Statement by

Mr. Poul Nielson
Commissioner for Development and Humanitarian Aid
European Commission
The European Commission welcomes the focus of the Development Committee in the series of its recent meetings on the Millennium Development Goals (MDGs). These have become the context for all our development work in the 21st century. Yet they remain a major challenge, especially for sub-Saharan Africa which is lagging behind other regions in terms of poverty reduction and most of the other MDGs.

The MDGs demand, aside from the pivotal efforts by the developing countries themselves, higher levels of aid as well as an improved quality of aid.

The EU countries made a firm and quantitative commitment to increasing their aid levels in Monterrey and are at current trends exceeding this commitment, heading for 0.42% of GNI in 2006 instead of 0.39% as promised. Nevertheless it has also become evident that an even steeper increase in aid levels is required. While it seems that higher aid could be easily compensated by small cuts in the big budget items such as defence, public administration and agricultural subsidies, the reality of the annual budget process in the developed world is such that the constituencies for aid are rather small and major increases in the aid budgets are in many countries hard to get. Therefore, efforts to look for more sustainable sources of funding of development assistance beyond the volatility of the annual budget are welcome. A range of options, including IFF and the introduction of an international tax whose proceeds would go to development are discussed in the papers for the Committee. While further technical work is proposed, and is needed, the central challenge is political: do we agree that aid levels need to rise now? And that innovative source of financing should come on top of and not replace current aid allocations in the developing country budgets?

An equal or even greater need for innovation may be the way how we deliver the additional aid promised and securing at the same time predictability of resource flows, increased country ownership of poverty reduction strategies and incentives through performance based aid allocations. While countries require a stable and predictable source of funding for public services required to meet the MDGs, the current range of instruments at donors’ disposal from projects, sector and general budget support cannot...
ensure such a steady flow of resources. Wherever suitable conditions exist, the Commission is committed to make increasingly use of budget support. This instrument comes closest to the requirement by allowing the funding of both recurrent and investment needs and reducing transaction costs through the use of national systems. This also improves coherence in planning and accounting. In that context the European Commission welcomes the recent announcement by the Bank to move from adjustment to policy support lending and hopes to be able to exploit the potential of increased coordination between Commission and Bank interventions. Combining the respect for country ownership with conditionality remains a balancing act, in particular for the BWI, and the Commission would welcome a further and more decisive move towards results- rather than policy based conditionality. Also on the down side, the time horizon of current budget support is often too short and disbursements too volatile.

Debt relief, on the other hand, has proven an effective aid delivery mechanism by providing a steady and predictable flow of resources. However it has to-date not been an effective allocation mechanism for aid: debt relief under the HIPC initiative did neither benefit the poorest nor the best performing countries most.

Building on this experience, innovative ways of delivering additional resources should seek to combine predictability with the incentives donors seek to provide and the accountability our Parliaments demand.

In addition to the promise of increased aid levels, the European Union has also committed to concrete steps to improving the quality of aid. Untying of aid and better harmonisation of our aid programmes feature prominently among those. The European Commission has presented proposals in both areas and is currently working with EU Member States on an EU policy on that basis. Progress at EU level necessarily implies global progress as it already affects the bigger part of ODA. We are conscious of this responsibility.

**While Growth Also Needs Better Infrastructure**

Provision of infrastructure services is a fundamental factor to fight poverty and is a basic input for sustained economic growth. We welcome the World Bank’s Infrastructure Action Plan which builds upon the empirically proven links between infrastructure provision and poverty reduction and in particular its contribution to the MDGs.

The European Commission is a traditional donor in the sector of transport infrastructure and services which accounts for 35% of total earmarked programmable resources from the European Development Fund over the last decade. Following the Johannesburg Summit in 2002, however, the Commission decided to raise its profile in two other sectors by launching the EU Water and Energy Initiatives, linking infrastructure to the MDGs and poverty.

The € 500 million ACP-EU Water Facility is conceived as a catalyst for additional funding to the water sector. Its funds will be primarily used in innovative ways in co-financing arrangements, to provide the grant-funded elements of projects enhancing the access of the poor to water and sanitation services; to finance capacity and institution building, to spur the integrated management of water resources, and to contribute to existing initiatives within a concrete financial framework.
Similarly, the EU Energy Initiative has a particular focus on poverty eradication by improving access to adequate sustainable energy services in rural, peri-urban and urban areas. The Commission is preparing a € 250 million Energy Facility, similar to the Water Facility to honour the commitments taken at the WSSD.

AND A MORE CONDUCIVE BUSINESS CLIMATE

The European Commission welcomes the increased focus on a conducive business climate as a prerequisite for growth. Support in this area constitutes one of the corner stones of the EC strategy for private sector development in developing countries. We agree that benchmarking key features of the business environment and monitoring their further development should be a key component of private sector development strategies.

The Investment Facility’s €2.4 billion managed by the European Investment Bank should be an important factor in the effort to enhance partnerships, joint ventures and equity based investment between EU investors and partners in ACP countries. This should be true not only relating to infrastructure activities but generally in relation to the business development process.

We should not be too optimistic on the scope of Public-Private Partnerships for leveraging substantial private capital for infrastructure financing. Information from the private sector suggests that while private enterprises are interested to conclude management contracts with developing countries, they are reluctant to finance large-scale infrastructure. Public financing is bound to remain the decisive factor in infrastructure financing in poor countries.

The regional dimension is important and deserves more attention, for business climate and infrastructure provision, in particular with a view to attracting foreign investment and promoting business and trade flows between countries. This is particularly important for many LDCs, landlocked and small economies. For the Commission regional integration is one of its six priority areas.

Trade prospects are an important factor for the business climate and growth prospects. We welcome the important steps forward in the WTO’s Doha Development Agenda. Since 2001 annual new EU commitments for trade-related assistance have reached around €700 million, making the EC the largest contributor in this field. For more businesses to take advantage of the increased trade possibilities expected from the DDA we need to press this process forward even more energetically.

AS WELL AS A SOLUTION TO THE DEBT CRISIS

The HIPC initiative was an important breakthrough in dealing with debt crisis in low income countries and should be fully completed. We welcome the postponement of the HIPC sunset clause to end-2006 for those countries that still have to enter the initiative. However, we call on the international community to develop urgently credible alternatives for those countries that still risk being left out at the expiry of the sunset clause. These other options must be better tailored to the needs of post conflict countries with high multilateral arrears.
The European Commission is concerned that debt sustainability in post completion point countries has so quickly become an issue again, which proofs that current monitoring arrangements simply are not satisfactory. Monitoring new borrowing is not enough and there is a need to develop adequate answers to external shocks. A new forward looking framework for debt sustainability in Low Income Countries will however only be credible if the independency of the debt sustainability analysis can be assured.

Concerning the proposal of a 100% debt cancellation, the Commission considers that the already mentioned missing correlation with both poverty and performance makes indiscriminate debt relief an undesirable replacement of aid.

As part of a coherent partnership for the MDGs.

Over the last few years, we have reached important agreements. We now all consider the MDGs our common mandate and our common challenge. We all recognise that if the MDGs are to be reached we all need to deliver on Monterrey. I am pleased to state that the European Union is on track for meeting its 2006 target for the increase of aid volumes. Other important donors still have to deliver upon their commitments. We must seize the opportunity of the forthcoming MGD+5 reporting in 2005 not only to renew our commitments, but also to take collectively and in a credible manner, the necessary trade and financial decisions to help our partners in Development achieve our common objectives.