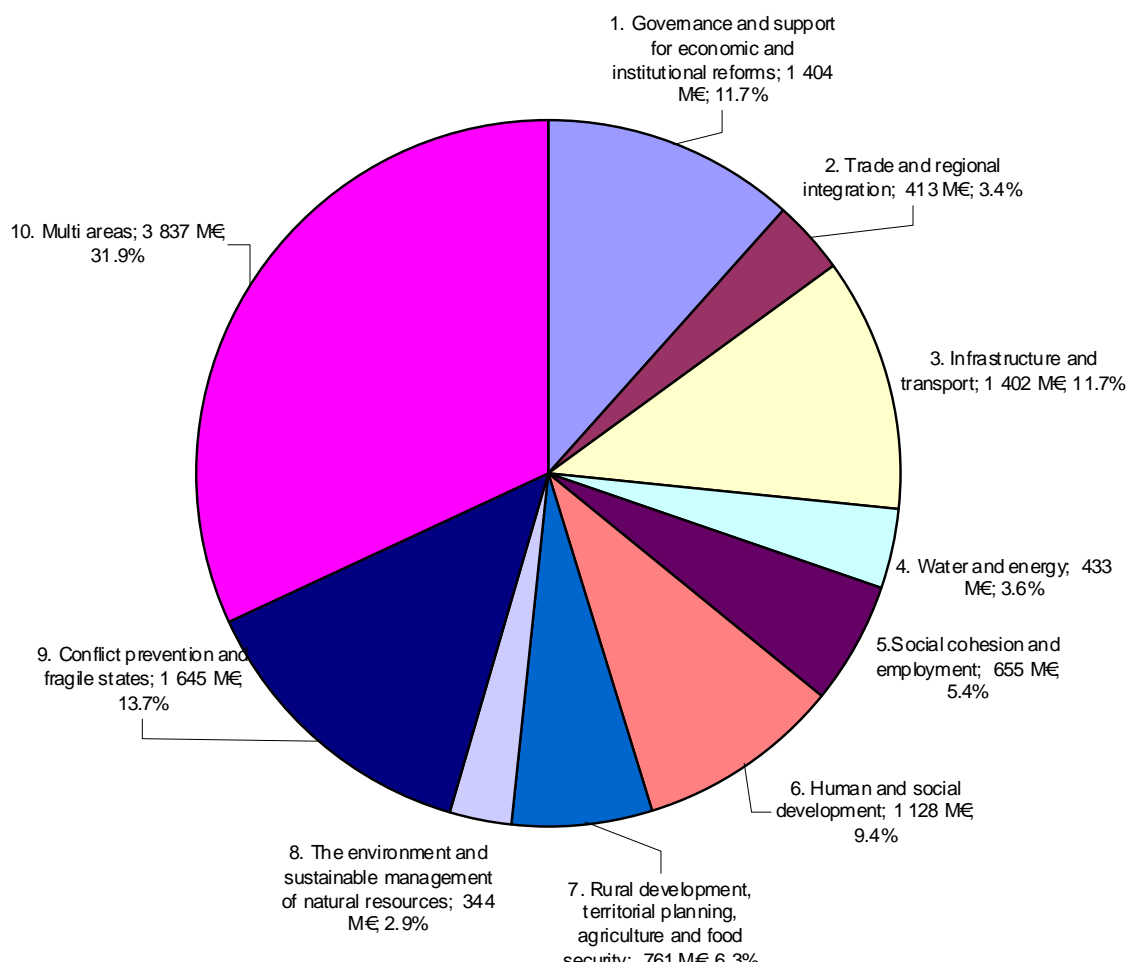
Figures on poverty reduction confirm the trend of previous years, with 35% of Official Development Assistance (ODA) going to least developed countries. The reduction of ODA to Other Low-Income Countries (OLIC) is mainly the result of a revision in the list of ODA recipients carried out by the OECD's Development Assistance Committee (DAC). 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.

Sectoral Breakdown



Commitments 2008 (€ million)
ODA/OA resources managed by European Commission

European Consensus : Areas relating to EU development cooperation



Commitments 2008 (€ million)
ODA/OA resources managed by European Commission