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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS**

**Supporting developing countries in coping with the crisis**

# *Where does the EU go from Doha?*

# *What prospects for meeting the EU targets of 2010 and 2015?*

# *Annual progress report 2009 on financing for development*

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## 1. INTRODUCTION

A series of high level events (the UNCTAD XII Conference, the Third High Level Forum on Aid Effectiveness, held in Accra, and the two UN High Level Events on the MDG and the Special Needs of Africa, held in New York) made development a key priority on the international agenda of 2008, culminating with the Doha Financing for Development Follow-up Conference in December.

The global crisis is having a serious impact on developing countries. The international community has repeatedly underscored that development needs to be an integral part of the response to the crisis. This promise has to be turned into practical actions; keeping in line with the financing for development commitments given at EU and G8 level is a central pillar for this. The focus on development will remain sharp throughout 2009; no international debate on global issues (*e.g. financial stability, economic recovery, global governance architecture, climate change.*) can escape from integrating the development dimension into the design of solutions. This year's Monterrey report[1] is set against this intense international background.

A strong, united and visible EU position played a key part in making the Doha conference a success, producing an explicit action-oriented Declaration. One major success in Doha was that, UN member states reconfirmed their **aid commitments**, including 0.7% of /GNI for ODA, and also called for establishing **rolling timetables for scaling up aid. The aid effectiveness principles** agreed in Paris and Accra were prominently stressed and support was expressed for exploring **innovative sources of financing**. **Governance and better mobilisation domestic resource** were seen as other vital areas to develop. A shared understanding was expressed that the new global challenges need to be tackled in a comprehensive and inclusive fashion.

This strong position on the part of UN members was made possible by the clear and comprehensive commitments given by EU in the common position for the Conference adopted by the General Affairs and External Relations Council on 11 November. The EU needs to honour the commitments given. The 2008 Monterrey report follows the structure of the 2002 Monterrey Declaration, but also includes the new subjects decided in Doha. It will provide baseline information for monitoring progress on these additional topics.

The EU reconfirmed, in 2008, its role as the world leader in terms of development financing: It increased its spending by 8% reaching almost €50 billion, which is 0.40% of EU GNI. This is an all-time high in current prices and corresponds to almost €100 spent on aid per EU inhabitant. This aid increase is a commendable correction of the downward trend the EU registered in 2007; aid disbursements have though not yet gone back to the 0.42% ODA/GNI level achieved in 2006. Moreover, the prospects for reaching the EU collective commitment to provide 0.56% of its GNI as ODA by 2010 remain bleak; reaching this target would require additional ODA disbursements of around €20 billion by 2010 from current levels. Most of the Member States are increasing their ODA, but can reach their individual targets of 0.51% or 0.17% of GNI only through demonstrating substantial extra efforts.

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[1] Comprising the Communication COM(2009)160 of 08.04.2009 'Supporting developing countries in coping with the crisis' and four related Staff Working Papers, this one and Aid for Trade ("2009 Aid for Trade Monitoring Report" - SEC(2009) 442), Aid effectiveness ("Aid Effectiveness after Accra – where does the EU stand?" - SEC(2009) 443) and on the Millennium Development Goals ("Millennium Development Goals – impact of the financial crisis on developing countries" - SEC(2009) 445)

The EU needs to remain in line with the level of ambition and commitments it showed in Monterrey and Doha. **Implementation of the action-oriented Doha Declaration-the culmination of the international high-level events in 2008 and a success at a time of a worsening financial and economic crisis must follow closely**. A clear common understanding emerged in Doha that shared responsibility can only work if global governance processes and structures are inclusive enough and reflect the global partnership, with the voices and interests of the rich, the emerging and the poorest all taken into account. This concern underpinned the decision taken at Doha that the UN should hold a conference at the highest level on the world financial and economic crisis and its impact on development (at the beginning of June 2009). Core concerns of the Doha Declaration could resurface in this context.

This report is the Commission's seventh annual assessment of how Europe has been delivering on the commitments made to contribute to the broad international financing for development agenda since Monterrey (2002) and evaluates how Europe has moved from rhetoric to reality since then. The report builds on and assesses the opinions expressed by the 27 Member States (EU-27) in their replies to the monitoring questionnaire ("Monterrey survey 2009”[2]) and to an additional survey of early 2009 that had the objective to explore what measures Member States' are considering in their cooperation programmes and instruments to react to the impact of the crisis on developing countries. The results of this analysis will inform the EU position in the forthcoming international meetings. Individual "donor profiles" of the Member States and the Commission are being prepared to reflect the positions they expressed in the survey.

The initial and continuing EU commitments on financing for development raise the questions of to the volume and sources of financing, the quality of aid, support for mobilising domestic financial resources for development, mobilising additional international financial flows and trade, creating a development-friendly international governance system and dealing with new challenges. Building on shared concerns the EU commitments have been deepened and extended and now also cover governance with a focus on tax issues and financial transparency and on foreign direct investment and remittances

Progress on the EU commitments on aid for trade, Aid effectiveness and on the Millennium Development Goals is assessed in three separate Staff Working Papers[3].

## 2. THE UN CONFERENCE AT THE HIGHEST LEVEL ON THE WORLD FINANCIAL AND ECONOMIC CRISIS AND ITS IMPACT ON DEVELOPMENT

The United Nations will hold, in June 2009, a conference at the highest level on the world financial and economic crisis and its impact on development. The decision to organise this event was taken at the Doha Financing for Development Follow-up Conference in December 2008 as stated in paragraph 79 of the Doha Declaration on Financing for Development. Following the G20 London summit in April 2009 this conference will be another mile-stone international event this year. The most important meeting of 2009 is, likely to, be the United Nations Framework Convention on Climate Change in Copenhagen. All these events will –

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2 http://ec.europa.eu/development/icenter/repository/EU-progress-on-financing-for-development-and-MDGsQuestionnaire11-12-2008.pdf

3 see footnote 1

once again – illustrate that financing for development remains a key contribution to tackling global challenges. These conferences also offer great opportunities for inclusive global debate on the impact of the financial, economic and environmental crisis and should produce a global response to mitigate the negative impact of the crisis on development and particularly the most vulnerable developing countries with limited resilience

The European Union should engage actively and constructively in the UN Conference and the preparatory process.

### 2.1. The EU priorities

Numerous international conferences and events in 2008 - On Financing for Development in Doha, Aid Effectiveness in Accra, MDGs and Africa in New York and Climate Change in Poznan – produced important decisions and commitments to achieve the global development goals, including the MDGs, to meet aid targets, to make aid more effective and to carry out inclusive reforms of global governance. The European Union's strong united stance, leadership and determination were necessary in order to secure these significant successes in 2008. The same united EU resolve is needed even more now to face the global financial and economic crisis.

The Commission considers that the EU's positions for the UN Conference should be based on the global partnership, which is the foundation for all EU development efforts. This means that all partners, rich, emerging and poor are expected to contribute to the decisions, commitments and actions needed to tackle the impact of the crisis on development.

As regards the substance of the EU contribution to and priorities for the UN Conference, the Communication "Supporting developing countries in coping with the crisis", accompanied by this and other Staff Working Papers, puts forward concrete proposals for the EU to take forward in the various international fora, including in the UN . These proposals and the ensuing Council Conclusions should form the core of the EU input to the UN Conference and should focus on:

- honouring aid commitments;
- leveraging other means of providing assistance and s mobilising resources
- taking and facilitating counter-cyclical actions;
- improving aid effectiveness;
- cushioning the social impact, protecting the most vulnerable and supporting the real economy;
- making a "governance pact" with developing countries;
- improving openness, efficiency and inclusiveness of global governance systems.

### 2.2. The preparatory process

At the time of writing, the consultations on the arrangements for the UN Conference were still in progress in the UN General Assembly. It seems likely that the Conference will take place from 1to3 June 2009 in New York. The UN General Assembly consultations/negotiations on the outcome are expected to start in early April with a view to adopting a political declaration during the Conference itself.

## 3. MOBILISING DOMESTIC FINANCIAL RESOURCES FOR DEVELOPMENT – EU FOCUS ON ECONOMIC AND FINANCIAL GOVERNANCE

The Doha Declaration reaffirmed that each country bears prime responsibility for its own development and underscored the consequent requirements relating to democratic governance, respect of human rights and rule of law. In the field of economic governance, it one a particular EU priority was to tackle taxation, where there is potential for further mobilisation of domestic resources. The current financial and economic crisis underscores the importance of raising domestic resources, which will - in the long-term - provide more predictable, secure and sustainable sources for development and enable poor countries to grow out – over time - of the aid dependency. The Doha Declaration there are strong **commitments on tax reform, the improvement of public financial management and combating tax evasion** leading to more efficient tax collection and broadening the tax base with an overall view of making tax systems more pro-poor. Underscoring that each country is responsible for its tax system, the Declaration stresses the need to support national efforts in these areas by stepping up technical assistance and enhancing international cooperation and participation in addressing international tax matters. The Declaration also meets related EU concerns with strong messages on **battling corruption, capital flight and on enhancing international tax cooperation**.

The deepening financial and economic crisis has revealed the vulnerability of advanced, emerging and developing economies in a globalised world. Tax havens[4] and under regulated international financial centres, both in developed and developing countries, which do not operate according to the principles of transparency and information exchange, have come under the enhanced scrutiny[5]. The assets supposed to be hosted in the world's tax havens exceed by a wide margin the annual global flows of ODA to developing countries[6], and their origin is often linked to capital flight, money laundering as well as tax fraud and tax avoidance. Tax havens deprive other countries of revenues urgently required to foster social development and other policy objectives, while in vulnerable economies, which have turned themselves into tax havens, poor pockets of the population persist and have little or no gain nothing from the off shore status of their country.

In a global economy, the EU and developing countries have a common interest in building sustainable tax systems that interoperate smoothly notably in order to mobilize domestic financial resources for development. In this respect namely good governance in the tax area (including through transparency, exchange of information and fair tax competition,) has an

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[4] As defined in the 1998 OECD report "Harmful tax competition: an emerging global issue". The OECD lists four key factors to determine whether a jurisdiction is a tax haven – i) the jurisdiction imposes no or only nominal taxes; ii) there is a lack of transparency; iii) there are laws or administrative practices that prevent the effective exchange of information for tax purposes with other governments on taxpayers benefiting from the no or nominal taxation; iv) there is an absence of a requirement that the activity be substantial. Certain jurisdictions which had not yet made commitments to transparency and effective exchange of information have been identified by the OECD's Committee on Fiscal Affairs as uncooperative (Andorra, Liechtenstein, Monaco). This could change in view of their recent commitments

[5] Cf. Outcome of the London G20 Summit in April 2009

[6] OECD estimates range from US$5 to 7 trillion

important role to play. For developing countries, good governance in the tax area could contribute to balancing the need to stimulate growth with generation of the revenues necessary to implement policies to eradicate poverty. For developed countries, it will contribute to the sustainability of their tax systems, thus creating room for manoeuvre for providing development assistance.

Against this background the EU, in its common position for the Doha Conference, has called for national and international action to fight corruption, tax fraud and illicit flows and has itself taken concrete commitments, expressed in the EU Guidelines for the Doha Conference[7]. In line with those commitments this report reflects the views expressed by EU Member States in return to the survey and takes account of the current thinking within the Commission on how to promote good governance in tax matters.

### 3.1. Better inclusion of tax and customs related matters in the policy dialogue and cooperation programmes for improved governance in developing countries

24 EU Member States and the European Commission provide active support to developing countries' customs, judiciary and tax administrations in one or another form. Support is namely provided through

- technical assistance programmes in countries covered by the European Neighbourhood Policy (ENP) and a number of ACP countries;
- programmes for the reform and modernization of customs administrations focusing, in particular, on the application of customs legislation and on training regarding selected aspects, such as rules of origin, valuation, classification, security, Intellectual Property Rights, enforcement etc;
- bilateral cooperation with developing countries or their regional organisations (different formats, e.g. technical assistance, study programmes, budget support);
- financial contributions to activities of international organisations, e.g. the World Bank (WB)/ International Finance Corporation (IFC), United Nations Office on Drugs and Crimes (UNODC), United Nations Democracy Fund (UNDEF) and the United Nations Development Programme (UNDP);
- cooperation with international organisations, such as the International Centre for Tropical Agriculture (Centro International de Agricultural tropical, CIAT), OECD, Inter-American Development Bank (IDB), the International Development Law Organisation (IDLO) and the World Customs Organisation (WCO), that has developed the Framework of Standards to secure and facilitate global trade.. Moreover Member States refer to support they provide through cooperation with civil society organisations such as the Association of European Parliamentarians for Africa (AWEPA) or through the Investment Climate Facility for Africa (ICF);

At Commission level the governance policy dialogue with developing countries benefitting from support under the European Neighbourhood Policy (ENP) and with ACP countries is underpinned by financial **incentives for governance reforms, including in the area of**

[7] Adopted by the GAERC on 11 November 2008 - Guidelines for EU participation in the International Conference on Financing for Development (Doha, 29 November - 2 December 2008)

**public finance management and taxation** (Governance Facility for ENP countries to support implementation of national Action Plans under the overall Partnership and Cooperation or Association Agreements or; the governance incentive tranche for ACP countries with Governance Action Plans).

**Economic and financial statistics** in developing countries provide primary tools for economic governance and for formulating appropriate policies, especially in response to the global crisis. Endemic tax evasion is closely linked with statistical misreporting and thus mis-measurement.

For most (21) of the EU Member States (21) the commitments on the part of partner countries to general good governance principles is one criterion for aid allocation, but there has been, until recently, no special focus on good governance in the tax area. The financial crisis has sharpened the awareness of the importance of good governance especially in the tax area and triggered new initiatives reflecting a change of approach, such as the strong messages from the G8 and the G20 , most recently at the London Summit of 2 April 2009[8] or the **French-Germany initiative on uncooperative jurisdictions in tax matters** launched in October 2008. DE followed this initiative up with the proposal to create an **International Tax Compact (ITC)**, as announced at Doha. The declared aim of the ITC is to contribute to the fight against tax evasion and abusive tax avoidance a major cause of loss of domestic revenue in developing countries. The ITC should promote, on the international and domestic levels, tax systems make developing countries more effective at fighting tax evasion and inappropriate tax practices in order to achieve national and international development goals. Strengthening the ownership, voice and participation of developing countries in international tax fora, raising confidence in tax systems, promoting domestic accountability and state building are among the key objectives that the ITC will attempts to promote in the context of international development.

Sound, transparent and reliable **customs systems** contribute to increasing domestic public revenues, reducing evasion and smuggling and facilitating access to international markets. Cooperation amongst customs administrations and between customs authorities and business or other government agencies must be further developed. Customs administrations need to ensure that they have the capacity and skills perform all customs controls most efficiently and effectively. Capacity building for customs administrations promoting regulatory compliance to facilitate legitimate trade and increase participation in international supply chains should be provided, for instance under the Columbus Programme of the WCO. Furthermore, the fight against corruption and the protection of Intellectual Property Rights remain important tasks that should be enhanced over the years to come. In this context revised Arusha Declaration of the WCO (June 2003) will remain the reference document for all Customs administrations. The comments made by the Member States in response to the survey show that the WCO Framework of Standards to secure and facilitate global trade could be considered the appropriate international instrument for stronger information sharing and for risk management and detection of fraud and other threats.

With a view to sustaining lasting capacity building for customs administrations around the world additional standards for combating counterfeiting and other forms of illicit activity are required. This will further promote a strong partnership and tight links between developed and

8 G20 London Summit Leaders' Statement of 02.04.2009, §15

developing countries and their economies, a partnership that is also important to foster an attitude of mutual and active cooperation.

