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COVER NOTE

from: Secretary-General of the European Commission,
signed by Mr Jordi AYET PUIGARNAU, Director

date of receipt: 24 June 2008

to: Mr Javier SOLANA, Secretary-General/High Representative

Subject: Report from the Commission to the Council and the European Parliament
- Annual Report 2008 on the European Community's Development and
External Assistance Policies and their Implementation in 2007

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COMMISSION OF THE EUROPEAN COMMUNITIES

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

**Annual Report 2008 on the European Community's Development and External
Assistance Policies and their Implementation in 2007**

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(presented by the Commission)

REPORT FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT

Annual Report 2008 on the European Community's Development and External Assistance Policies and their Implementation in 2007

The EU is continuing to consolidate its status as the world's leading donor, giving 60% of total official development assistance. In 2007 the Commission rapidly improved the effectiveness of its assistance following the major innovations in policy and procedures introduced over the past two years: adoption of the European Consensus on Development in December 2005, a European Consensus on Humanitarian Aid in December 2007, and overhaul of the instruments of the external assistance programmes.

Policy Coherence

The first *Report on Policy Coherence for Development* (September) highlights the interactions and complementarities between development policy and twelve other EU policies that have an impact on developing countries. Trade is seen as a key element in any coherent development strategy. In that context, access to the EU market is generally favourable to developing countries. In agriculture, important progress has been made on export subsidies, which have been drastically reduced through the successive Common Agricultural Policy (CAP) reforms. A new generation of fisheries agreements focuses more on supporting the fisheries sector of partner countries. Migration and research are viewed as policy areas with tremendous potential for developing countries. On climate change, all efforts are being made to ensure that measures directly benefit the poorest and most vulnerable developing countries. Environmental integration efforts are directed at addressing environmental protection and sustainable natural resources management both through specific actions and as a cross-cutting theme, including the preparation of country environmental profiles and the use of strategic environmental assessments.

Gender equality is one of the key considerations in external assistance. A Communication on *Gender Equality and Women's Empowerment in Development Cooperation* adopted in March introduces, for the first time, a strategy at the European level. Gender mainstreaming is made more effective. It also proposes specific actions in five fields and describes the various ways of promoting gender equality through the new aid delivery methods. An action plan will ensure its follow-up. Moreover, in accordance with the European Consensus, external assistance actions must take children's rights into consideration. This approach is beginning to bear fruit. Several country strategy papers adopted in 2007 show real inclusion of children's rights in how activities and target populations are addressed. The Commission and UNICEF have partnered to prepare a toolkit to address and mainstream children's rights in European development cooperation and external relations. A Communication on a *European Agenda for Culture in a globalizing world* was adopted in May. This highlights the role of culture in Europe and in EU external relations and proposes objectives for a new common EU agenda for culture.

Working Together

Responding to the call for more coordination and harmonisation among EU donors, a new code of conduct for the division of labour between the Commission and the Member States

introduces specific principles to help in deciding the best use of the EU's collective capacities and resources in support of partner countries. These innovations are a milestone in the implementation of the Paris Declaration on Aid Effectiveness and a landmark in the implementation of the EU's promise to deliver "more, better and faster aid". Implementation is already taking place through consultations at field level between Commission Delegations, Member States, partner countries and other donors.

Co-financing with Member States is now possible, specifically in fund management and delegated co-operation. In addition, the Commission is preparing a *Compendium on Best Practices in Division of Labour*. This will contain case studies of best practices and identify bottlenecks and drivers of division of labour, and attempt to develop indicators. A study on EU co-financing provides information on "who's doing what with whom and how", indentifying key lessons learned from bilateral, EC, and decentralised co-financing experiences; while determining possible future actions for developing a comprehensive EU co-financing strategy.

Relations between the United Nations and the EU now cover virtually all areas of the EU's external relations and span the entire scope of the UN Charter. 2007 marked the mid-way point towards the 2015 target date for the Millennium Development Goals (MDGs). The UN Secretary-General launched the MDG Africa Steering Group to devise strategies and prepare actions to bring sub-Saharan Africa in particular on track to meet the MDGs. President Barroso is a member of this Group where the Commission actively shared its experience and views. In addition, 2007 was the first full year of operation of the new UN Peacebuilding Commission (PBC). Together with other EU actors, the Commission participated in its work both on country-specific and thematic issues. The PBC adopted integrated peacebuilding strategies for Burundi and Sierra Leone and held several debates on thematic issues.

