Statement by

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STRONG FINANCIAL AND POLITICAL COMMITMENTS FROM THE EU ON DEVELOPMENT

Over the past year, the EU has made strong political and financial commitments to accelerate progress towards the Millennium Development Goals (MDGs), particularly in sub-Saharan Africa. These commitments translate into more, better and quicker aid.

The EU’s strong financial commitments are reflected in the June 2005 decision to increase Official Development Aid (ODA) to a collective average of 0.56% of GNI by 2010, and to 0.7% by 2015. It implies that the EU, which already provides more than half of global ODA, will contribute about 80% of the scaling up of ODA worldwide by 2015. I would encourage other partners to prove this projection wrong by stepping up their efforts.

The strong political commitment is embodied in the historical adoption of the first EU Development Policy Statement, the European Consensus on Development, in December 2005. This Consensus is a breakthrough, as for the first time the European Commission, Parliament and Member States agreed on a common vision for development assistance, based on shared values, objectives, and principles, as well as a substantial financial increase. It commits the whole of the Union1 to enhancing coherence, co-ordination, and complementarity and serves as a platform for greater aid effectiveness. The European Council also agreed in December 2005 on an EU Strategy for Africa, the continent which should receive at least 50% of the aid increase. An Aid Effectiveness Package was adopted in April 2006.

GLOBAL MONITORING REPORT

The European Commission shares the key messages of the joint World Bank/IMF 2006 Global Monitoring Report on Strengthening Mutual Accountability (GMR), some of which are reflected in the European Consensus on Development and the EU Strategy for Africa.

The European Commission welcomes the GMR which, in a comprehensive and balanced way, reviews the progress toward meeting the main MDG targets and provides an important input for our own reflections on how to improve monitoring towards the MDGs. Strengthening progress towards the MDGs continues to be the overarching priority of the European development policy.

EFFECTIVE SUPPORT TO GOVERNANCE

The European Commission shares the balanced approach taken in the GMR on the complex area of governance. Progress in the protection of human rights, good governance and democratisation in partner countries is fundamental. For this reason, support to improving

1 meaning the European Commission, the Council of Ministers, the European Parliament and the Member States as bilateral donors.
Governance in partner countries is an important objective stated in the European Consensus on Development.

To translate the European Development Consensus into practice, I have decided to put the dialogue on governance at the heart of the preparation of our country strategy papers with the 79 African, Caribbean and Pacific (ACP) countries within the framework of the 10th European Development Fund (EDF). In this context, the European Commission is currently developing a methodology for assessing governance. The results of these assessments will also be taken into account in the allocation of funds.

Governance will form an integral part of our general dialogue with partners when preparing and implementing our country strategy papers (CSPs) as well as of our political dialogue.

The EU Africa Strategy also foresees a Governance Initiative to support Africa-owned efforts in this area. The Commission is currently working on this initiative which will be accessible for all ACP countries, but will pay particular attention to the Africa Peer Review Mechanism.

The recognition of the complexity of governance calls for balanced and graduated responses - depending on of the gravity of the problem - and better cooperation between donors. In most cases of governance problems, dialogue has to be the first and preferred step. The appropriate reaction also has to take into account the impact it would have on the poor population, including the need for maintaining some degree of predictability of funding whenever possible.

Tackling the link between natural resource governance and conflict is an important theme for the European Commission. The EC is particularly active in the Kimberley Process, and will assume the chairmanship in 2007 (representing the 25 European Member States). Another focal area is conflict timber, where support is provided under FLEGT (the EC's Forest Law Enforcement, Governance and Trade Initiative). Both processes are good examples of how different instruments and policy areas, i.e. governance, trade, development, security and human rights, can be combined to ensure a coherent approach.

The European Commission supports the message included in the GMR that sound expenditure management systems are needed to materialise increased and more flexible aid and to meet the fiduciary concerns of donors and finance ministries. The European Commission promotes the wide adoption of the Public Expenditure and Financial Accountability Performance Measurement Framework (P.E.F.A.) by the donor community as the common and only tool to assess the quality of public finance management systems. This will reduce transaction costs and facilitate dialogue between donors and governments. Such a common assessment tool will also be valuable for partner countries, as it will provide feedback on the results of their reform efforts.