### 3.2. Closer cooperation under bilateral tax agreements between EU Member States and developing countries

However, a number of Member States have concluded or started negotiating **Double Tax Conventions** (DTC) and **Tax Information Exchange Agreements** (TIEAs) with developing countries. These Member States also state that the agreements that they have concluded or started negotiating are in line with the principles of good governance in the tax area. Other Member States indicated that they have not entered into negotiations of new or into renegotiations of existing bilateral tax agreements with developing countries.

> *Agreements recently concluded by EU Member States with developing countries:*
>
> ***Bilateral double taxation conventions****: BE (with Moldova), CY (with Moldova and Qatar), CZ (with Ethiopia, Armenia and Syria), NL (with Uganda, Ghana and South Africa), PT (with Guinea Bissau), RO (with India), and IE (with Vietnam).*
>
> ***Developing countries currently involved in negotiations on double taxation conventions and of tax information exchange agreements with EU Member States****:*
>
> *Algeria, Azerbaijan, Barbados, Bosnia and Herzegovina, Botswana, Brazil, China, Costa Rica, Cuba, the Democratic Republic of Congo, Egypt, Ethiopia Georgia, Ghana, India, Indonesia, Iran, Kenya, Kyrgyz Republic, Libya, Mexico, Moldova, Mongolia, Morocco, Oman, Pakistan, Peru, South Africa, Sudan, Tajikistan, Tanzania, Tunisia, Turkey, Turkmenistan, Ukraine and Vietnam.*
>
> *The OECD provides continuously updated information on this type of agreements concluded by EU Member States with developing and developed countries*[9].

### 3.3. Supporting an enabling international environment

Creating an international environment that is conducive to the fight against corruption, tax evasion and illegal financial flows requires determined national and international action. The EU has identified several key conventions and initiatives, where progress is necessary and has given firm commitments to international initiatives to prevent money laundering, financing of terrorism and proliferation, international co-operation and on the repatriation of stolen assets, to promote the principles of transparency and accountability over natural resource revenue, either directly or under the United Nations (Merida) Convention against Corruption.

The Commission has conducted an initial assessment of the state of play and will continue to monitor progress in the future on:

- **The UN (Merida) Convention against Corruption),** which entered into force in December 2005: So far 22 EU *countries* have ratified the Convention. The EC acceded to the Convention in November 2008. *Estonia*, the only country that has not yet signed, plans ratification in 2009. *Ireland* in the process of adjusting its domestic legal framework, whereas *Germany* has not yet initiated the necessary adjustment of domestic law, a

9 http://www.oecd.org/topic/0,3373,en_2649_33767_1_1_1_1_37427,00.html

precondition for ratification. The *Czech Republic* and *Italy* are the other Member States that have yet to ratify the Merida Convention, it would be best to do so before 2010, to keep to the commitment given prior to Doha[10] (see annex 1 for an overview of the state of ratification of the Merida Convention).

- The **OECD Convention on Combating Bribery of Foreign Officials in International Business Transactions:** *Seven* EU Member States are not yet in a position to access to the Convention, because they must first be a party to the OECD Working Group on Bribery in International Business Transactions.

- International cooperation on repatriation of stolen assets, in particular the **Stolen Assets Recovery Initiative** (STAR): While several Member States have expressed interest in the initiative and are committed to considering support in the future, to date only seven have reported that they support the initiative (CY, EL, ES, FR, IT, PL and UK).

- The situation is similar with the **Extractive Industries Transparency Initiative** (EITI), which currently has the support of eight MS (BE, EL, ES, FI, FR, IT, SE and UK) and the EC. Transparent management of natural resources is essential if revenues earned from them are to contribute to national development. The EITI and other international initiatives, such as the Kimberley Process, the Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan and the Action Plan to Fight Illegal Logging should be strengthened.

> ***Extractive Industries Transparency Initiative (EITI)***
>
> *Good governance and transparency in extractive industries in resource-rich developing countries can substantially increase domestic revenues and as a result foster growth and reduce poverty, especially in Africa. The EITI is a coalition of governments, companies, civil society, investors and international organizations that aims to promote transparency and accountability in the extractive industries, by supporting the verification and full publication of company payments and government revenues from oil, gas and mining. In 2007 the EU endorsed the EITI politically in the statements at the 9th EU-Africa Summit.*
>
> *As part of the "Thematic Programme for Environment and Sustainable Management of Natural Resources including Energy" (ENTRP) in 2007 the European Commission committed € 0.53 million to the EITI via the World Bank Multi-Donor Trust Fund (MDTF).*

### 3.4. Next steps

In follow-up to the GAERC Conclusions of November 2008 and the Doha Conference on financing for development:

- It will be important to assess progress, in the context of the forthcoming mid-term review of the EC external cooperation instruments (including the 10th EDF) among others, in the actual implementation of the commitments made in the area of governance, including in the area of taxation, and to consider a reallocation of funds to countries that are

[10] Council Conclusions GAERC 11.11.2008 (EU Guidelines for Doha)

satisfactorily implementing commitments they have taken on governance and, conversely consider cancellation of funds earmarked from countries that did not implement their commitments. There is also a need that Member States adopt a similar, coordinated approach for their national cooperation programmes.

- It is essential to promote and strengthen technical assistance to developing countries in order
    - to improve capacities in the area of economic and financial statistics, linked to tax and customs reform measures;
    - to improve the soundness and effectiveness of their tax and customs systems and
    - to support efforts of the developing countries in meeting international commitments they have taken in tax and customs cooperation matters,

while ensuring effective donor coordination at relevant levels for maximum synergy.

- Practical aspectis of customs cooperation and good governance in tax matters should become an integral part of Member States' policy dialogue with developing countries. ;
- Specific provisions related to good governance in the tax area should be included in all relevant EC agreements with developing countries, in line with the Council Conclusions of May 2008[11]. Such provisions can provide a framework for future bilateral tax cooperation between the Member States and developing countries; EU Member States and developing countries to should enhance tax cooperation between themselves, among others by establishing a wide network of tax information exchange agreements with developing countries and, if appropriate, through bilateral double tax conventions;
- Coordinated action by the Member States is required, as already outlined in the Commission Communication on the application of anti-abuse measures in the area of direct taxation[12];
- Member States that have not yet done so, need to accelerate the ratification of the United Nations Convention against Corruption (Merida) to ensure adherence of the EU as a whole before 2010;
- Strengthened support to specific initiatives aiming at improved governance and transparency in the extractive sector, namely to the EITI, is important;
- Member States need to expand their support to STAR and other relevant initiatives such as the International Tax Compact, aiming to increase domestic tax revenues in developing countries.

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[11] ECOFIN Council of 14 May 2008
[12] COM(2007) 785) 10.12.2007

## 4. MOBILISING INTERNATIONAL RESOURCES FOR DEVELOPMENT: FOREIGN DIRECT INVESTMENT AND OTHER PRIVATE FLOWS

The private sector can play a key role in achieving economic growth and development. Private international capital flows exceed aid flows by a great margin and are vital complements additions to national and international development efforts, as they contribute to competitiveness, creating jobs and transferring, knowledge and technology.

**Promotion of sustainable international investment flows is a central challenge**. On the one hand, this requires greater support for private investment by both international institutions and source countries' governments, by providing specific development-oriented financial tools such as lending facilities and risk guarantees. On the other, there is a need for private stakeholders to engage actively in development processes, taking into account the social and environmental dimensions of their activities.

**Remittances are another sizeable financial flow to developing countrie**s and a significant source of income, going directly to private households. For some countries, remittances flows are far more significant than ODA.

The next two sections discuss measures to promote sustainable international private investment and remittances flows implemented in the EU by both public authorities and the private sector.

### 4.1. EU trends on mobilising international resources for development

#### *4.1.1. Support for private investment*

There is general agreement on the importance of private international capital flows for development. However, trends establishment and use of specific financial tools to support private investment in developing countries are rather mixed. Almost half the Member States have specific tools, mostly in the form of investment guarantees, dedicated funds, preferential loans, and venture capital. Specific financial tools for small and medium-sized enterprises (SMEs) have been developed both by European institutions (the European Investment Fund – EIF) and by a number of Member States. Some Member States also have special programmes to promote of microfinance.

In a number of EU countries specific tools and projects are run by dedicated institutions, such as national development agencies and national development banks. At European level, the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB) are supporting infrastructure, private investments and the overall business climate in developing countries.

Any comprehensive assessment of progress made in this area, should also take into account that the lack of specific financial tools in a number of Member States should not be interpreted as lack of support for private investment in developing countries. This objective can be pursued using standard financial tools.

Several Member States did not specify any target countries. However, Africa emerges as the main overall target region, followed by Latin America and the Caribbean. There is also strong interest in supporting private investment in the major emerging economies - notably China, India, and Russia.

### 4.1.2. *Corporate social responsibility*

A large majority of Member States (19) are actively promoting adoption and implementation of corporate social responsibility (CSR) principles and standards. Most Member States expressed their **strong commitment to multilateral initiatives**, such as:

- the **OECD Guidelines for Multinational Enterprises**, a set of voluntary principles covering a broad range of issues in business ethics, including employment and industrial relations, the environment, information disclosure, competition, financing, corruption, taxation, science/technology, and the need to encourage suppliers and sub-contractors also to comply.

- The **UN Global Compact**, a voluntary corporate citizenship initiative for companies committed to, supporting and enacting a set of ten core values in the areas of human rights, labour, the environment and anti-corruption.

- the International Labour Organisation (ILO) conventions and recommendations on labour standards.

- Austria and the UK also stressed their involvement drafting the **ISO standard on social responsibility (ISO 26000)**, which aims at offering guidance on socially responsible behaviour to both public and private organizations.

- Specific initiatives undertaken by Member States include:

– **public information and awareness-raising** by means of campaigns, conferences, training, specific education programmes, direct involvement of economic missions etc;

– public private partnerships programmes;

– **dialogue with stake-holders**, with different degrees of institutionalisation (consultations, coordination mechanisms, committees);

– support for initiatives led by the private sector;

– inclusion of CSR among the essential **criteria for access to public funding/specific financial tools**.

The attitude of companies to CSR principles varies across countries. Some Member States (AT, IT, PT, and UK) highlighted autonomous CSR-related activities launched by the private sector, such as adoption of codes of conduct, establishment of CSR platforms, training activities, and awareness rising campaigns. Other (PL and LV) stated that private companies were still showing very limited interest in CSR. The G20 Summit of London underscored the importance of corporate social responsibility of all firms[13].

[13] G20 London Summit Leaders' Statement of 02.04.2009, §15

#### 4.1.3. *Public procurement – a tool to enhance social and environmental standards*

In the EU public procurement is subject to a series of rules, which lay down transparent open procedures and ensure fair conditions of competition for suppliers. Directives 2004/17/EC and 2004/18/EC set this public procurement framework in the EU, the objective of which is to ensure best value for taxpayers' money. Under this **Community legislative package** there are a number of **references to the inclusion of environmental and social criteria in public purchasing, which are considered secondary objectives of this legislation**. The EC public procurement Directives include clauses which give public contracting authorities the possibility to address environment/social objectives by allowing the inclusion of environmental and social criteria at all the stages of the procurement procedure (technical specifications, selection and ward, contract performance), provided that the are linked to the subject matter of the contract and are objective, transparent and non-discriminatory in terms of the fundamental principles of the EC Treaty. Most Member States report that their **national laws on public procurement (20 Member States) include social and environmental clauses**. In some EU countries the EC Directives have triggered a reform of the legislation.

Several Member States provided neither any detail of the specific requirements included in their public procurement regulations nor information on the stages of the procurement procedure to which such requirements apply. It seems, however, that **various approaches are taken**, ranging from the possibility for the contracting authorities to set social and environmental requirements for the performance of a contract (BE, DE, ES, PT, SI) to the possibility of dissolving a contract if the winner of the tender is found not to comply with the standards set (FI).

**In some Member States, specific rules apply to tender procedures managed by national development agencies**, making compliance with of social and environmental conditions a mandatory obligation (AT, FR). Also, an environmental impact assessment is often required as part of the documentation for development projects (ES, LT, and RO).

#### 4.1.4. *The way forward*

- Promotion of sustainable private capital flows is an important focus for the European Union. Interest seems to be increasing for enhancing the development dimension of private companies' activities.

- Continued efforts are needed to promote mobilisation of international private resources for development, notably :

  – develop specific financial tools in every EU Member States in order to make it easier private capital flows to contribute to economic growth and development;

  – raise the awareness of both private companies and public opinion in the field of CSR, and ensure that all stakeholders engage in an active dialogue;

– sharpen the specific focus on the social and environmental dimension in the legislation on ODA public procurement.

## 4.2. The role of remittances

### *4.2.1. Remittances: resilient to the global economic crisis?*

According to the latest estimations of the World Bank, remittances flows to developing countries reached $305 billion in 2008 after several years of strong growth. Whereas the impact of the crisis on remittances flows cannot yet be fully assessed **remittances** are expected to **shrink in 2009**, although they are considered being more resilient than other private or official financial flows[14]. There is a risk that, if the global economic downturn turns out to be deeper or longer than currently expected and an increasing number of migrants become unemployed, remittances might fall more substantially[15].

Remittances flows from the EU to developing countries have followed the general trend of an increase of 60% since 2004, and they are estimated to have amounted to about €25 billion in 2008.[16]. More than 40% of this amount has been flowing to Africa, the main recipients of EU originated remittances flows are Morocco, Turkey, Nigeria and Ecuador. In the context of the financial crisis the EU's commitments on remittances are even more relevant.

### *4.2.2. Main findings of the survey: Continuing progress on implementing the EU commitments on remittances*

The higher awareness in recent years of the importance of remittances and various international initiatives are gradually becoming visible in the form of tangible measures. Some of the main initiatives were the **guidelines for the compilation of data on remittances issued by the "Luxembourg Group"**, the **"General Principles for International Remittances Services"** and the recent G8 initiative for a **"Global Remittances Working Group"** coordinated by the World Bank. Regarding the three main areas covered by of EU commitments on remittances (ensuring more reliable data on remittances, favouring cheaper, faster and more secure flows of remittances and, stimulating the development impact of remittances on development) Member States and EC contributions to the survey can be summarised as follows:

**(1) Improving data on remittances**

- In addition to bank transfers, Member States are increasingly integrating remittances transfers by money transfers operators (MTOs) in their balance of payments statistics and progressively adopting the best practices recommended by

[14] http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/MD_Brief8.pdf; RATHA Dilip et al., "Outlook for remittance flows 2008-2010", WORLD BANK, 2008

[15] SEC(2009)445 of 08.04.2009 Millennium Development Goals ("Millennium Development Goals – impact of the financial crisis on developing countries" chapter 3.2.2

[16] The estimation is based on the estimation of remittances flows from the EU in 2004 as provided by Fundacion de Estudios de Economia Aplicada, 2007, and the latest World Bank estimate on remittances flows in 2008.

the Luxemburg Group. Household surveys and targeted studies are the main tool used to obtain better estimates of informal flows.

### (2) Favouring cheaper, faster and more secure remittances flows

- Most EU Member States made progressed in recent years on reducing the cost and improving the safety of remittances. In particular the five Member States, which account for most remittances from the EU to developing countries, i.e. Germany, France, Spain, the United Kingdom and Italy, have been progressing on all these issues.

- Member States generally share a common analysis of the nature of the drivers of financial exclusion for migrants. The lack of transparency and of financial products suitable for migrants needs, the insufficient competition on a number of remittances corridors and the unattractive regulatory and business environment in countries of destination explain the high transaction costs.