Better Strategies

Following the approval in late 2006 of a simplified range of financing instruments for assistance from the EC Budget, a wide range of thematic and country/regional strategies for the 2007-2013 period was agreed.

The EU recognises the vital contribution of non-state actors (NSA) as strategic partners in political, social and economic dialogue and as key aid delivery actors. It promotes constructive dialogue with all types of NSA and local authorities. The strategy for 2007-2010 for the new thematic programme, Non State Actors and Local Authorities in Development, was adopted in June following consultation with civil society and dialogue with the European Parliament. Its overarching objective is poverty reduction in the context of sustainable development, including pursuit of the MDGs. Policy evolution, as regards participatory approaches, resulted in several important innovations, including relaxing eligibility criteria for all types of NSA and local authorities as well as stakeholders in partner countries. To ensure partner country stakeholder participation, Commission Delegations will assume greater responsibility for country-level interventions, including the launching of local calls for proposals.

A thematic strategy for human and social development, *Investing in People*, was adopted in May. Driven by the ambition to help partner countries achieve the MDGs, the strategy proposes to support activities under four main pillars: good health for all, education, knowledge and skills, gender equality, and other aspects of human and social development with an overall budget of €1.06 billion in 2007-2013. The Commission played an increasingly

central and influential role internationally in education and health, working with Member States and other donors and stakeholders. It organised a high level education event *Keeping Our Promises on Education* in May with the World Bank and the UK Government to mobilise political commitment. As in previous years, the Commission played a key role in the Global Fund to fight HIV/AIDS, Tuberculosis and Malaria, contributing €100 million in 2007.

The thematic strategy for the environment and the sustainable management of natural resources (ENRTP) integrates environmental protection into development and other external policies. It will also help promote EC environmental and energy policies abroad. The strategy addresses challenges that profoundly affect the lives of poor people, in particular degrading ecosystems, climate change, poor global environmental governance and inadequate access to (and security of) energy supply. It is characterised by flexibility in the choice of implementing partners and includes two new initiatives, the Global Climate Change Alliance and the Global Energy Efficiency and Renewable Energy Fund. Climate change impacts are a reality, will increase over time, and could undermine development efforts. Adaptation to climate change is therefore necessary for sustainable development (see feature article for details).

The launch of the Instrument for Stability (IfS) enhanced the Commission's crisis response capacity considerably, in addition to introducing an allocation for crisis preparedness and creating the possibility to address longer-term trans-regional security threats. The new instrument represents a considerable increase in financial allocations (an average of €200 million per year during the period 2007-2013) and in the duration of programmes.

The European Instrument for Democracy and Human Rights (EIDHR) complements and reinforces action on human rights and democracy under other instruments (€1,104 billion 2007-2013). It tackles human rights issues at the front line, with particular reference to human rights defenders, torture and ill-treatment, and democratic reform and human rights at local level. For 2007-2010, EIDHR aims to enhance respect for human rights in countries and regions where they are most at risk; strengthening the role of civil society; supporting actions in areas covered by EU Guidelines (e.g. the death penalty, children and armed conflict); strengthening international and regional frameworks for the protection of human rights, justice, the rule of law and the promotion of democracy; while also enhancing the reliability and transparency of electoral processes. In 2007 the EU successfully implemented ten election observation missions with a total of some 800 observers deployed on the ground. These missions played a key role in providing an assessment of the electoral process, particularly in countries where the election was controversial (e.g. Nigeria, Kenya).

Turning to the geographic programmes, this was the first year of implementing assistance to the EU's neighbours in the east and in the south through the European Neighbourhood and Partnership Instrument (ENPI). This provides the framework for EC assistance in support of the relations with 17 countries and for cross-border co-operation programmes on the EU's external border. The introduction of a policy-driven single instrument, managed on the basis of uniform principles for all countries and endowed with increased resources, allowed for a more ambitious and coherent policy towards the EU's neighbours. The ENPI budget for 2007–2013 stands at €12 billion – a 32% increase in real terms from the previous budget period. All the country strategy papers for 2007-2013, as well as the regional, interregional and cross border cooperation strategy papers, were adopted in March. To enhance ENPI's effectiveness, the Commission established additional financial mechanisms. A Governance Facility provides additional support to countries making particular progress in implementing reforms. A Neighbourhood Investment Facility pools grant resources to leverage investment in partner countries from European development and finance institutions.