Development assistance can be provided through different and complementary modalities depending on country circumstances. The EU has decided to increase the use of general and sectoral budget support, wherever circumstances permit. The rational for this decision is to support ownership in the financing of national poverty reduction strategies, strengthen partner countries’ national accountability systems and procedures, and promote sound and transparent management of public finances.
The scaling up of aid has to come in parallel with an increase in quality. Aid effectiveness is central to the EU Development Consensus, operationalizing the principles of the Paris Declaration on harmonisation, ownership, alignment, and management by results. The *Aid Effectiveness Package* adopted on April 11, translates commitment into detailed and concrete measures to be implemented by 2010. The focus is now on implementation on the ground, taking into account country specificities and best practices.

Mention must be made, in particular, of the adoption of:

(i) An **EU Joint Multi-annual Programming Framework**. There will be a common format for country strategies, compatible with our partners' systems, and open to other donors. The EC proposes to launch an immediate shared analysis of the political, economic, social and environmental situation of each country over the medium term, in order to establish a collective strategic response to poverty challenges.

(ii) A mandate to further progress on complementarity through the adoption of **operational principles on the division of labour** before the end of 2006.

(iii) A mandate to develop by 2006, a methodological framework for **enhanced financial co-operation and co-financing** between EU actors.

**TRADE**

The European Commission welcomes the Trade Progress Report, which provides a helpful overview of the results of the Hong Kong Ministerial Meeting of the WTO and of the Aid for Trade Agenda. The European Commission fully recognises the importance of **timely delivery of Trade Related Assistance** in order to ensure that all developing countries, especially Least Developed Countries and other small and vulnerable economies, can reap the benefits from trade reform. However, Aid for Trade, while being a valuable complement, can not be a substitute for a **successful DDA outcome** that reflects the interests of developing countries.

As regards **Aid for Trade**, the European Commission has taken a lead role with a contribution on average of above **€800 million per year** since the start of the DDA in 2001. The Commission indicated that this amount will be **increased to € 1 billion per year** and the EU Member States agreed to strive to provide collectively another € 1 billion of Trade Related Assistance by 2010. It is important to add that this combined amount of € 2 billion refers to a strict definition of what is trade related. The European Commission is also very active with regards to broader support for **strengthening the supply side** (e.g. through infrastructure), as well as for facilitating adjustment to a new trade policy situation.

The European Commission and the Member States contribute to the work of the Task Force to enhance **the Integrated Framework (IF) to assist LDCs**. The new IF will have to be much stronger at the country level. The IF is one of the main tools to coordinate Aid for Trade and to achieve better mainstreaming of trade in poverty reduction strategies. Further progress in this area is urgently needed. Up to now, we have paid too much lip service to mainstreaming and have not advanced enough in practical terms.
Aid for Trade should also take into account the **regional integration dimension**. Landlocked countries should be targeted in the regional context to reduce the cost of their trade transactions by improving transport corridors and simplifying procedures.

The European Commission does not consider that new mechanisms are needed to deliver Aid for Trade. Existing channels can be used, which in fact facilitates the mainstreaming and programming of assistance. What is important is that Aid for Trade pledges are **credible and increase the confidence of developing countries**.

### CLEAN ENERGY AND DEVELOPMENT

Access to reliable, affordable, and clean energy services is critical to accelerate economic growth and social development in poor countries. However, there is a **big financing gap** in the energy sector and a need for **new and innovative instruments** that can blend grants and loans to reduce costs and risks, and attract additional investment from the private sector. This need is particularly strong in poor developing countries, such as in Sub-Saharan Africa. As reflected in the European Consensus on Development, the EU is **committed to help solving the energy problems of poor countries**.

In order to take action, the EU has, in close collaboration with the African Union and NEPAD, decided to establish an **Africa-EU Partnership on Infrastructure** that will address the need for increased investment in transport, water, energy and ICTs, and has established a trust fund with the European Investment Bank, as a mechanism to attract financing for cross-border and regional infrastructure. The EU has also created the **ACP-EU Energy Facility** that focuses on improving access to energy in poor rural areas.

In 2004, the EU adopted a **Strategy and Action Plan on climate change** in the context of development cooperation. In this context, innovative risk management tools can make an important contribution in reducing vulnerabilities in developing countries.

### PARTNERSHIP WITH THE WORLD BANK

The European Commission values its constructive partnership with the World Bank in the shared struggle for poverty alleviation. The frequent consultations between the two institutions as well as the synergies and complementarity of their development strategies highlight the joint determination to support and accelerate the achievement of the MDGs that have proven so difficult to attain, especially in Africa.