- Substantial progress has been achieved in the form of adoption of the **Payment Services Directive (PSD)** in November 2007, which lays the legal foundation for an EU-wide single market for payments. "Payment institutions", i.e. money transfer operators, are now recognised as a separate entity and subject to specific authorisation. They have to comply with appropriate regulatory requirements harmonised throughout the EU. The Directive requires payment services providers to make charges, including exchange rates, and other conditions such as the transfer time and the charge to the recipient fully transparent to customers. However, the PSD will apply only to payments made within the EU and will not therefore cover international remittances. Yet, **remittances costs could be lowered further if money transfer operators with global reach** (such as Western Union or Money Gram) **were to extend most of the PSD requirements to extra-EU transfers**, something that they are envisaging in order to avoid the operational problems and extra costs associated with running different systems and practices for the same activity. A group of MS is already planning to apply most of the requirements to some extra-EU transfers. The Directive will be implemented throughout the EU by November 2009.

- Member States confirmed that they are applying international and EU rules on **anti-money laundering and combating the financing of terrorism ("AML-CFT")** while aiming to avoid unnecessary administrative burdens and costs on remittances.

- Several initiatives have been taken to make the private banking sector more aware of the specific needs of migrants to whom products should be better tailored. A number of Member States have supported the construction of **websites** making it possible to **compare** the **costs of** the various **operators** and, in this way, fostering competition and reducing costs.[17]

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[17] Examples of such websites are: www.sendmoneyhome.org (UK), www.geldtransfair.de (Germany), www.envoidargent.fr (France), www.geldnaarhuis.nl (Netherlands). Italy is currently preparing a similar project.

### (3) Enhancing the impact of remittances from the EU on development

- A group of EU Member States and the Commission are implementing programmes in partner countries with the aim of developing the financial sector (e.g. microfinance, technical assistance on financial sector regulation and supervision) and improving financial literacy in order to familiarise households receiving remittances with banking services. If some of the remittances are saved, banks can build up their role as intermediaries turning savings into productive investment with a positive impact on development.

- Other initiatives, for example in Belgium, are currently exploring development of **remittances transfers via cell phones** which would lower costs substantially and improve accessibility, given the proportion of cell phone-owners in developing countries. Others, like France, favour the development of bank services especially for migrants (creation of specific agencies, insurance products, etc.).

- Several Member States and the Commission are supporting developing countries in establishing a policy framework more conducive to remittances. With the aid of its development cooperation (whether undertaken bilaterally or by the European Community), the EU is supporting creation of a more favourable business environment in developing countries. A number of targeted initiatives have been set up in that framework, such as EU support for the **African Remittances Institute** under the leadership of the African Union and in collaboration with the World Bank (WB). The WB will provide, among other things, policy advice and training to African central banks and governments.

*4.2.3. What needs to be done?*

A significant number of initiatives are being undertaken by the EU, which will continue to focus on implementing its current commitments. Specific attention should also be paid to the following issues:

- supporting new technology-based transfers (via cell phones or Internet) by targeted projects;

- extend the requirements of the Payment Service Directive to extra-EU transfers when the time comes for revision of the Directive in 2011;

- coordinate work better on specific remittances corridors where flows from several Member States are of particular importance.

## 5. INCREASING INTERNATIONAL FINANCIAL AND TECHNICAL COOPERATION FOR DEVELOPMENT

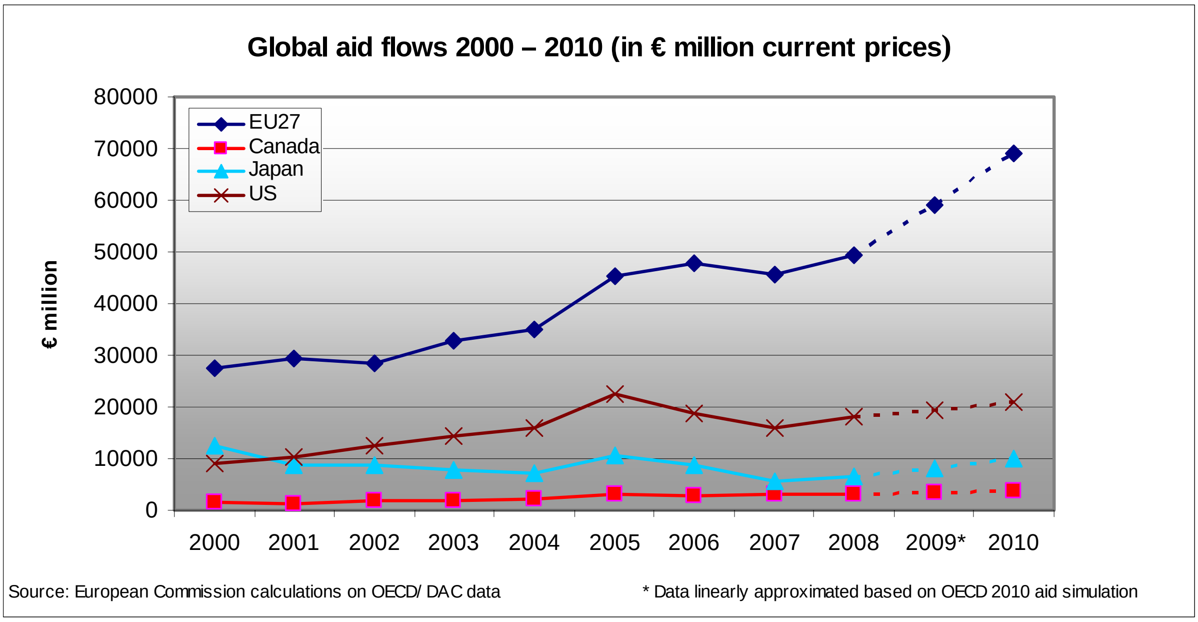
### 5.1. ODA levels are on the increase but by and large insufficient to reach agreed EU and international targets

*5.1.1. Global ODA trends*

Global ODA levels increased steadily between 2000 and 2005. After the disappointing drop in 2006 and 2007 as a consequence of the end of the debt relief spike, a **positive trend was restored in 2008**, with global development spending increasing by around 10% to an historical high of US$ almost 120 billion (€84 billion). This **increase falls short**, however, of **creating the dynamics required for reaching the international ODA commitments**, including those given by the G8 in Gleneagles. Out of the additional US$50 billion per year promised to be available annually as from 2010, US$20 billion remain to be delivered. In light of the crisis the G20 Summit of London reaffirmed the commitment to achieving ODA pledges, including commitments on Aid forTrade, debt relief and the Gleneagles commitments, especially to sub-Saharan Africa[18].

In **2008**, as in previous years, **most of the global ODA increase came from the EU**, which provided **60% of the aid financing** to the developing world coming from the DAC members. The same is forecast for the years ahead: the EU is set to continue shouldering the lion share of the global scaling up of aid, i.e. 76% of the forecast ODA increases by 2010 from 2008 levels. By that year EU ODA could represent 62% of the aid mobilised by all DAC donors.

***Figure: Aid flows of the EU and non-European G7 countries 2000 – 2010 (in € million constant 2006)***



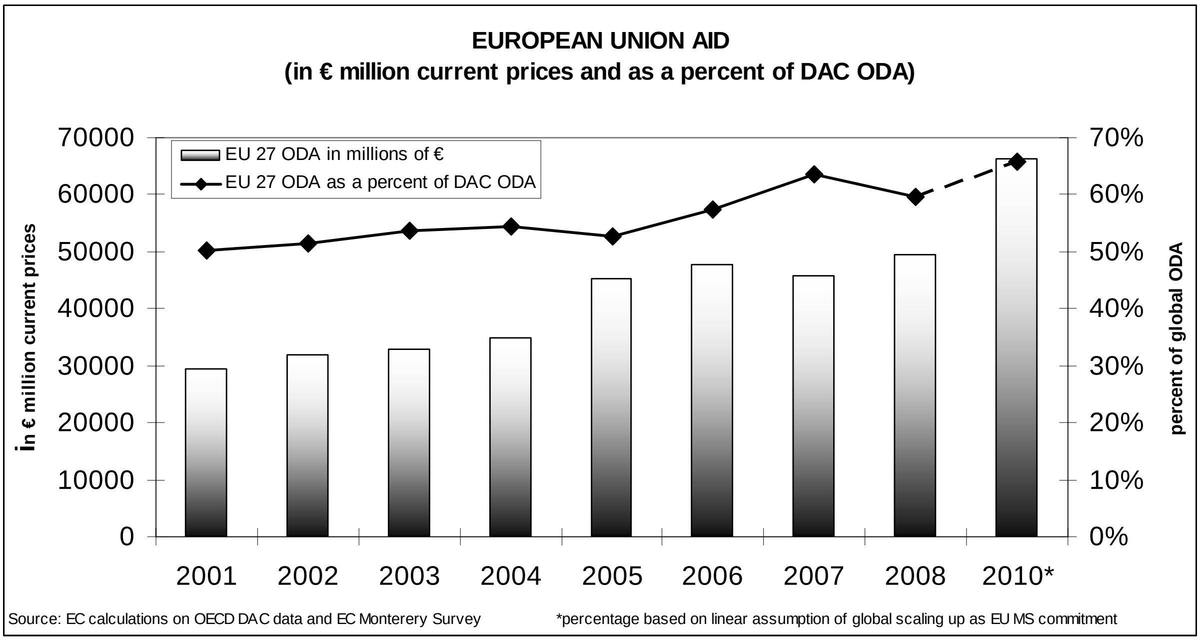

Source: European Commission calculations on OECD/ DAC data.

In view of **moving to a more balanced international burden sharing** the ambitious plan of the new US administration to double the nation's ODA from $25 billion to $50 billion is a welcome contribution to the global effort. The 2010 budget outline puts the US on the path to doing so. The Obama campaign pledge to deliver this increase by 2012 is expected to be modulated to take into account the impact of the economic crisis on the US. According to the DAC simulation Japan's aid is also set to increase by around US$4 billion from 2008 levels, while Canada's aid will slightly increase in volume and as a share of GNI.

18 G20 London Summit Leaders' Statement of 02.04.2009, §25

So far, outside the EU only **Norway** has reached an ODA level of 0.7% of GNI or more. The **EU** continues to stand out as the **only group of donors that has given a time-bound commitment on the 0.7% of GNI goal for ODA** (by 2015) and a collective intermediate target of 0.56% by 2010. EU disbursements in line with this pledge could add up to € 69 billion in 2010, mobilising an additional € 21 billion compared with 2006 levels (in current prices). A general understanding is emerging that ODA is a long-term investment in a more stable world and more decisive action is needed to maintain the possibility of achieving the Gleneagles and other agreed global aid targets. Switzerland and Australia have also set time-bound ODA targets, albeit aiming at lower levels. Comparable efforts are needed on the part of other donors, particularly G8 partners, new donors and emerging economies.

*Figure: EU ODA as percentage share of DAC ODA and in € million*




*Source European Commission simulation based on OECD/ DAC data and on information provided by the EU Member States in the2009Monterrey questionnaire*

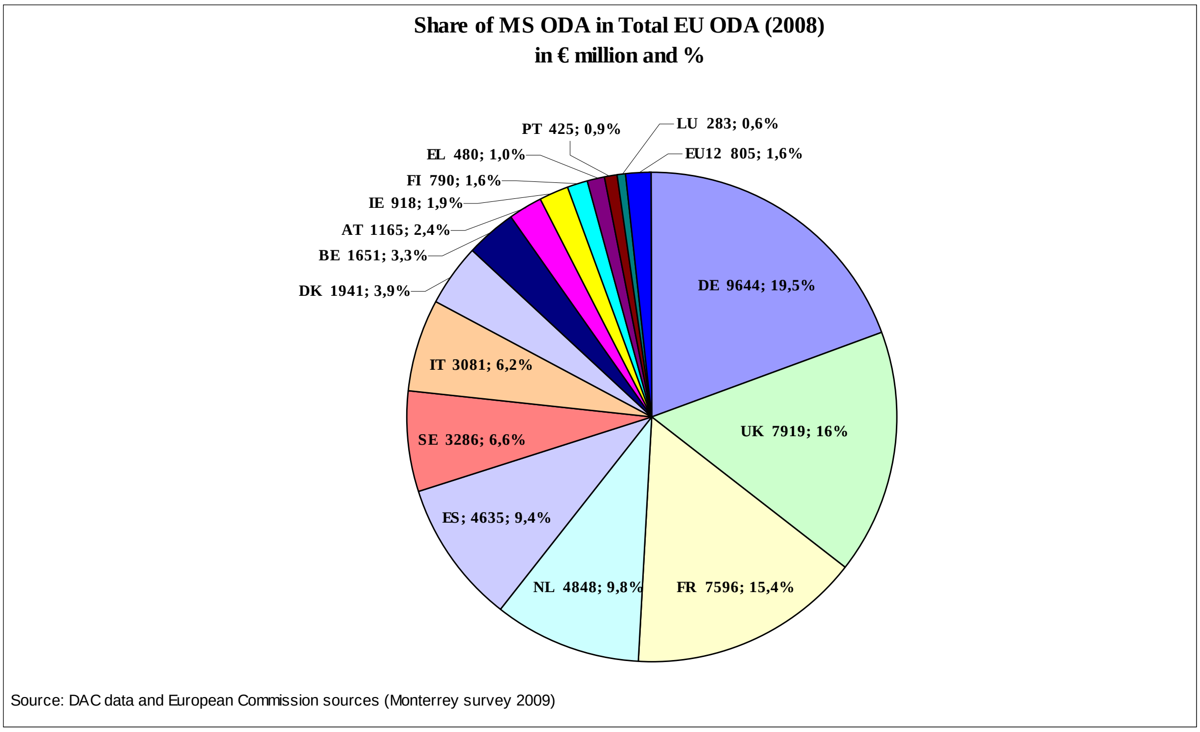
### *5.1.2. EU ODA levels in 2008*

After the disappointing decline in 2007, **EU ODA volumes have reached almost € 50 billion,** an all-time high in volumes (in current prices) which corresponds to almost €100 spent on aid per EU inhabitant. This brought the developing countries almost €4 billion of additional financing compared with 2007 and €1.8 billion more than in 2006. However, the **upward trend** – corresponding to **0.40% of the EU's combined GNI** - has **not been pronounced enough to reach again 2006 aid levels relative to income** (0.42% of GNI). Instead, in 2008 EU aid basically **recovered part of the ground "lost" in 2007** for the sustained scaling-up of aid required to meet the EU targets for 2010.

The **picture among EU Member States countries varies**. In most countries **ODA increases remain volatile**. The overall rise in EU aid was led by Spain, which contributed almost € 0.9 billion to the collective increase in EU aid accounting for a quarter of it, followed by Germany, the UK, France, the Netherlands and Belgium. Despite having missed its self-set national ODA target of 0.5% for 2008 and notwithstanding the economic downturn, in early 2009 Spain adopted a new and ambitious multi-annual policy framework, which confirms the decision to continue scaling up aid at a more ambitious pace than the EU to achieve 0.7% of GNI by 2012. This is a good example of how far-sighted understanding and political will can translate into practical and bold decisions. Significant scaling-up was also seen on the part of the UK after the 2007 drop-off due to completion of big debt relief operations – and accounted for more than 16% of the total increase in EU ODA. The "0.7% club" mobilised more than €500 million additional financing, led by Sweden which increased its ODA by 0.05% of GNI. Similar relative efforts were made by Portugal, followed closely by Belgium, Cyprus, Greece and Finland, Ireland and

Slovenia. Several other Member States (DE, DK, FR, IT, LT, LU, LV, RO, SK) also either maintained or slightly increased their ODA levels. This modest effort added in case of Germany another €666 million and in case of France € 385 million. Greece reported a sizeable increase to 0.20% of GNI, albeit from very low levels. Italy, also reaching 0.20% of ODA/ GNI, has moved to the bottom of the 15 EU countries that are DAC members. For the Netherlands and Poland, although absolute ODA amounts increased, the ODA to GNI ratio actually decreased. Austria's disbursements decreased by €154 million, the biggest decline in aid in both absolute and relative terms in the EU, leading the way on the downward path also taken by Bulgaria, Estonia and Hungary. Malta's ODA (2008: 0.11 % of GNI) has taken a particularly worrisome downward trend since 2005 when it had been already above the 2010 target level (18% of GNI).