Cooperation with Asia, Latin America and South Africa is financed through the Instrument for Development Cooperation (DCI) (total amount: €16.897 billion for the 2007-2013 period). This assistance should support poverty eradication and the achievement of the MDGs. For Asia, the Commission adopted 18 individual country strategies and a regional strategy for the period 2007-2013 with an overall budget of some €5.2 billion, and implementation is underway. Although during the year Asia progressed towards the achievement of the MDGs, poverty remains a significant challenge, as the region is still home to two thirds of the planet's poor people. Nevertheless, in 2007 Asia surpassed NAFTA to become Europe's main trading partner, accounting for a third of Europe's total trade flows. Moreover, European direct investment in Asia amounts to a third of European investment abroad, and is growing. The EU therefore also increasingly finances programmes for some Asian countries through the Industrial Cooperation Instrument, which in addition to traditional developed partners (e.g. Japan), now includes five other countries and territories in the region. The Commission's 2007-2013 strategy for Central Asia, adopted in April, foresees a doubling of budget allocations to €750 million. Eighty percent of EC assistance is directed to bilateral cooperation, taking into account the policy agendas of the Central Asian countries and their distinct political and social realities, with a focus on attainment of the MDGs. Twenty percent goes to regional challenges, such as the environment and water management, energy and transport, border management, and combating drug trafficking. The alignment of priorities in these sectors with the regional ENPI strategy enables Central Asian partners to participate in ENPI regional projects. With regard to Latin America, the main objectives include supporting social cohesion and regional integration, the reinforcement of good governance and public institutions, a common EU-Latin America higher education area, and promoting sustainable development. Within this framework, several strategic priorities were established, including maintaining the high level of political dialogue, both at regional and sub-regional levels. For Latin America, 21 strategy papers were adopted for the 2007-2013 time frame. Aid directly targeting the basic health and education sectors¹ reached some 17%² of total commitments under the relevant DCI geographical programmes (Asia, Latin America and South Africa), even without including general budget support with conditionality linked to these sectors. The Commission is thus well on track to reach, by 2009, the 20% goal agreed with the adoption of the DCI regulation for assistance to these sectors under the DCI country programmes.

For some key countries, the situation does not yet allow for the preparation of a strategy. The Commission has supported Iraq reconstruction since 2003, concentrating on fighting poverty by alleviating the difficulties encountered by the Iraqi people. The programme covers all areas of activity, from basic services to support to the political process, with a special emphasis on elections. So far, most EC aid has been channelled through the International Reconstruction Fund Facility for Iraq. This multilateral approach has facilitated the deployment of EC support in challenging conditions where direct Commission actions would not be feasible. Efforts have also been made to launch bilateral actions with Iraq such as provision of electoral observation, support to civil society organisations in the field of human rights and technical assistance to the government. The Commission remains the largest donor to the Palestinians with an unprecedented donation of €550 million. In June the EU resumed normal relations with the Palestinian Authority, including financial assistance. The Temporary International Mechanism continued to provide vital assistance directly to the population. The Commission also continued to respond to the difficult socio-economic situation in Gaza, but access problems hamper the assistance.

¹ OECD DAC sector codes 112 (primary education), 113 (secondary education) and 122 (basic health)

² See also table 6.14

Following the adoption in December 2005 of a common, comprehensive EU Strategy for Africa, in 2007 the EU and the African Union (AU) took the partnership one step further in the build-up to the second EU-Africa Summit, held in Lisbon in December. For two days, leaders discussed several key political issues, including security, trade, regional integration and climate change. The participants highlighted the positive developments in Africa in recent years – more growth, more democratic elections, more confidence on the international stage, and the emergence of the AU as a strong and independent international actor and a key partner for the EU. The leaders adopted the Lisbon Declaration, a Euro-African consensus on values, common interests and strategic objectives. The main policy documents adopted were the Joint Africa-EU Strategy and a first action plan covering priority actions under eight thematic partnerships for 2008-2010. On this basis, the EU and Africa will now gradually move EU-Africa dialogue and cooperation “beyond development” (working more closely on issues such as trade, peace and security, and the environment), “beyond Africa” (jointly addressing issues such as UN reform, the situation in the Balkans, or climate change) and “beyond institutions” (a stronger role for non-state actors). The challenge now is to deliver tangible results. The programming of cooperation with South Africa for 2007-2013 (€980 million) was concluded with the adoption of a country strategy paper and a multi-annual indicative programme. The strategy paper was the first to be prepared jointly by the Commission, South Africa and eleven EU Member States.