***Figure: Percentage share of Member States in EU ODA 2008***




*Source: DAC data and European Commission sources (Monterrey2009 survey)*

The **ratios of ODA to GNI might be subject to changes** after the publication of this report. For the year 2008 only preliminary GNI figures were available from Eurostat and from EU Member States' replies provided to the OECD/ DAC in March 2009 in response to the DAC advance ODA questionnaire.

*Table: EU ODA levels 2005 – 2008*

| | 2005 | | 2006 | | 2007 | | 2008 | |
|---|---|---|---|---|---|---|---|---|
| | 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 |
| | | | | | | | | |
| **Austria** | 1266 | 0,52 | 1194 | 0,47 | 1320 | 0,50 | 1165 | 0,42 |
| **Belgium** | 1580 | 0,52 | 1576 | 0,49 | 1425 | 0,43 | 1651 | 0,47 |
| **Bulgaria** | 2 | 0,01 | 1 | 0,00 | 16 | 0,06 | 13 | 0,04 |
| **Cyprus** | 12 | 0,09 | 21 | 0,15 | 18 | 0,12 | 27 | 0,17 |
| **Czech Republic** | 109 | 0,11 | 128 | 0,12 | 131 | 0,11 | 146 | 0,11 |
| **Denmark** | 1697 | 0,81 | 1782 | 0,80 | 1872 | 0,81 | 1941 | 0,82 |
| **Estonia** | 8 | 0,07 | 12 | 0,09 | 16 | 0,12 | 14 | 0,09 |
| **Finland** | 726 | 0,46 | 665 | 0,39 | 716 | 0,39 | 790 | 0,43 |
| **France** | 8067 | 0,47 | 8446 | 0,46 | 7212 | 0,38 | 7596 | 0,39 |
| **Germany** | 8112 | 0,36 | 8313 | 0,35 | 8978 | 0,37 | 9644 | 0,38 |
| **Greece** | 309 | 0,16 | 338 | 0,16 | 365 | 0,16 | 480 | 0,20 |
| **Hungary** | 80 | 0,10 | 119 | 0,14 | 75 | 0,08 | 72 | 0,07 |
| **Ireland** | 578 | 0,42 | 814 | 0,53 | 870 | 0,55 | 918 | 0,58 |
| **Italy** | 4096 | 0,29 | 2901 | 0,20 | 2897 | 0,19 | 3081 | 0,20 |
| **Latvia** | 8 | 0,07 | 10 | 0,06 | 12 | 0,06 | 14 | 0,06 |
| **Lithuania** | 12 | 0,06 | 18 | 0,08 | 30 | 0,11 | 41 | 0,13 |
| **Luxembourg** | 206 | 0,82 | 232 | 0,90 | 274 | 0,91 | 283 | 0,92 |
| **Malta** | 8 | 0,18 | 7 | 0,15 | 8 | 0,15 | 6 | 0,11 |
| **The Netherlands** | 4116 | 0,80 | 4344 | 0,78 | 4542 | 0,81 | 4848 | 0,80 |
| **Poland** | 165 | 0,07 | 236 | 0,09 | 265 | 0,10 | 264 | 0,08 |
| **Portugal** | 303 | 0,21 | 316 | 0,21 | 343 | 0,22 | 425 | 0,27 |
| **Romania** | NA | NA | 3 | 0,00 | 80 | 0,07 | 94 | 0,07 |
| **Slovak Republic** | 45 | 0,12 | 44 | 0,10 | 49 | 0,09 | 65 | 0,10 |
| **Slovenia** | 29 | 0,10 | 35 | 0,11 | 38 | 0,11 | 51 | 0,14 |
| **Spain** | 2428 | 0,27 | 3038 | 0,31 | 3755 | 0,37 | 4635 | 0,43 |
| **Sweden** | 2706 | 0,92 | 3151 | 0,99 | 3170 | 0,93 | 3286 | 0,98 |
| **UK** | 8666 | 0,47 | 9931 | 0,51 | 7191 | 0,36 | 7919 | 0,43 |
| **EU 15 TOTAL** | 44857 | 0,43 | 47039 | 0,43 | 44930 | 0,39 | 48663 | 0,42 |
| **EU 12 TOTAL** | 479 | 0,08 | 634 | 0,09 | 739 | 0,09 | 805 | 0,09 |
| **EU 27 TOTAL** | 45336 | 0,41 | 47673 | 0,41 | 45668 | 0,37 | 49468 | 0,40 |

*Source: OECD/DAC, where available; Commission data based on Member States' information to the Commission or the DAC for 2008. Note: shaded cells contain information supplied by Member States, white cells DAC data. ODA is at current prices. Annex 2 describes the Commission's methodology for analysing Member States' indications on ODA provided in response to the Monterrey survey.*

### 5.1.3 *Short-term and medium-term adaption of EU assistance to developing countries in response to the financial and economic crisis*

The Communication[19] identifies protection of the most vulnerable and sustaining economic activity and employment in developing countries as the priority areas requiring special support. This includes maintaining and building infrastructure, e.g. closing the infrastructure financing gaps for the key missing links in Africa (see annex 3) and regional infrastructure in the Mediterranean (see annex 4), revitalising agriculture, investing in green growth and stimulating trade and private investment.

The Commission endeavoured to collect information from the **Member States** on their **planned measures to respond to the impact of the crisis in developing**

[19] COM(2009) 160 of 08.04.2009 'Supporting developing countries in coping with the crisis'

**countries**. For that purpose a questionnaire that complements the Monterrey survey had been prepared, looking at ODA and non-ODA instruments that Member States were willing to use to the benefit of developing countries. So far, 12 Member States have reacted to this questionnaire[20]. The other Member States are invited to provide a response soon, as a coordination of EU actions and instruments will enhance the efficiency and effectiveness of the forthcoming EU support to developing countries hit by the crisis. The return to the survey shows that Member States' reaction to the crisis in developing countries has been cautious, in line with the uncertainty with regard to the actual impacts in partner countries. There is, however, a wide agreement that development cooperation needs to respond to the new situation on the ground. Reprogramming to target the key sectors of infrastructure, agriculture and climate change is considered in this context, while some Member States cite already elevated support to these sectors.

In the short term, given the budget constraints of Member States, **frontloading ODA is not considered feasible by most**, while some see **EC and EIB instruments as primary vehicles for additional flexibility to respond to the crisis**. Member States considered rapidly increasing aid effectiveness a crucial part of increasing financing to the developing countries.

Mobilising other sources of financing - besides ODA - to support developing countries has been considered important and is in line with the EU commitments on Policy Coherence for Development. Member States stressed that such efforts need to be seen as additional to and separate from ODA. Finding it very difficult to quantify such measures in terms of development benefit, Member States were not in position to provide comprehensive data on such support.

#### 5.1.4. *Prospects of achieving the collective EU targets for 2010*

In 2005 the EU committed itself to additional aid targets, aiming to take individual ODA to 0.51% (EU-15) or 0.17% (EU-12) by 2010, while those countries that already had high aid levels promised to maintain them. Collectively, the EU should achieve 0.56% of GNI by 2010. Buoyed by higher national pledges from some Member States, the projection was that the collective result could be in that order of magnitude.

This projection was based on the policy decisions, which had been made by several EU countries at that time, and the following assumptions:

- Countries with ODA levels of 0.7% of GNI or above will maintain that level: SE, LU, DK and NL have consistently ensured the pledged levels, albeit with small variations that show how difficult it is for even the most ambitious EU ODA providers to deliver on their aspirations.

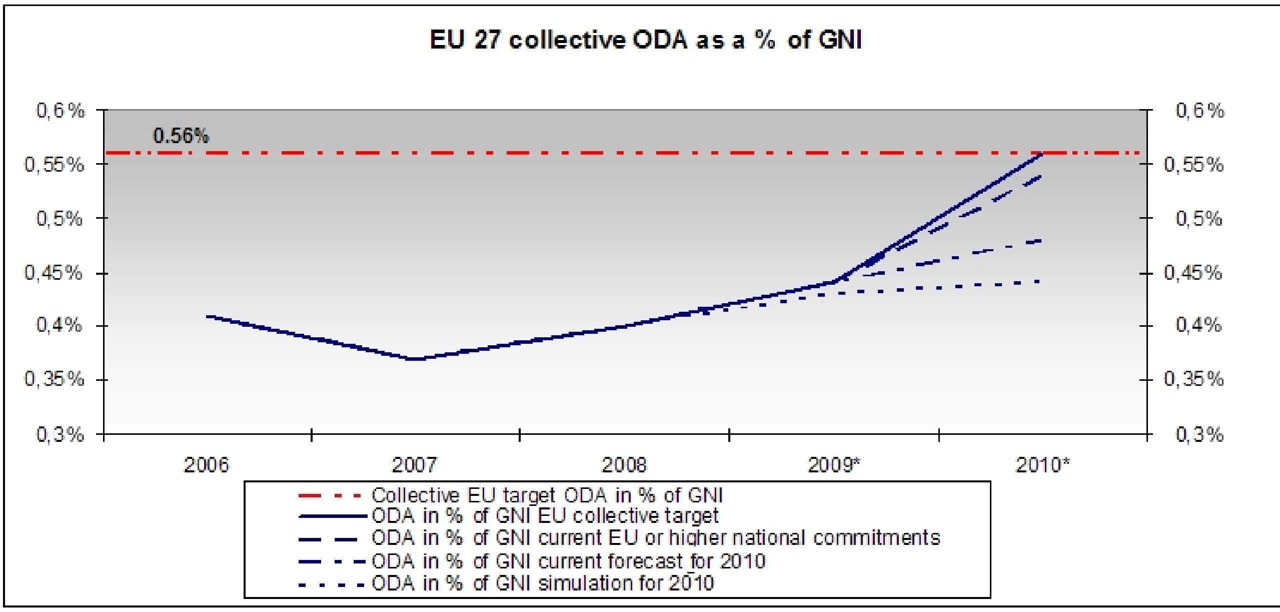
- Countries that pledged to achieve 0.7% before 2015, following more ambitious national deadlines, will increase their aid volumes linearly to meet the targets. Policy and budget decisions have, unfortunately, not confirmed this hypothesis:

20 AT, BG, CY, DK, FI, HU, LV, MT, NL, SE, SI, UK, some of these Member States have though not provided full replies but rather general statements on priorities that need to be maintained despite the crisis situation.

France and Finland have lowered their sights and postponed the 0.7% deadline from 2012 to 2015. Others, while sticking to their target years, i.e. the UK (2013), Spain and Ireland (both 2012), have taken policy and budget decisions implying a back-loading of the scaling- up to the period after 2010.

Despite the evident challenges to achieving 0.56% after unfavourable decisions by major stakeholders, the EU has repeatedly confirmed its resolve to achieve this objective. **Getting there will require efforts from every Member State beyond the existing plans and minimum baselines to which EU MS have individually committed themselves**.

*Figure: Progress towards and forecast for the collective EU target of 0.56% of GNI*




**Simulation based on European Commission calculations based on OECD/ DAC data*

*Note: The red line indicates the EU collective target of 0.56% of GNI; the blue line marks the path that the EU needs to take to achieve that target by 2010. The broken line shows the estimated progress if Member States fulfil their individual ODA commitments, as known at present; the upper dotted line stands for the Member States' current forecasts on their ODA increases until 2010; and the lower dotted blue line estimates the direction that the EU collective aid levels as a share of the GNI will take if Member States, which have not provided forward- looking data for 2009 and/ or 2010, maintain their current ODA level without any further increases.*

### 5.1.5 *Prospects for Member States' individual targets for 2010*

As a consequence of the global financial and economic crisis, public finance in Europe and donor countries is becoming increasingly strained. Tax revenues are lower than expected prior to the crisis; higher expenditure is needed to support the financial sector, stabilise the economy and assist the increasing number of unemployed people. External policies risk therefore being considered of a lesser political priority and therefore suffer from reduced budget allocations. Even where the targeted ratios of ODA relative to GNI have been achieved, this can imply lower ODA in absolute terms compared to pre-crisis projections because of lower nominal economic growth and depreciating exchange rates. **Strong political determination will be required and EU Member States need to prioritise budgetary expenditures in a way that ODA commitments can be reached and are not curtailed in a time when developing partners need this support most**.

In their reply to the survey a majority of Member States expressed their resolve to increase their ODA. Although some MS may see a cut of ODA spending in 2009 due to crisis-related budgetary constraints, the **overall trend is in the right direction**. **But** the **pace** for moving to the individual baseline targets of 0.51% ODA/ GNI for the EU15 and of 0.17% ODA/ GNI for the EU12 **is by and large insufficient**. A fair burden-sharing between different EU countries risks becoming a contentious issue in light of the widening gap of the level of commitments and delivery:

- Meanwhile four EU Member States – Sweden, Luxembourg, the Netherlands and Denmark are spending 0.8% of their GNI or more on development and are planning either to maintain this level or to achieve the 1% target [LU, SE]. The contribution by these four countries to improving the EU average ODA performance is substantial, although their relative economic weight within the EU is not.

- Some Member States (UK, ES, IE, and BE) had set themselves national deadlines more ambitious than the EU time limits for achieving the target of 0.7% but have decided to deviate from linear increases and backload the new development financing. This means that they will need to be prepared to increase their ODA spending drastically during this year 2009 and in the target date, which creates political uncertainty and might lead to postponement. However, these Member States are well on track to achieving the minimum individual targets. The same applies to Finland.

- While remaining far behind the agreed targets and not on track to meet the 2010 target, Greece and Portugal have taken noteworthy steps to increase their ODA and are moving in the right direction.

- After achieving 0.5% of GNI in 2007, Austria has slid backwards and the forecast continuation of this downward trend is not in line with the EU-15 baseline objective.

- Despite consistent but small aid increases since 2002, Germany, the EU's single biggest donor in 2008, cannot be considered on-track: aid levels to date are still lingering below the EU average; the country has not yet mobilised resources commensurate with the amounts required for bridging the gap to 0.51%; nor have multi-annual ODA timetables been prepared. The same is true for France, which has shown high volatility in its past efforts and is also still far from the 2010 baseline threshold.

- Italy is the only Member State apparently abandoning its commitments and planning significant cuts for 2009 and 2010, reducing its aid by €1 billion by 2010 (corresponding to 0.11% of its GNI) and set to cut it to 0.09% by 2011.

- There is some good news from EU-12 Member States: Cyprus has already achieved the 0.17% target and Slovenia, Lithuania, Malta and Poland are planning to attain it in 2010. Four other Member States (the Czech Republic, Estonia, Hungary and Latvia) are also increasing their aid, but do not plan to meet the target by 2010. Slovakia, Romania and Bulgaria seem to be even further off track. Their ODA volumes will remain below 0.10% of GNI, unless the current forecasts are revised upwards substantially.

***Table: EU ODA estimates for 2008-2013 (ODA in € million and % of GNI)***

| | 2008 | | 2009 | | 2010 | | 2011 | | 2012 | | 2013 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | ODA in € million | ODA in % of GNI | ODA in € million | ODA in % of GNI |
| **Austria** | 1165 | 0,42 | 986 | 0,35 | 1144 | 0,40 | 1340 | 0,46 | 1580 | 0,52 | 1849 | 0,58 |
| **Belgium** | 1651 | 0,47 | 2098 | 0,60 | 2496 | 0,70 | 2596 | 0,70 | 2701 | 0,70 | 2808 | 0,70 |
| **Bulgaria** | 13 | 0,04 | 13 | 0,04 | 66 | 0,17 | 89 | 0,21 | 113 | 0,25 | 136 | 0,28 |
| **Cyprus** | 27 | 0,17 | 29 | 0,17 | 32 | 0,18 | 35 | 0,18 | 40 | 0,20 | 45 | 0,22 |
| **Czech Republic** | 146 | 0,11 | 150 | 0,11 | 141 | 0,10 | 167 | 0,11 | 279 | 0,17 | 391 | 0,23 |
| **Denmark** | 1941 | 0,82 | 1973 | 0,82 | 1977 | 0,80 | 2057 | 0,80 | 2141 | 0,80 | 2229 | 0,80 |
| **Estonia** | 14 | 0,09 | 12 | 0,08 | 16 | 0,10 | 28 | 0,17 | 38 | 0,22 | 48 | 0,26 |
| **Finland** | 790 | 0,43 | 916 | 0,48 | 1004 | 0,51 | 1111 | 0,54 | 1153 | 0,54 | 1333 | 0,60 |
| **France** | 7596 | 0,39 | 9548 | 0,49 | 10205 | 0,51 | 11500 | 0,56 | 12795 | 0,60 | 14090 | 0,64 |
| **Germany** | 9644 | 0,38 | 11371 | 0,45 | 13098 | 0,51 | 14712 | 0,56 | 16326 | 0,60 | 17941 | 0,64 |
| **Greece** | 480 | 0,20 | 635 | 0,26 | 883 | 0,35 | 1193 | 0,45 | 1418 | 0,51 | 1697 | 0,58 |
| **Hungary** | 72 | 0,07 | 59 | 0,06 | 139 | 0,14 | 214 | 0,21 | 260 | 0,25 | 305 | 0,28 |
| **Ireland** | 918 | 0,58 | 796 | 0,54 | 911 | 0,61 | 1026 | 0,66 | 1141 | 0,70 | 1197 | 0,70 |
| **Italy** | 3081 | 0,20 | 2467 | 0,16 | 1739 | 0,11 | 1558 | 0,09 | 4531 | 0,26 | 7503 | 0,42 |
| **Latvia** | 14 | 0,06 | 15 | 0,08 | 20 | 0,10 | 44 | 0,21 | 54 | 0,25 | 64 | 0,28 |
| **Lithuania** | 41 | 0,13 | 47 | 0,15 | 54 | 0,17 | 64 | 0,19 | 63 | 0,18 | 77 | 0,20 |
| **Luxembourg** | 283 | 0,92 | 275 | 0,92 | 290 | 0,93 | 315 | 0,94 | 343 | 0,95 | 373 | 0,96 |
| **Malta** | 6 | 0,11 | 9 | 0,15 | 10 | 0,17 | 12 | 0,20 | 16 | 0,25 | 20 | 0,30 |
| **The Netherlands** | 4848 | 0,80 | 5245 | 0,88 | 5405 | 0,89 | 5653 | 0,89 | 5634 | 0,86 | 5834 | 0,85 |
| **Poland** | 264 | 0,08 | 445 | 0,14 | 567 | 0,17 | 669 | 0,19 | 739 | 0,20 | 964 | 0,25 |
| **Portugal** | 425 | 0,27 | 479 | 0,29 | 557 | 0,34 | 657 | 0,39 | 770 | 0,44 | 870 | 0,47 |
| **Romania** | 94 | 0,07 | 169 | 0,13 | 244 | 0,17 | 333 | 0,21 | 423 | 0,25 | 513 | 0,28 |
| **Slovak Republic** | 65 | 0,10 | 47 | 0,07 | 49 | 0,07 | 56 | 0,07 | 63 | 0,07 | 71 | 0,08 |
| **Slovenia** | 51 | 0,14 | 55 | 0,15 | 67 | 0,17 | 81 | 0,19 | 99 | 0,22 | 119 | 0,24 |
| **Spain** | 4635 | 0,43 | 5321 | 0,49 | 6139 | 0,56 | 7355 | 0,64 | 8571 | 0,70 | 9006 | 0,70 |
| **Sweden** | 3286 | 0,98 | 3157 | 1,06 | 3036 | 1,00 | 3135 | 1,00 | 3252 | 1,00 | 3369 | 1,00 |
| **UK** | 7919 | 0,43 | 7101 | 0,48 | 8388 | 0,56 | 9545 | 0,61 | 10702 | 0,66 | 11859 | 0,70 |
| **EU 15 TOTAL** | 48663 | 0,42 | 52368 | 0,47 | 57272 | 0,50 | 63753 | 0,54 | 73058 | 0,60 | 81957 | 0,65 |
| **EU 12 TOTAL** | 805 | 0,09 | 1051 | 0,11 | 1405 | 0,15 | 1793 | 0,18 | 2187 | 0,20 | 2754 | 0,24 |
| **EU 27 TOTAL** | 49468 | 0,40 | 53419 | 0,44 | 58676 | 0,48 | 65546 | 0,51 | 75244 | 0,57 | 84710 | 0,61 |

*Source: OECD/DAC for 2008, where available; otherwise Commission data based on Member States' information to the Commission. Note: shaded cells contain information supplied by Member States, white cells are Commission data or simulations. ODA is at current prices. Annex 2 describes the Commission's methodology for analysing Member States' indications on ODA provided in response to the Monterrey survey.*

*Figure: ODA-indicator for EU15*

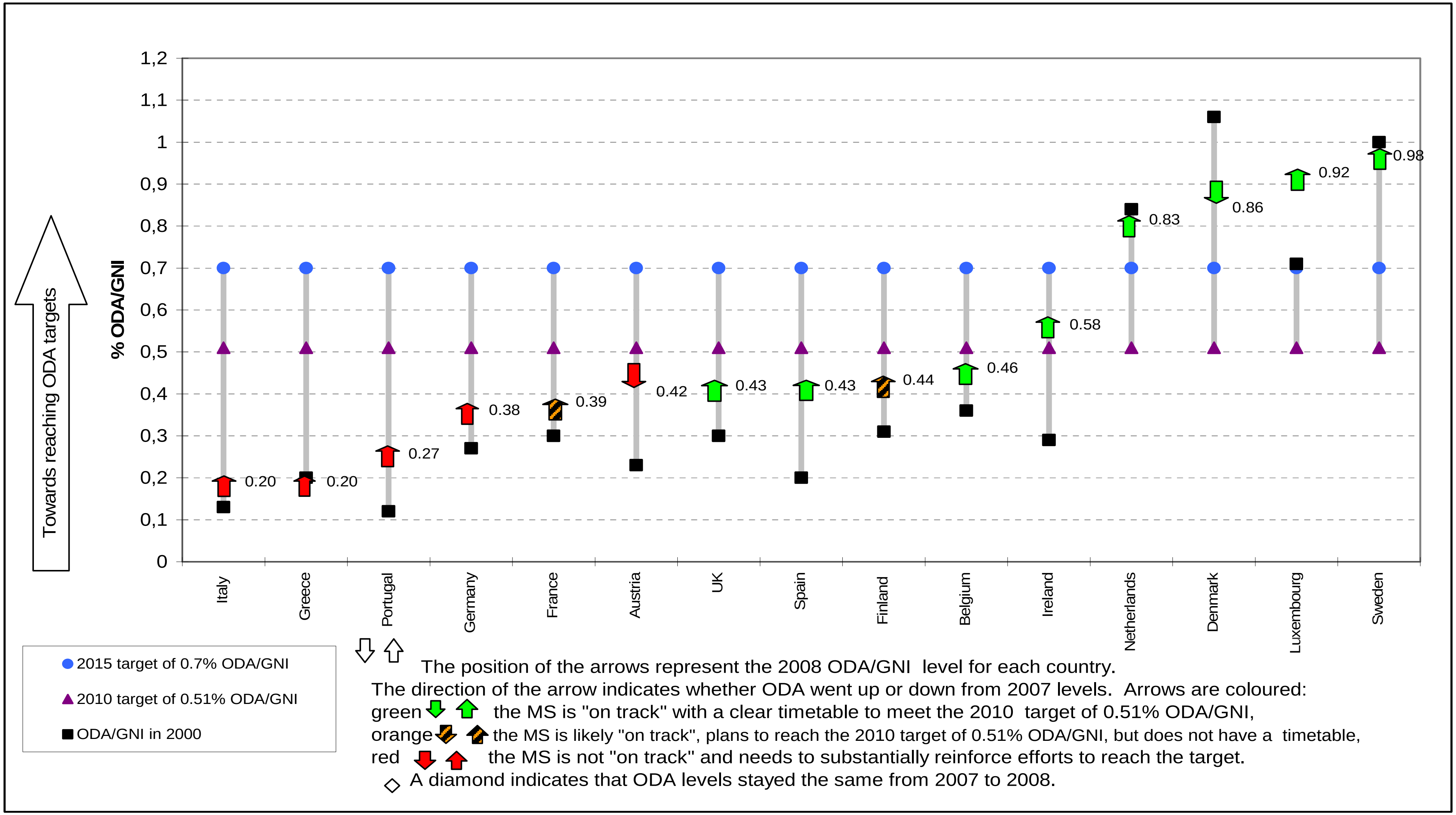
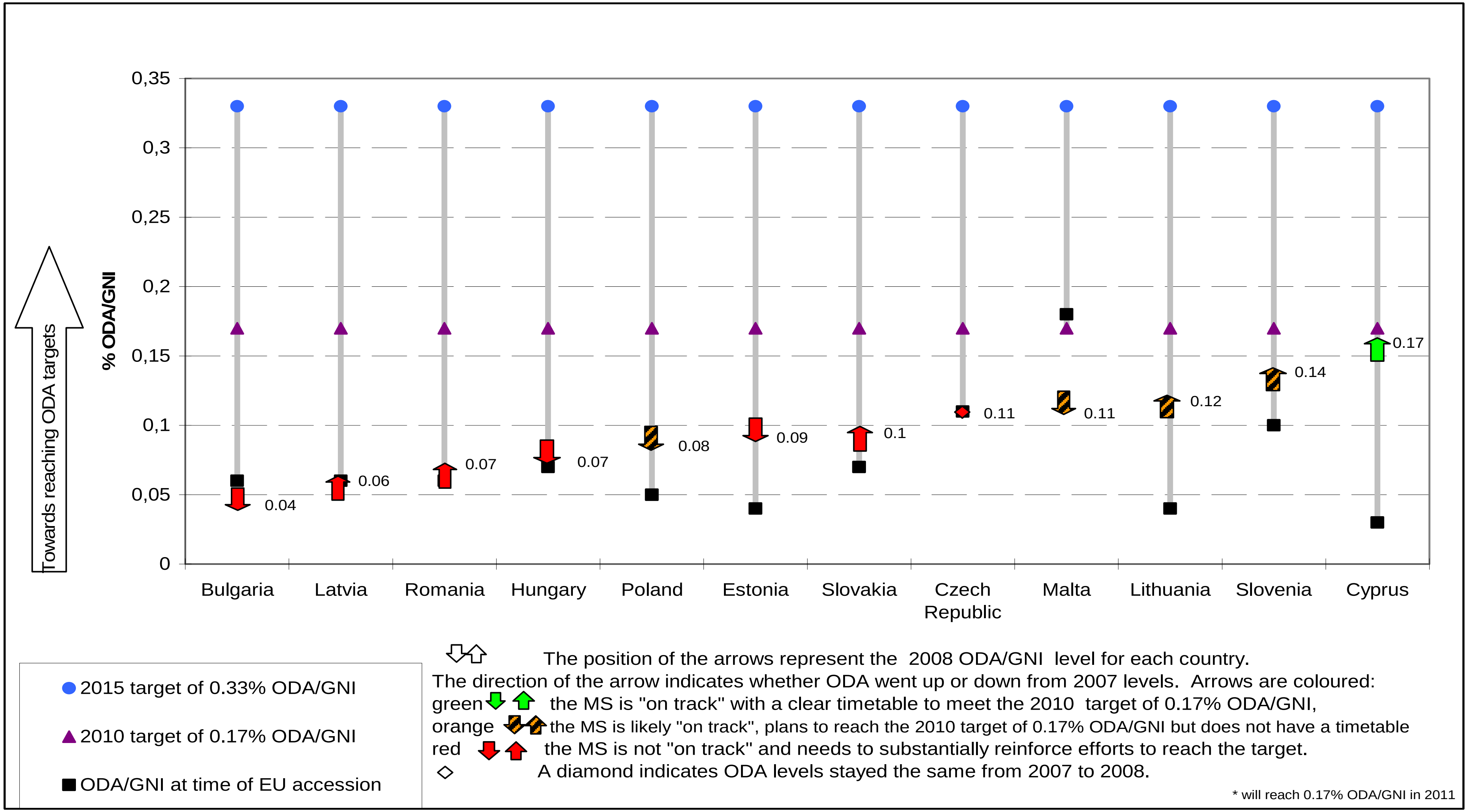


*Figure: ODA-indicator for EU12*



Further work needs to be done to tackle the sensitive issue of cooperation in the framework of peace and security related activities concerning developing countries. A number of those activities are not covered by the current ODA-definition of the OECD/ DAC. Discussion in the OECD/ DAC needs to continue to reflect on this situation that concerns, amongst others, also the Africa Peace Facility, funded by the EDF. Another area concerns migration, where the survey with the Member States shows that more reflection is warranted to better articulate the links with ODA.

#### 5.1.6. *Little progress with multi-annual ODA timetables to enhance ODA predictability*

**Progress remains slow towards establishing multi-year timetables** showing how Member States intend to scale up their aid levels towards the agreed ODA targets. The decisions by the UK (in 2008) and Spain (February 2009) to move to 0.56% GNI by 2010 prove that this EU target can facilitate national decision-making on multi-annual ODA timetables in budget processes and in adopting government policy frameworks. Some MS have timetables, but these plans mention aid levels that will be insufficient by a long way to meet the 2010 EU ODA targets. Nonetheless, Portugal's adoption of a multi-year timetable is a commendable effort to catch-up from its current low aid levels, even if the available forecasts do not yet reveal by when the country will achieve its 0.51% individual baseline target.

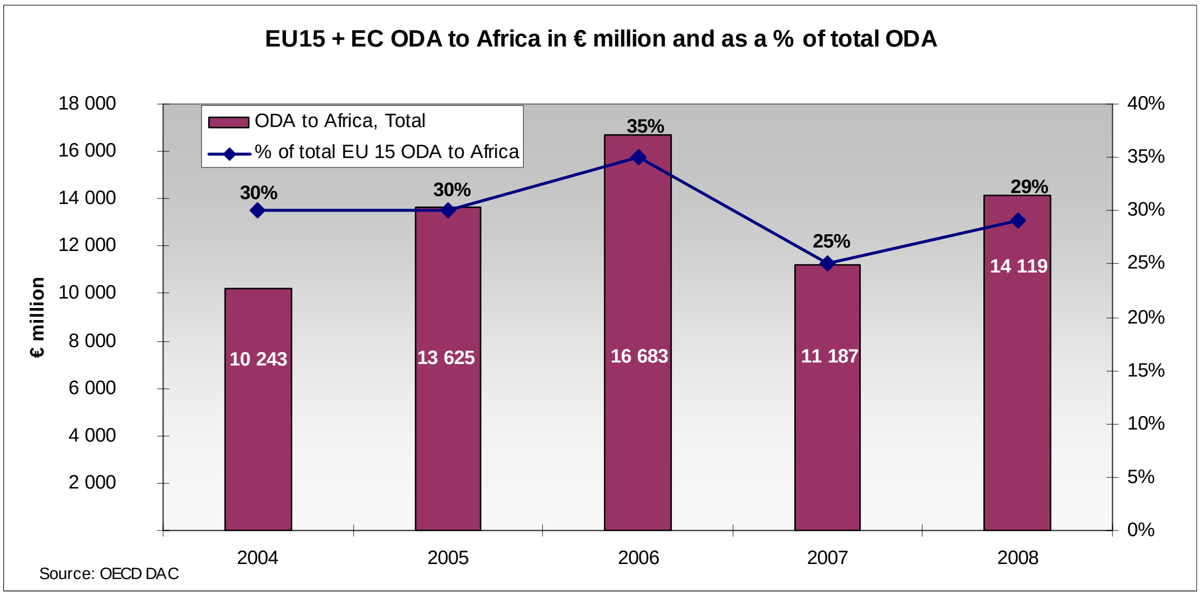
Member States seem to take different approaches with regard to timetables: There is a more or less equal divide between those with timetables for a set period and those which prefer a rolling programme with annual updates. Most of the EU countries that have not been able to make any forecast on their future ODA spending levels cite legal restrictions related to their national budget cycle. Some of them have processes under way to address the legal and policy obstacles to multi- annual commitments. These efforts have to be pursued and concluded urgently, especially in those countries that had referred to internal discussions on the issue in previous years. The lack of appropriate policy frameworks and/or budget forecast decisions worsens the back-loading in the EU scaling-up process. This undermines the Union's ability to live up to its immediate ODA targets for 2010 in addition to the medium-term targets for 2015.