Better Delivery

Turning to implementation, the ODA figures were again impressive – €9.949 billion in commitments and €8.493 billion in disbursements. The main feature was the success in committing all the remaining funds – €3.64 billion – in the previous European Development Funds before the tenth Fund comes into effect. This has never been achieved before. Disbursements from the EDF were €2.92 billion and would have been higher if the funds had been available.

The Commission's external assistance is implemented through three main delivery modalities. The choices depend on a joint Commission/government analysis of the country and sector environment. The project approach is used to support non-state actors, for regional programmes, or where conditions do not allow for use of government systems. The sector approach aims to underpin a sector policy and a strategic framework monitored through performance criteria and indicators. The EC also supports national or macro level goals expressed in national policy and strategy documents through general budget support, with funds transferred to the national treasury of the beneficiary country. The sectoral approach and budget support follow the orientations of the European Consensus on Development as a preferred aid modality.

In addition, the Paris Declaration on Aid Effectiveness has given positive momentum to these forms of aid delivery, which are, by their very nature, aligned with country systems, avoid parallel implementation structures, and favour a coordinated approach to capacity development and the use of joint field missions and shared analysis. The introduction of the new Financial Instruments was an important step in harmonising the use of budget support across different regions. This year, budget support commitments came to €1.79 billion, or 23% of the total. This is a substantial increase when compared to 2006, explained by an increase in commitments in Asia and the ENP region. For the EDF, budget support commitments remained broadly constant, with an increase in general budget support offset by a fall in sector budget support.

The MDGs are the key development outcomes that the EU, along with the countries concerned and other partners in the development community, wants to achieve between now and 2015. The Commission has worked with an expert group including Member States, the OECD Development Assistance Committee, UNDP and the World Bank, to develop a core set of 10 indicators drawn from the MDGs. Six of these indicators are directly related to the well-being of children, while three have a specific gender dimension. The Commission is preparing tools to measure the quantifiable effects of its operations in order to report on development results and enhance accountability to the European Parliament and Member States. In September, the Commission launched the pilot phase of systematic use of standard result indicators in specific sectors which are key areas for progress towards the MDGs. Quantifiable performance indicators are used to measure the effectiveness of external aid and to appraise trends over a given period of time. The EC's increasing support for statistics of good quality is instrumental in making pertinent indicators available.

The Commission monitors its projects both during and after implementation, and also has a thorough system of evaluations. The Results Oriented Monitoring system provides an overview of how the portfolio is progressing towards results and is based on regular onsite assessments of ongoing and completed projects and programmes. This year the system covered 148 countries and 1630 operations with a total value of nearly €10 billion. Between 2005 and 2007 scores have stabilised. Relevance has increased as the devolution of aid management has led to projects that respond better to local needs. In some cases, however, objectives are overambitious. The careful and effective identification and design of a project are key pre-requisites for its sustainability after EC support has ended. There is a high correlation between ownership and the effective participation of partners during the design phase. More effort is needed to develop phasing-out strategies to improve sustainability. Risk management during implementation also needs more attention. In addition to 1421 ongoing projects, 198 completed ones were monitored "ex-post". The share of projects classified as (very) good and as having (major) problems, remains consistent for both ongoing and completed projects within each region. However, the share of projects performing really well, as well as that of projects performing really poorly, becomes larger when ex-post measurements are done. Good projects tend to perform better after assistance has ended, while those that perform poorly tend to deteriorate. Although most projects have detailed reporting systems, very few systematically record their positive and negative experiences so as to identify the most appropriate lessons learned. Finally, policy support, ownership and financial viability are the most crucial factors for sustainability.

The evaluation programme covers both strategic and project evaluations. According to the 2007 strategic evaluations, the relevance of Commission programming and implementation is generally good. The Commission response addresses the needs of partner countries and is coherent with EU goals. Several major positive impacts have been noted, e.g. on the social sectors in India, economic stability in Jordan and Mozambique, the water sector in Jordan, food security in Mozambique, and economic integration in Central America. However, delays in implementation, lack of flexibility and cumbersome procedures lead to recurrent efficiency weaknesses. While the high quality of projects within some sectors (such as rural development) is recognised, impact on the sectoral policies of partner countries is often poor. The Commission provides particular added value in its support for regional co-operation between partner countries; however, the linkage between national and regional programmes is often weak.