#### 5.1.7. *ODA for Africa*

Africa is the region furthest off track from meeting the Millennium Development Goals and the EU is paying special attention to its development efforts. In 2005 EU Member States committed themselves to increase development assistance to Sub-Saharan Africa and to channel at least 50% of their collective aid increase to the continent.

The debt relief spike that substantially augmented total EU flows during 2005 and 2006 also affected EU ODA to Africa, as a significant share of debt relief was for Nigeria. With the decline in debt forgiveness there was also a decline in the overall EU ODA to Africa in 2007, since the mobilisation of country programmable aid did not fully compensate for the amounts of debt relief that had been made available before. In 2008 **EU bilateral aid to Africa has increased to €14.1 billion,** an amount insufficient to match with the 2006 level.

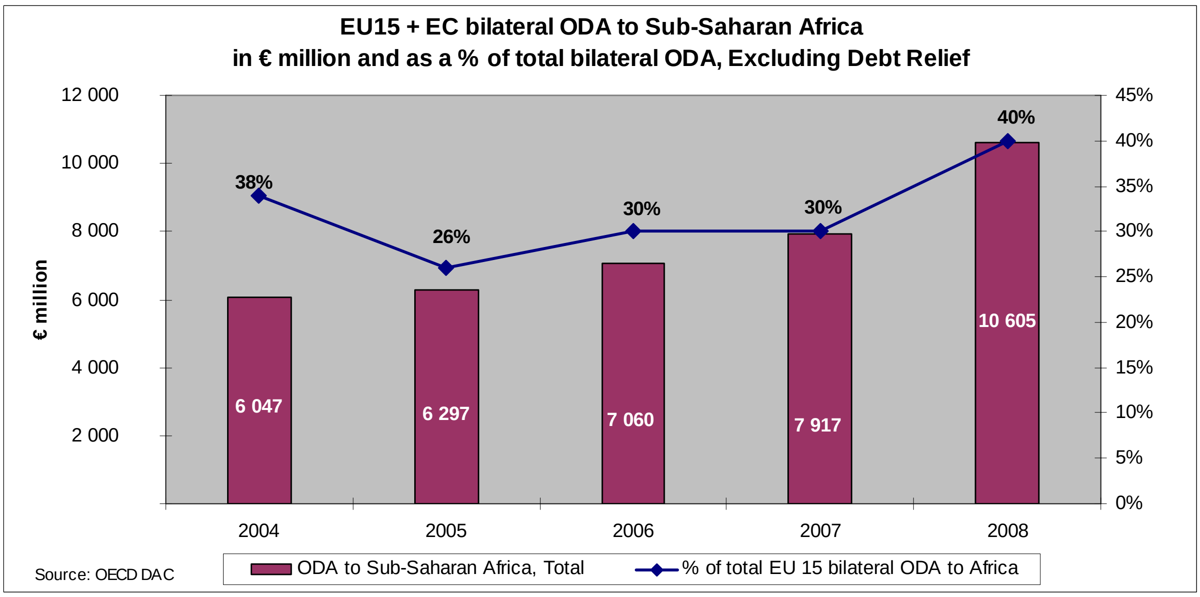
***Figure: EU bilateral ODA to Africa (North and Sub-Saharan Africa) in current prices***




*Source: OECD/ DAC*

Looking at EU ODA to **Sub-Africa excluding debt relief**, there is a **clear and persistent upward trend in aid flows** in absolute amounts **since 2005**. Beteween 2007 and 2008 this aid increased by more than a third showing that bilateral programmes are being refocused towards Sub-Sahara Africa.

***Figure: EU bilateral ODA increase to Sub-Sahara Africa without debt relief grants***




*Source: OECD/ DAC*

The future aid increases to Africa remain hard to predict as the Member States gave no indication of their plans to sustain this trend in their forecasts provided in response to the Monterrey survey. While a mix of instruments is considered necessary, most Member States will continue to use bilateral aid as the preferred channel for ODA to Africa, either by means of project/ programme approaches or as budget support or support for regional/continental organisations. Compared with indications from Member States last year, budget support seems to be falling out of favour, as only five countries consider this their preferred *modus operandi* for scaling up for Africa (down from ten). In particular the countries that have become EU members since 2004 continue to provide their support to Africa mainly via multilateral channels, including instruments administered by the European Commission.

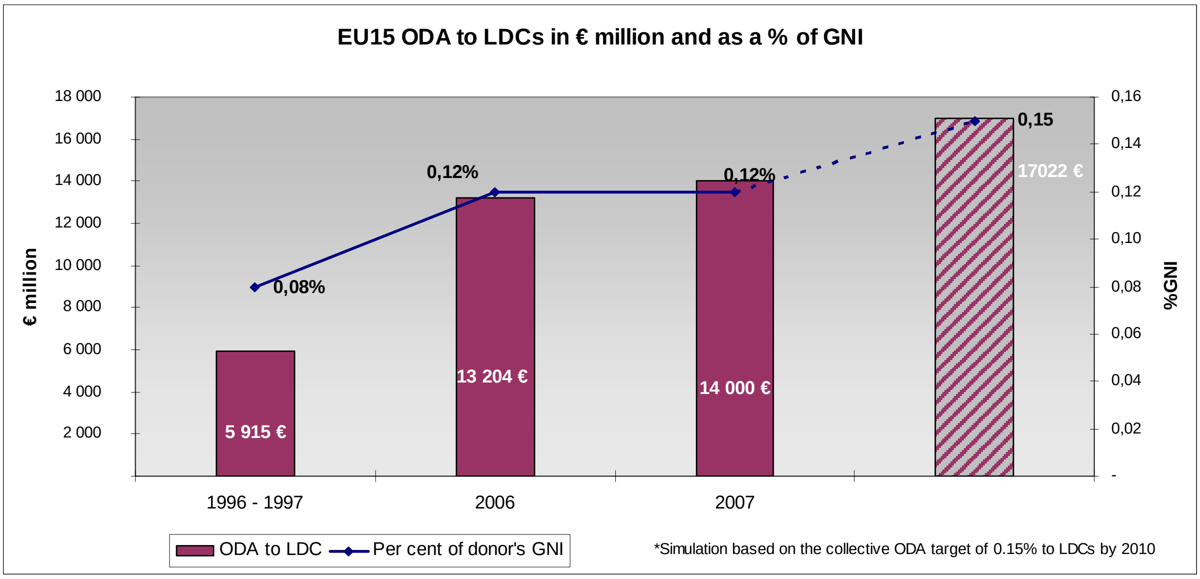
### *5.1.8. ODA for the least developed countries (LDCs)*

In November 2008, Member States promised, as part of the EU's overall ODA commitments, collectively to provide 0.15% to 0.20 % of their GNP to LDCs by 2010 while fully respecting the differentiated commitments set out in the "Brussels Programme of action for the LDCs for the decade 2001-2010. This report will establish the baseline for future monitoring.

The share of EU ODA to LDCs has been increasing constantly. The feasibility of achieving this target depends on fulfilling the overall ODA commitments. Ten of the EU-15 MS have indicated that they are willing to provide at least 0.15% of their GNI to LDCs by the target date. As some of them do not plan to increase their overall ODA levels, this may entail significant re-prioritisation of their current aid programmes. Of the EU-12, only Cyprus and Lithuania are prepared to reserve a share of their ODA for LDCs.

The **current trend** and preliminary predictions indicate that the **collective ODA target of 0.15 to 0.20% of GNI to LDCs by 2010 remains in reach**, provided MS refocus their spending plans accordingly.

*Figure: EU ODA to LDCs*



### *5.1.9. Continued need to enhance ODA reporting capacity*

In follow-up to the Council Conclusions of May 2007[21] the Commission, in close cooperation with the OECD/ DAC and Austria, organised seminars on ODA reporting standards for EU12 administrations[22]. Eight MS participated in the training that aimed at facilitating adherence of these EU countries to their ODA reporting obligations in follow-up to the commitments taken at EU level. The Commission will continue to work with the DAC secretariat on providing such support. As the EU12 are not yet DAC-members they do not fully - or not at all - report to the organisation, although all of them are covered by the OECD/DAC outreach strategy for new donors. A hindrance for further enhancing the statistical reporting (capacity, expertise) stems from the fact that some EU12 MS have not appointed a permanent ODA reporting officer or unit.

### *5.1.10. Outlook*

There is no **more time for complacency**. The EU needs to maintain its leadership role for a global development partnership and must not put at risk its credibility as a reliable and predictable donor. Urgent and decisive action is required in a difficult economic context during 2009 and 2010:

- The European Council of March 2009 highlighted the need to honour agreed commitments to increase development assistance. This requires a **concerted action by all EU Member States to reach the collective target of 0.56% ODA GNI by 2010.**

- Member States need to **live up to their individual commitments** while preserving a **fair burden-sharing** among themselves in line with the pledged 2010 thresholds.

- In order to live up to agreed commitments regarding the establishment of rolling multi-annual indicative ODA timetables[23] Member States that do not dispose of such **national timetables** need to include multi-year forward-plans in their Government work programmes and related budget decisions. As budget decisions for 2010 are being prepared now and 2015 is the next target date for ODA levels, such **timetables** should best become available by the end of 2009[24] and **explain how countries will go towards meeting the 0.7% (EU15) and 0.33% ODA/ GNI (EU12) target of 2015**.

- In line with the Council Conclusions of May 2007 Member States should **adhere to their ODA reporting obligations**. A useful step in EU12 countries that have not yet done so would be to assign permanent reporting officers for ODA statistics and to ensure sustainability in their reporting system.

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[21] "Keeping Europe's promises on Financing for Development" of May 15, 2007

[22] In 2008 and 2009 as part of the 3rd capacity building programme in development policy for the EU12

[23] Council Conclusions (GAERC) of 11.11.2008 and of 27 May 2008

[24] But not later than by the end of 2010 to remain in keeping with the Council Conclusions of 2008, see previous footnote

## 5.2. Bridging the finance gap: innovative sources of financing

### *5.2.1. Innovative finance: a timely matter*

As seen in the previous chapter, the current crises are making it ever more difficult to meet Europe's ambitious commitment to scale up aid to developing countries. In assessing whether the EU is able to develop and adopt innovative finance mechanisms (IFM) and thereby meet its ODA commitments or mobilise further development funding, the Monterrey survey sounded out Member States' interest in exploring further possibilities or making firm commitments to innovative mechanisms. Most of the existing initiatives concerning innovative sources of funding and financing mechanisms were launched with a view to providing a stable, predictable and, in the case of the International Financing Facility (IFF), frontloaded funding to achieve the Millennium Development Goals and other development goals.

The political message concerning innovative financing mechanisms at Member States level can be summed in the three following points:

- Member States agree to some extent on improving resource mobilisation by making funds more predictable, however they remain divided over the importance of the issue and feasibility of schemes.

- The debate within many Member States ' administration on the scope for additional official financial commitments for development assistance is continuing.

- There is traditional reluctance in parts of the national administrations of many Member States to consider international taxation schemes; this apprehension is exacerbated by the global financial crisis.

### *5.2.2. A small number of EU Member States are promoting innovative sources of finance*

Ten EU countries mobilised funds via innovative mechanisms in 2008, while Hungary and the Czech Republic are conducting informal discussions at the national level. France, Germany, the Netherlands, Sweden, Luxembourg, Italy and the UK are becoming more engaged in the field of innovative finance, but the majority of the Member States are not participating in any of the existing innovative tools and instruments. The major contributions to existing mechanisms have been:

- **Air ticket contributions**: France and the UK have an air ticket **tax,** but, unlike France, the UK does not earmark any of the proceeds for development finance. Luxembourg is the only country to collect **voluntary contributions from air passengers** (since April 2008). Cyprus has also introduced an air ticket tax, but has yet to sort out legal constraints relating to the contract with the private airport operator. In 2008, Cyprus (€ 400000) and France (€164 million) paid the proceeds from their air ticket tax to the **International Drug Purchase Facility (UNITAID)** and the UK contributed around €19 million in the form of regular ODA. What is more, the Portuguese government is developing an internal consultation process, involving different ministries and the parliament, in order to assess the technical and financial implications of potential support for UNITAID.

- **International Financing Facility for Immunisation (IFFIm)**: The disbursements of the UK (€12.6million), France (€19.2 million), Italy (€5.76 million), Spain (€9.1 million) and Sweden (€1.9 million) under their existing long-term commitments backed the IFFIm, following the first bond issue of US$ 1 billion in 2006. A second issued in March 2008 raised a further US$223 million.

- In February 2007, the UK and Italy (together with Canada, Norway, Russia and the Bill & Melinda Gates Foundation) launched the first **Advance Market Commitment (AMC) for the pneumococcal vaccines**. In 2008 Italy contributed €36.04 million and Spain has expressed interest in a further **AMC for malaria.**

- **Debt2Health:** Germany disbursed €50 million in debt relief for Indonesia and €40 million for Pakistan via its new Debt2Health initiative. Debt2Health envisions freeing up domestic resources with the aid of debt relief that can be invested in urgent public health needs. Creditor countries forgo a portion of their claims on condition that the beneficiary country invests an agreed amount in health under a - programme approved by the Global Fund. This counterpart payment is made to the Global Fund.

- **Financial and currency transaction levy**: Belgium and France had earlier introduced legislation to tax such transactions; effective implementation is linked to the existence of a similar levy in the other EU Member States. Austria and Italy have expressed interest in introducing a tax on financial or currency transactions at EU level.

- **Climate change** is giving a new boost to work on innovative financing and seems to be inspiring some Member States that have so far been reluctant to take a fresh look on innovative finance: Germany (€100 million in 2008 and €225 million in 2009) and Denmark (€ 13.4 million in 2008 with the same amount earmarked for 2009) have both decided to allocate an increasing share of their national carbon trade revenues to climate change mitigation and adaptation projects, focussing on developing countries.

Member States agree to some extent on improving resource mobilisation by making funds more predictable, increasing the volume of traditional development assistance and working better with the private sector and the markets. The UK in particular emphasises the importance of harnessing the private sector by improving regulatory frameworks to provide greater incentives for private investment[25].

Finally, Member States are equally split between those that would like to explore further the potential of certain other mechanisms (e.g. a financial transaction tax, global lottery) and those that do not consider them realistic options.

[25] The UK is currently using ODA to leverage additional private sector investment via the facilities of the Private Infrastructure Development Group and the Challenge Fund approach (which provide matching grants of up to 49% of the costs of commercial proposals selected on a competitive basis by an independent expert panel).

### 5.2.3. *Actions required for implementing new mechanisms and partnerships allowing an increase in financing for development*[26]

Consensus runs deep that the fight against hunger and poverty and for promotion of development will not be won unless the gap between political commitment and development financing is bridged. At the time of writing, global ODA flows in response to traditional financial commitments made by the donor community remain uneven and slow. As a result, boosting aid to countries that are already aid-dependent will require a degree of budgetary predictability that only new mechanisms could provide. Innovative finance mechanisms can therefore make a crucial difference in enhancing ODA resources.

With a view to leveraging finance with the aid of innovative mechanisms, this report calls for an **urgent assessment of the different ideas and proposals**. The ultimate **financial efficiency** of development financing and the effective use of funds are key criteria for the assessment. The Commission encourages efforts to raise additional development finance for the developing world as long as these mechanisms do not undermine the efforts to strengthen national ownership, alignment with country systems and donor coordination and harmonisation. It is therefore important to diagnose the potential problems carefully before jumping to any particular innovative finance solution. This entails **considering** the:

- cost benefit analysis at the outset;
- common set of criteria for judging the range of solutions to problems identified;
- political championing and multi-donor coordination;
- evaluations of pilot initiatives;
- focus on effective use of aid and on generating additional finance, paying particular attention to the existing aid architecture. New initiatives should avoid any further proliferation of actors and funds.

On this basis innovative sources of financing should be further developed and implemented.

- Greater focus should be placed on using innovative finance to generate additional private sector investment, particularly in the current economic climate, e.g. exploring how public finance, via risk-related instruments, could create incentives for private sector investment. The EU encourages development of tools to mobilise private funds for development (e.g. risk-sharing initiatives).
- Attention needs to be paid to donors' commitments to ensure that predictability of revenue increase is turned into predictable delivery of resources in developing countries.

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26 In follow up to the Council Conclusions GAERC 11.11.2008 'Guidelines for EU participation in the International Conference on Financing for Development (Doha)

- Member States could support successful ongoing initiatives, such as the auctioning of emission certificates under the European Emissions Trading mechanism as a growing source of development finance, to adapt to climate change in developing countries.

# 6. EXTERNAL DEBT: CHALLENGES TO DEBT SUSTAINABILITY IN DEVELOPING COUNTRIES

Developing countries that have received multilateral and bilateral debt relief in the recent past have been able to invest significantly more in development. In the current global economic downturn this may also enable them to develop their own fiscal stimulus response. Nevertheless, since 2007, **many post-HIPC countries have been particularly exposed to a succession of shocks** (e.g. high and volatile food and energy prices) that have **led them into new borrowing**. **Debt sustainability** is therefore often part of the vulnerability assessments that are being carried out to gauge the impact of the multiple crises on developing countries. In order to alleviate the impact of the new financial crisis on progress towards the MDGs the EU needs to continue its full support for the HIPC/MDRI initiatives. Against this background encouraging progress has been made in this area with almost all the Members States indicating that they had delivered, timely, on their commitments to those initiatives. Despite the risk of more restricted access to new loans and the higher costs of borrowing many developing countries will be forced to resort to new borrowing to support continued investment in human and physical capital. These new loans need to be carefully managed, especially since a number of post-completion-point HIPCs were already assessed as being at high risk of debt distress prior to the economic downturn. It is therefore, reassuring that the majority of Member States reported that they were taking action to promote debt sustainability, e.g. via the Debt Management Facility for Low Income Countries managed by the World Bank. Replies from Member States also suggest that existing debt management and sustainability mechanisms should be further enhanced, their membership broadened and capacity in developing countries improved.

## 6.1. The implementation of the HIPC initiative and preserving debt sustainability

**Continued participation by creditors and donors in existing debt relief initiatives**, in particular the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiatives (MDRI), **is central to debt sustainability**. The statements by Member States that they have delivered, without delays, on their commitments to the HIPC/ MDRI initiatives, are consistent with the WB/IMF reporting on the subject. This marks an improvement on previous years. In addition, the European Investment Bank has decided that its own resources assigned for HIPC debt relief could be used to finance clearance of the arrears of eligible HIPCs.

**Maintaining long-term debt sustainability** in post-HIPC/MDRI low-income countries will be a central **challenge** in the future. The most commonly cited kind of action taken by the EU Member States to support debt sustainability is the decision to **apply the OECD Export Credit Group guidelines on debt sustainability** and a commitment to **use the Debt Sustainability Framework** for informed decisions on lending. Several EU countries gave details of direct technical assistance to strengthen public debt management, which they provide via multilateral initiatives, such as the

World Bank's debt management facility, or bilaterally in LDCs. In their response to the annual questionnaire some Member States also referred to a meeting, hosted by the Paris Club in 2008, at which the Debt Sustainability Framework was explained, promoted and discussed with commercial creditors. The majority of Member States would appreciate greater guidance on how to implement the commitments given in the May 2008 Council Conclusions which were further developed in the November 2008 Council Conclusions on EU participation in the International Conference on Financing for Development in Doha. Although only a minority of Member States so far acknowledges a need for a **sovereign debt restructuring mechanism** to deal with future cases of **debt distress** in developing countries, others are ready to enhance existing initiatives. The **G20** at their London Summit underscored the importance to **review the flexibility of the Debt Sustainability Framework** and called on the IMF and World Bank to report to the IMFC and Development Committee at the Annual Meetings[27].

## 6.2. Next steps

In the light of the findings and challenges described above, and reflecting conclusions reached by the EU for and discussions at Doha, the following measures should be taken:

- continued full and timely support for the implementation of the HIPC initiative, ensuring that eligible countries receive pledged debt relief.

- call on commercial and non-Paris Club official creditors to step up their contribution to implement the HIPC initiative and to grant comparable treatment to non-HIPC countries that have benefited from the Evian approach;

- as reflected in the November 2008 Council Conclusions on EU participation in the Doha Conference on Financing for Development, the EU supports discussions on enhanced sovereign debt restructuring mechanisms based on existing frameworks and principles, including the Paris Club. There is a need to seek broad participation by creditors and debtors and fairer burden-sharing across creditors with a central role for the Bretton Woods Institutions (BWI) in the debate. The EU also supports risk management initiatives linked to the volatile trends in commodity prices in developing countries to reduce the impact of these exogenous shocks;

- it is important to help restore and preserve debt sustainability in low-income countries. In follow-up to its position defined in the Council Conclusions of November 2008 the EU should invite all creditors and borrowers to improve transparency on loans and debt-stocks and to apply international guidelines such as the Debt Sustainability Framework of the BWI and the official export credit guidelines agreed by the OECD Export Credit Group. The EU has committed to not sell claims on HIPCs to creditors unwilling to provide debt relief and calls on all countries to do likewise and deter aggressive litigation by distressed-debt funds.

[27] G20 London Summit Leaders' Statement of 02.04.2009, §25

- Consideration should be given to making full use of the Debt Sustainability Framework's existing flexibility to reflect the diversity of situations across low-income countries;

- Further increased technical assistance is necessary to strengthen the debt management capacity of debtor nations in the form of either multilateral initiatives or bilateral support. This capacity supports effective debt negotiations with non-Paris Club official bilateral creditors and commercial creditors; and enhances democratic oversight of new debt and use of resources freed with the aid of debt relief;

- the European Commission is willing to assist Member States on how to implement the commitments agreed in the 28 May and 11 November 2008 General Affairs and External Relations Council Conclusions on debt.

## 7. SYSTEMIC ISSUES: WORKING TOGETHER FOR INTERNATIONAL GOVERNANCE AND STABILITY

International financial stability is a global public good. The global financial crisis has exposed weaknesses in the international economic governance system. Improvements in the effectiveness, coherence and complementarity of the global institutions are necessary. Furthermore, the Bretton Woods Institutions need to strengthen their analysis, prevention and support methods for developing countries affected by international financial crises, while involving regional economic and financial institutions more closely.

This report welcomes the current **international debate to review the international financial and monetary architecture and global economic governance**, in order to ensure a more effective and coordinated management of global issues such as financial stability, food and energy security, climate change or the fight against major pandemics. This debate should take into account the ongoing initiatives to address the financial crisis at European and international level and should involve the World Bank, the IMF, the United Nations, the WTO and. relevant regional institutions. The EU should make sure that the interests and needs of developing countries are duly taken into account in the reform debate and decisions.

The **reform package adopted by the International Monetary Fund**, which improved the alignment of members' quotas with their relative positions in the world economy and which helped to strengthen the voice and representation of developing countries is a welcome step. All IMF members should **urgently ratify this reform of quota and voice, as agreed in April 2008.**The **call of the G20** in that direction and to **complete the next review of quotas by January 2011** is welcome[28]

The Commission welcomes the adoption by the Development Committee of a reform package including an **additional seat for sub-Saharan Africa on the Bank's board** and the increase in developing and transition countries' voting shares in the IBRD and IDA, with special emphasis on smaller members as an important first step in the

[28] G20 London Summit Leaders' Statement of 02.04.2009, §20

comprehensive reform of the World Bank governance and encourages further realignment of shareholdings in the Bank, considering the evolving weight of all members in the world economy and other Bank-specific criteria consistent with the World Bank Group's development mandate. Quick implementation of the first phase of this governance reform of the World Bank, as agreed by the Development Committee in 2008, is called for**.** This will lay the appropriate basis for further discussion, to make governance more effective.

Furthermore, this report supports an **open, transparent merit-based process for selection of the IMF Managing Director and the WB President** and the simultaneous opening of these positions to applications from all board members and embraces the proposal of the G20 London Summit in this regard[29].

In order to improve efficiency, an increase in resources and improvement of the instruments of the IFIs is needed. The Commission supports full ratification by IMF Member States of the Fourth Amendment that provides a mandate for doubling Special Drawing Rights. In the case of the World Bank, the Commission favours frontloading to attenuate the effects of the crisis on IDA countries.

Moreover, the coherence of policies and action between the IFIs and the United Nations need to be strengthened. The UN plays a central role in the multilateral system due to its universality and broad mandate. The UN is the only body where consensus can be built between all States and regions, including those currently under-represented in or missing from economic and financial governance structures. The contribution by the UN to the work of the IFIs should be stepped up and made more systematic, including by enhancing the UN's role in the IFI's governance bodies, safeguarding and consolidating the IFI's role in the relevant UN governance and management bodies and other UN fora and regularising executive contacts between the organisations. Further arrangements should also be considered in order to enhance the debate on global economic issues in the Economic and Social Affairs Council (ECOSOC).

## 8. COPENHAGEN AND BEYOND: THE CHALLENGE TO MOBILISE FUNDING FOR CLIMATE CHANGE RELATED EFFORTS OF DEVELOPING COUNTRIES

### 8.1. Financing related to climate change and other environmental challenges in the wake of the crisis

Climate change is happening and developing countries are the worst affected because of their heavy dependence on weather conditions and their vulnerability to climate-related disasters. The poorest developing countries that are least to blame for climate change are hit earliest and hardest. Tackling climate change is necessary in order to achieve environmental sustainability, which is also one of the MDGs. Moreover, there is a risk that climate change could reverse progress towards other MDGs such as food security and health for all.

Climate change can also result in important forced displacements of populations. The rise of those internal and external migratory flows could lead to 200 million of forced

29 G20 London Summit Leaders' Statement of 02.04.2009, §20

migrants by 2050, involving heavy economic and social costs for the most vulnerable countries.

The financial, economic and environmental crisis is worsening the poverty in developing countries, but also offers an opportunity for a strong policy response for **"green growth"** and opens up new prospects for sustainable development.

At the same time there is a pressing need to reach agreement in Copenhagen in December 2009 on a system to tackle climate change that responds to the challenges. Creating an adequate global financial architecture is a key component of any system.

The estimated costs for both mitigation and adaptation are high, but manageable, provided timely mitigation efforts are taken so that the temperature rise can be kept below 2°C. The European Council [30] has reconfirmed the resolve of the EU to play a leading role to contribute to this goal and to reduce by 30% its emissions provided that other developed countries commit themselves to comparable greenhouse gas reduction targets and that advanced developing countries adequately contribute according to their responsibilities and respective capabilities. This is in line with latest research, which indicates that **keeping the 2°C target within reach will require also developing countries as a group, in particular the most advanced, to reduce their predicted emission growth rate**. In accordance with this insight developing countries should commit themselves to a low-carbon development strategy, alongside the advanced economies. Implementation of such a strategy in the poorest developing countries, which could encourage, for example, renewable energy, should be supported technically and financially. The European Council has underscored that the EU will take on its fair share of financing such actions in developing countries. It is important to **rapidly harness mitigation measures that create a net economic benefit *("picking the low hanging fruit")*.** Such a focus should be part of the response to the current crisis.

Achieving the MDGs will require substantial investment to adapt to climate change. For the LDCs the United Nations Framework Convention on Climate Change (UNFCCC) established a fund to prepare National Adaptation Programmes of Action (NAPAs) that describe the priority adaptation activities to be funded. In the context of the EU Global Climate Change Alliance (GCCA) support to non-LDCs for implementing climate related policies via (sector) budget support has been mentioned as an option. These activities generally fall within categories that are receiving ODA funding: e.g. irrigation and water management, flood protection, developing drought-resistant crops and reforestation. The UNFCCC Secretariat estimates that adaptation costs in all developing countries could range from €23 billion to €54 billion per year in 2030. Further study of the economics of climate adaptation is required, but the needs are large in comparison with the present size of ODA. Future climate aid will compete with other internationally agreed development objectives.

Covering the cost of coping with climate change (mitigation and adaptation actions), especially in the most vulnerable developing countries, will require significant domestic and external sources of finance, both private and public. Financing related

[30] Conclusions of 19-20 March 2009

to climate change should be increasingly mobilised by industrial countries to support those countries, which have contributed very little to climate change, but will be the first and hardest hit, so that they can cope with climate change, especially LDCs and Small Island Developing States (SIDS). The following main sources can be used:

- increasing ODA budgets (but not at the expense of budgets for other MDGs);

- increasing private-sector flows such as via a (reformed) Clean Development Mechanism; legal frameworks and public funds are needed to leverage these flows;

- innovative sources of funding that are linked to the carbon market, e.g. using a share of the revenue from auctioning emission rights, such as via the proposed Global Climate Financing Mechanism or a levy on international air transport.

The European Council has also called to **explore more closely international financing mechanisms.** Public financial contributions at the international level should be comparable and be based on the polluter-pays principle and each country's economic capacity. As regards implementation of climate support, the Member States and the Commission generally favour using multiple channels such as: bilateral programmes, EU programmes or multilateral programmes managed by the World Bank or by the UN system. So far, the Member States are implementing very few innovative funding mechanisms. A few Member States are already using revenue from emission trading. This is likely to grow as auctioning of emission rights becomes generalised in the future. Some Member States have indicated that they are willing to use part of the revenues for climate finance in developing countries (including for adaptation, reducing emissions from deforestation and degradation (REDD), contributions to the Global Energy Efficiency and Renewable Energy Fund and technology transfer. Legal complications, related inter alia, to budgetary treatment are sometimes mentioned as a limitation for using innovative funding. Nevertheless, there is an openness to tap the potential for innovative funding. Therefore further analysis and exchanges of experience are desirable.

The EU has welcomed the mobilization of IFIs and bilateral players in the area of climate change, such as the establishment of the Climate Investment Funds (CIFs) by the World Bank. These funds are designed to fill the financing gap for urgent action until a new architecture for financing related to climate change under the post-2012 arrangements becomes effective; they need to be fully co-ordinated with existing multilateral and bilateral efforts, particularly in the context of the Global Environment Facility (GEF), the Adaptation Fund set up under the UNFCCC and European initiatives such as the Global Climate Change Alliance (GCCA) and the Global Energy Efficiency and Renewable Energy Fund (GEEREF). Their objective is to support credible national mitigation and adaptation plans that include low-carbon objectives and could teach helpful lessons in the post-2012 financing arrangements related to climate change.

The sources of funding for the adaptation and mitigation needs of developing countries are likely to be multiple. There is scope and a need for multilateral and bilateral initiatives, and coordination and cooperation will have to be improved. In this respect, the situation for climate finance is not fundamentally different from other areas of development finance, such as health or infrastructure.

Additional resources made available to cope with climate change should be mobilised in line with the established principles of aid effectiveness. Climate finance and other development finance should be fully integrated into national development plans and strategies, including poverty reduction strategies where applicable.