IN 2007, THE COMMISSION'S EXTERNAL ACTION WAS GEARED
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TOWARDS ACHIEVING THE FOLLOWING OBJECTIVES:

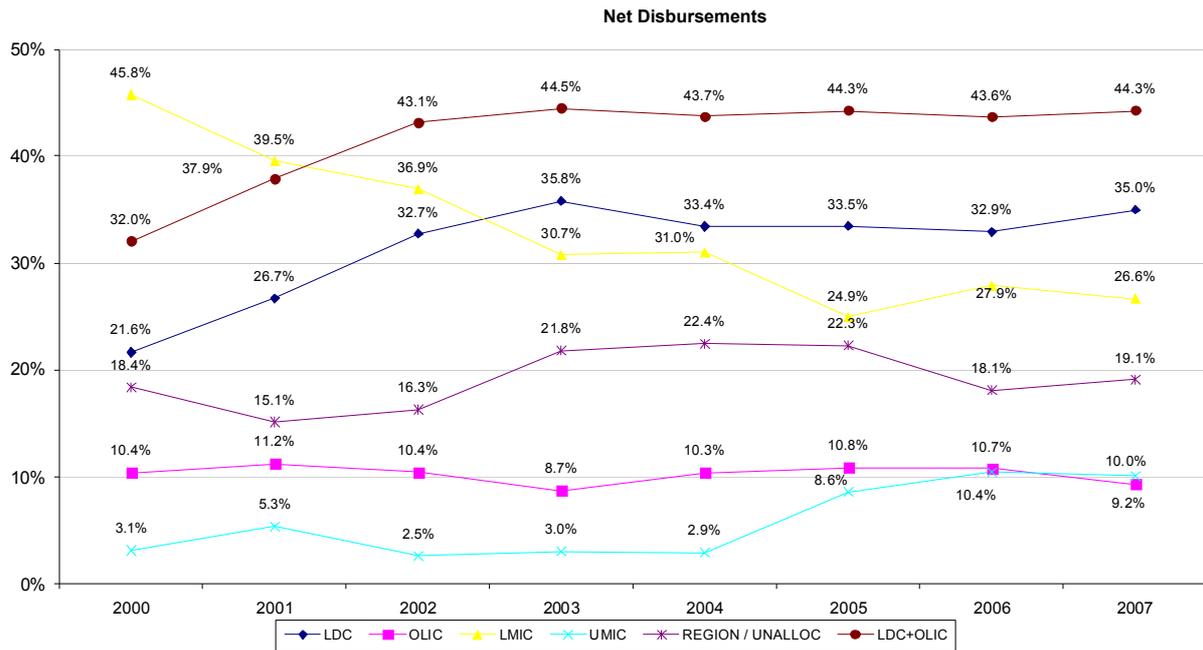
- ***A renewed EU market access strategy taking into account competitiveness, social and environmental concerns:*** EU Strategy on Aid for Trade adopted by Council in October; Commission and Member States working on concrete follow-up activities; €16 million earmarked for further integration of ACP states into the WTO and for further support of the enhanced integrated framework; regional programming for the 10th EDF is ongoing, with major attention to trade and EPA-related support.
- ***Concluding negotiations on Economic Partnership Agreements:*** full EPA initialled with all CARICOM Member States; Pacific ACP Interim Agreement signed by Papua New Guinea and Fiji; Interim agreements reached with seven African countries, the East African Community and the Eastern and Southern Africa group; Gabon and Congo Brazzaville examining adhesion to interim agreement; agenda and timetable set for progressing towards a full EPA in 2008.
- ***Reinforcing the European Neighbourhood Policy. Prepare new arrangements with Ukraine, Moldova and Israel. Enhancing the EU presence in Black Sea cooperation:*** negotiations on a new Enhanced Agreement between the EU and Ukraine started in March; Black Sea Synergy regional cooperation initiative presented in April; first ENP Ministerial Conference with all EU and ENP states held in September; Communication *A strong European Neighbourhood Policy* issued in December.
- ***Negotiating Association Agreements with partners in Asia and Latin America. Progress in negotiations with Russia, China and Ukraine:*** negotiations started on Association Agreements with Andean Community and Central America; negotiations started with Ukraine and progressed with Russia (including two summit meetings) and China (including one summit meeting).
- ***Continuing the European Security Strategy and stabilisation efforts in the Middle East and South Asia:*** UN plans to promote system-wide coherence supported, especially the launching of “Delivering as One” initiatives in eight pilot countries; over €550 million made available to the Palestinian people this year; Temporary International Mechanism continued throughout the year (with €350 million of EC funding); Partnership for Peace Programme continued; support to Afghanistan continued (with just under €196 million of EC funding).