Climate change is not the only environmental challenge to achieving MDG7. Biodiversity and ecosystems must be preserved as they provide essential services (water, forest biomass, soil fertility, topsoil, etc), on which the poorest are the most dependent. Desertification has become a major threat to biodiversity and a major cause of loss of productive capacity all over the world. Deforestation must be addressed: Many in the developing world are dependent on forests for their livelihood and their contribution to maintaining forests, in particular tropical forests, is paramount for safeguarding environmental sustainability. The magnitude of the investments needed is very substantial and available resources should be used to tackle the environmental problems coherently.

### 8.2. The follow-up to the EU position for Doha and Poznan[31]:

- In line with the 2007 Bali Action Programme, the EU should contribute its fair share to the financing needed for mitigation and adaptation to climate change in developing countries and to delivering financing efficiently, effectively and equitably.
- The EU confirmed that it will work for the effective implementation of the GCCA between the EU and poor developing countries most vulnerable to climate change and will explore ways to mobilise new financial resources to tackle climate change and combat its negative impact.
- The EU is ready further to explore the contribution that innovative sources of funding can make to helping developing countries cope with climate change.
- As regards the Clean Development Mechanism the EU is willing to promote a more balanced geographical distribution of financing moving from a pure project focus to a sectoral approach.
- In the context of efforts to promote energy security and sustainability, the EU should continue to promote energy efficiency and renewable energy and pay careful attention to the sustainability of bio-fuels as one source of renewable energy.

## 9. CONCLUSIONS

The Doha Conference was a success, but it also poses a challenge to the EU to build and deliver on its results. Europe needs to harness Doha's positive dynamism and carry it forward in the global partnership which was strongly reaffirmed. The EU must play its part and show the leadership needed to make live up to the promise of Doha. The EU should place the follow-up to Doha in a broader context, bridging the

[31] Council Conclusions (ENVIRONMENT) of 20.10.2008 and (GAERC) of 11.11.2008

other major development events in 2008 (in Accra, on aid effectiveness and the UN high-level events on Africa and MDGs) and also the discussion on global governance issues initiated by the G20 summit in November 2008 and further pursued by the London Summit in April 2009. The following measures require specific attention of the Commission and the EU Member States:

- First and foremost, the EU needs to keep to its collective and individual ODA pledges based on the main collective commitment of 0.56% of ODA/GNI for ODA by 2010 and 0.7% by 2015. On that basis, the EU should argue for fairer burden-sharing with other donors and expect others to meet and upgrade their pledges.

- The EU needs to be innovative with financing development in all its forms, including adaptation for climate change particularly in the poorest developing countries. The implementation of the Doha Declaration implementation and UNFCCC processes need to move forward together. Copenhagen 2009 will not succeed without a sound solution on adaptation.

- There is a need to bridge the Doha results with the process of reform of global governance structures to make them more inclusive.

This report provides a baseline for monitoring future progress by the EU in those areas in which it has given new major commitments, namely (i) on governance issues, especially with regard to the EU priority to tackle taxation as part of the broader governance agenda, which offers potential for further mobilisation of domestic resources and ; (ii) on foreign direct investment with obligations on improved transparency, accountability, corporate social responsibility and compliance with anti-corruption laws, labour and environmental standards.

## ABBREVIATIONS

| | |
|---|---|
| ACP: | African, Caribbean and Pacific States, party to the Cotonou Agreement |
| AFT: | Aid for Trade |
| AMC: | Advance Market Commitment |
| AT: | Austria |
| AWEPA | Association of European Parliamentarians for Africa |
| BCPR: | United Nations Development Programme's Bureau for Crisis Prevention and Recovery |
| BE: | Belgium |
| BG: | Bulgaria |
| CIAT: | Centro International de Agricultura tropical |
| CIF: | Climate Investment Funds |
| CSR: | Corporate social responsibility |
| CY: | Cyprus |
| CZ: | Czech |
| DAC: | Development Assistance Committee of the OECD |
| DE: | Germany |
| DK: | Denmark |
| DRR: | Disaster risk reduction |
| DRRP: | Disaster Risk Reduction Prevention |
| DSF: | Debt Sustainability Framework |
| DTC | Double Tax Convention |
| EBRD: | European Bank for Reconstruction and Development |
| EC: | European Community |
| ECOFIN | Economic and Financial Affairs Council |
| EDF: | European Development Fund |
| EE: | Estonia |
| EIB: | European Investment Bank |
| EIF: | European Investment Fund |
| EITI | Extractive Industries Transparency Initiative |
| EL: | Greece |
| ENP: | European Neighbourhood Policy |
| EPA: | Economic Partnership Agreement |
| ES: | Spain |
| ETS: | Emission Trading Scheme |
| EU-27: | European Union |
| FAO: | Food and Agriculture Organisation |
| FFD | Financing for Development |
| FI: | Finland |
| FLEGT: | Forest Law Enforcement, Governance and Trade |
| FLEX: | The EU instrument to compensate African, Caribbean and Pacific (ACP) countries for short term fluctuations in export earnings |
| FoS: | Framework of Standards |
| FR: | France |
| FFD: | Financing for Development |
| FSF: | Financial Stability Forum |
| G 8: | Group of Eight (Summit of Canada, France, Germany, Italy, Japan, Russia, United Kingdom and United States) |

| | |
|---|---|
| GAERC | General Affairs and External Relations Council |
| GCCA | Global Climate Change Alliance |
| GDP: | Gross Domestic Product |
| GEEREF: | Global Energy Efficiency and Renewable Energy Fund |
| GEF: | Global Environment Facility |
| GFDRR: | Global Facility for Disaster Risk Reduction |
| GIIF: | Global Index Insurance Facility |
| GNI: | Gross National Income |
| GPG: | Global Public Goods |
| HIPC: | Heavily Indebted Poor Countries |
| HU: | Hungary |
| IBRD: | International Bank for Reconstruction and Development |
| ICF: | Investment Climate Facility for Africa |
| IDA: | International Development Association |
| IDB: | Inter-American Development Bank |
| IDLO: | International Development Law Organisation |
| IE: | Ireland |
| IFF: | International Financial Facility |
| IFFI: | International Finance Facility for Immunisation |
| IFI: | International Financial Institution |
| IFM: | Innovative Finance Mechanisms |
| ILO: | International Labour Organisation |
| IMF: | International Monetary Fund |
| IPG: | International Public Goods |
| ISDR: | International Strategy for Disaster Reduction |
| ISO26000 | Standard on Social responsibility |
| IT: | Italy |
| ITC: | International Tax Compact |
| LDC: | Least Developed Countries |
| LT: | Lithuania |
| LU: | Luxembourg |
| LV: | Latvia |
| MDG: | Millennium Development Goals |
| MDRI: | Multinational Debt Relief Initiative |
| MDTF: | Multi-Donor Trust Fund of World Bank |
| MTOs | Money Transfer Operators |
| MoU: | Memorandum of Understanding |
| MS: | Member States |
| MT: | Malta |
| NAPA: | National Adaptation Programmes of Action |
| NGO: | Non-Governmental Organisation |
| NL: | The Netherlands |
| ODA: | Official Development Assistance |
| OECD: | Organisation for Economic Cooperation and Development |
| PGA: | President of UN General Assembly |
| PL: | Poland |
| PSD: | Payment Service Directive |
| PT: | Portugal |
| REDD: | Reducing emissions from deforestation and degradation |
| RO: | Romania |

| | |
|---|---|
| SE: | Sweden |
| SI: | Slovenia |
| SIDS: | Small Island Developing States |
| SK: | Slovakia |
| SME: | Small and medium-sized enterprises |
| Stabex: | System to Stabilise Export Earnings |
| STAR: | Stolen Assets Recovery Initiative |
| SYSMIN: | Special assistance measure for the ACP mining |
| TIEAs: | Tax Information Exchange Agreements |
| UK: | United Kingdom |
| UN: | United Nations |
| UNDEF: | United Nations Democracy Fund |
| UNDP: | United Nations Development Programme |
| UNGA: | United Nations General Assembly |
| UNFCCC: | United Nations Framework Convention on Climate Change |
| UNITAID: | United Nations International Drug Purchase Facility |
| UNODC: | United Nations Office on Drugs and Crime |
| UNSC: | United Nations Security Council |
| WB: | World Bank |
| WCO: | World Customs Organisation |
| WFP: | World Food Programme |
| WHO: | World Health Organisation |
| WTO: | World Trade Organisation |

**Annex 1: UN Convention against Corruption (Merida Convention) - State of signature and ratification by the EU (on 15.03.2009)**

| Country | signature | ratification, acceptance (A), approval (AA), Accession (a); Succession (d) |
|---|---|---|
| AT | 10 Dec 2003 | 11 Jan 2006 |
| BE | 10 Dec 2003 | 25 Sep 2008 |
| BU | 10 Dec 2003 | 10 Oct 2006 |
| CY | 9 Dec 2003 | 23 Feb 2009 |
| CZ | 22 Apr 2005 | |
| DK | 10 Dec 2003 | 26 Dec 2006 |
| EE | | |
| FI | 9 Dec 2003 | 20 Jun 2006 A |
| FR | 9 Dec 2003 | 11 Jul 2005 |
| DE | 9 Dec 2003 | |
| EL | 10 Dec 2003 | 17 Sep 2008 |
| HU | 10 Dec 2003 | 19 Apr 2005 |
| IE | 9 Dec 2003 | |
| IT | 9 Dec 2003 | |
| LV | 19 May 2005 | 4 Jan 2006 |
| LT | 10 Dec 2003 | 21 Dec 2006 |
| LU | 10 Dec 2003 | 6 Nov 2007 |
| MT | 12 May 2005 | 11 Apr 2008 |
| NL | 10 Dec 2003 | 31 Oct 2006 A |
| PL | 10 Dec 2003 | 15 Sep 2006 |
| PT | 11 Dec 2003 | 28 Sep 2007 |
| RO | 9 Dec 2003 | 2 Nov 2004 |
| SK | 9 Dec 2003 | 1 Jun 2006 |
| SI | | 1 Apr 2008 a |
| ES | 16 Sep 2005 | 19 Jun 2006 |
| SE | 9 Dec 2003 | 25 Sep 2007 |
| UK | 9 Dec 2003 | 9 Feb 2006 |
| EC | 15 Sep 2005 | 12 Nov 2008 AA |

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**<u>Annex 2: The Commission methodology applied for analysing ODA indications of EU Member States:</u>**

*Figures on <u>Official Development Assistance (ODA)</u> in current prices have been taken from the OECD Development Assistance Committee (DAC) for the years 2007 and 2008 for those Member States which report to the DAC and for which the DAC publishes ODA information.*

*For those Member States for which public DAC information on ODA volumes is not available, figures for 2007 and 2008 are taken from Member States' replies to the annual "Monterrey" survey organised by the Commission.*

*For ODA volumes for the year 2009 and beyond, ODA figures have been taken from Member States' replies. For Members States which indicate ODA in national currencies the Commission's annual average exchange rates of the respective years will be applied to convert them into euro. Up to 2010, the exchange rates are taken from the Commission's autumn 2008 forecast and, beyond that, nominal exchange rate stability is assumed. Where a Member State presents only the ODA/GNI ratio, ODA will be calculated by multiplying it with the Commission's projected GNI figure for that country.* ***Where a Member State has given both an ODA amount and the ODA/GNI ratio, the Commission has given preference to using the ODA amount as this gives a better indication of where the achievement of ODA/GNI targets is sensitive to differing assumptions on GNI.*** *Where information on both ODA and ODA/GNI ratio was missing the Commission assumed that the ODA/GNI targets for 2010 (0.51% for EU-15 Member States and 0.17% for Member States that joined the EU after 2002) and 2015 (0.7% for EU-15 Member States and 0.33% for Member States that joined the EU after 2002) would be achieved and by multiplying them with the Commission's GNI figures to derive the ODA volume amount. For the remaining years the Commission calculated the missing ODA figures by distributing the absolute difference between the ODA volume of the latest year for which information was provided and the ODA volume required to meet the 2010 and 2015 targets equally over these years (simulating a linear increase).*

*Figures for <u>Gross National Income (GNI)</u> in current prices are outcome for 2007, estimates for 2008 and calculations based on GDP figures from the January 2009 interim forecast for the years 2009 and 2010. GNI figures for the years 2011 to 2013 have been calculated by applying the Commission's country-specific projections of nominal GDP growth rates. The Commission's projections are based on potential output growth estimates until 2015, which were also used for the purpose of budgetary calculations in the context of the EU financial framework 2007-2013*

**<u>Annex3: Africa – infrastructure priorities</u>**

The Infrastructure Partnership, defining the continental priorities for strengthening regional integration and social and economic development of Africa, was endorsed by the Council (17 October 2006) and by the African Union, most recently at the AU Summit in February 2009. African countries were encouraged to back these priorities at the national level.

### *1. Transport*

Eight Trans-African transport corridors were identified as the main continental axes that will be promoted in the context of the EU-Africa Infrastructure Partnership. These corridors are:

| | |
|---|---|
| Dakar | N'djamena |
| Nouakchott | Lagos |
| Khartoum | Djibouti |
| Lagos | Mombasa |
| Le Caire | Gaborone |
| N'djamena | Windhoek |
| Beira | Lobito |
| Dar Es Salam | Kigali |

### *2. Energy*

The Partnership refers to the electricity interconnections in Africa, notably to the projects of continental relevance identified by NEPAD and the five regional power pools (the Maghreb Union (COMELEC), the Southern Africa Power Pool (SAPP), the West Africa Power Pool (WAPP), the Central Africa Power Pool (CAPP) and the Eastern Africa Power Pool (EAPP)). The power pools include national utilities of member countries that are responsible for optimising use of regional energy resources and country-to-country support during an energy crisis. The power pools are based on a multitude of legal documents, such as inter-governmental, inter-utility agreements, agreements between operating members and operating guidelines.

### *3. ICT*

Following priorities have been identified in the Partnership and deserve specific attention in the short term:

– <u>African Internet Exchange System,</u> facilitating the use of internet across the continent

– <u>Africa Connect,</u> connect sub-Saharan Africa to the European high-speed education network - GEANT

– <u>GMES-Africa, extending</u> Earth Observation capacities and applications to the African Continent.

## Annex 4 – Infrastructure priorities: Union for the Mediterranean

## I. ENP - Barcelona process - Union for the Mediterranean.

At the Paris Summit in July 2008 the following priority areas were identified:

– **De-pollution of the Mediterranean**. The implementation of this programme, building on the Horizon 2020 strategy, will have an important infrastructural dimension. It will focus on coastal protection, construction of water treatment plants and pipelines, improving urban sewage systems, construction of waste and re-cycling units and relative access infrastructures.

– **Maritime and Land Highways and South-South integration**. This sectoral strategy will focus on the development of “highways for commerce” and “motorways of the sea”. This would include connection of ports, the creation of coastal motorways, the modernization of trans-Maghreb train and the construction of infrastructures relevant for trade integration, maritime safety and handling of goods, in a perspective of global integration in the Mediterranean region.

– **Alternative energies**. This strategy will focus on the development of a Mediterranean Solar Plan, taking into account that alternative sources of energy are a priority in the Mediterranean region.

Moreover, during the 5$^{th}$ Euro-Mediterranean Ministerial Conference on Energy in Limassol, on 16-17 December 2007, the Energy Ministers adopted the "Priority Action Plan for Euro-Mediterranean Energy Cooperation 2008-2013". The Ministerial meeting agreed on a list of priority interconnections and infrastructure projects of common interest in the region. For North Africa that this relates to:

– The Trans Saharan Gas Pipeline “TSGP” Nigeria-Algeria-Spain-Italy;

– The North African branch of the Mediterranean Energy Ring– both natural gas and electricity.