IN ADDITION TO THE ABOVE-MENTIONED OBJECTIVES, THE COMMISSION MADE PROGRESS IN THE FOLLOWING FIELDS, FOR WHICH IT HAD ANNOUNCED STRATEGIC INITIATIVES IN 2007:

- ***Establishing Erasmus Mundus II:*** Erasmus Mundus II approved in July with some €950 million of funding over five years.
- ***A Communication on complementarity, division of labour and scaling up of development aid:*** EU Code of Conduct on Complementarity and Division of Labour in Development Policy adopted on 15 May.
- ***A Communication reviewing the state of play of EU-Africa relations:*** EU-Africa

Partnership adopted at Lisbon Summit in December; Communication on the implementation of the Joint EU-Africa Strategy to be published in 2008.

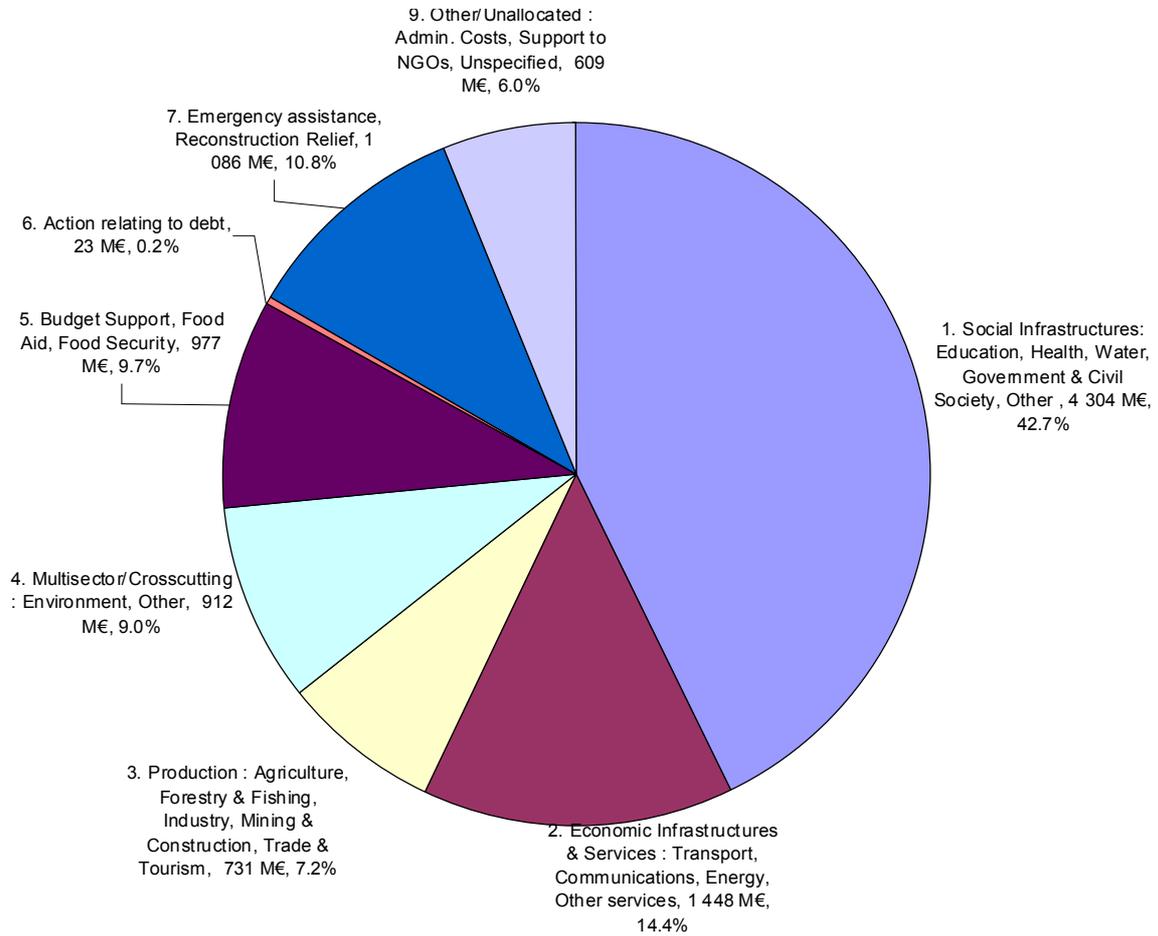
Table 1 2000-2007 Poverty focus.



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

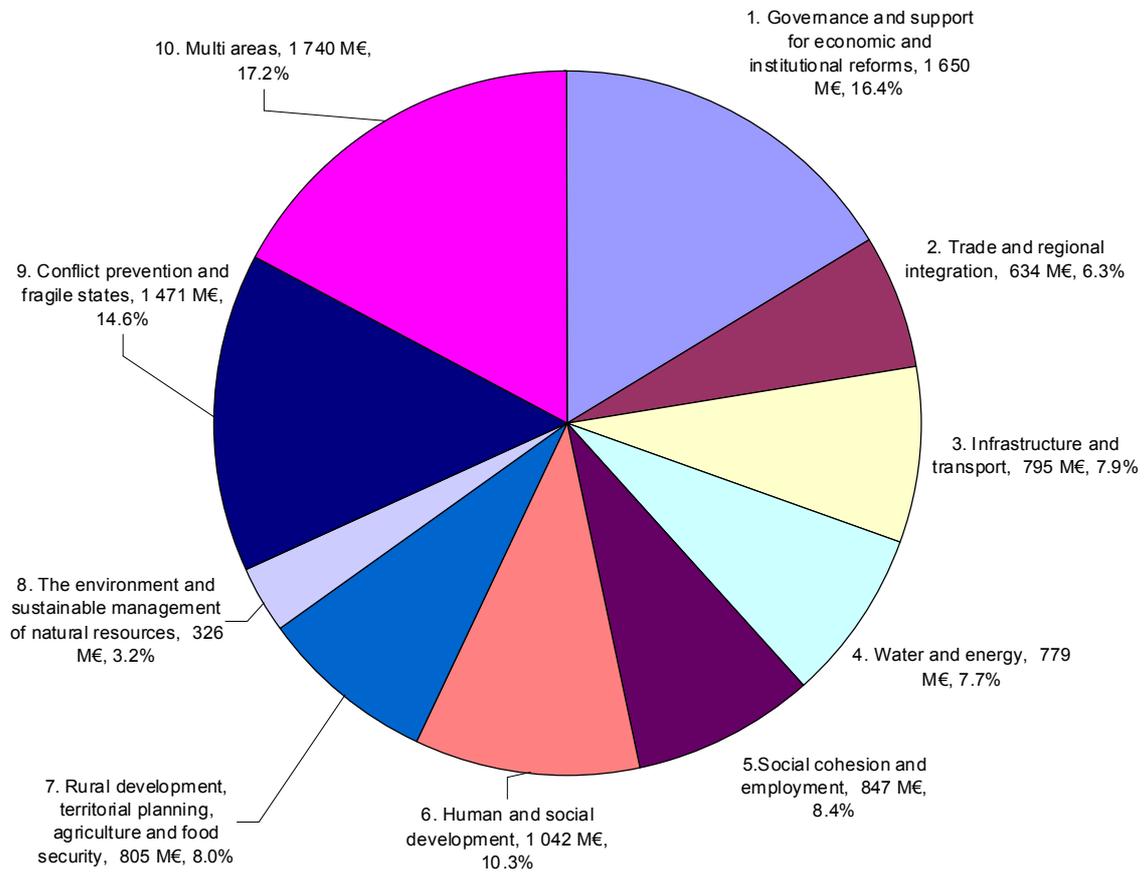
LDC : Least Developed Countries
 OLIC : Other Low Income Countries
 LMIC : Lower Middle Income Countries
 UMIC : Upper Middle Income Countries
 REGION / UNALLOC : Regional Programmes and Unallocated

Table 2 Sectoral Breakdown



Commitments 2007 (Millions Eur)
ODA/OA resources managed by European Commission
Sectoral breakdown per main sector as defined by the DAC

Table 3 European Consensus : Areas relating to EU development cooperation



Commitments 2007 (Millions Eur)
ODA/OA resources managed by European Commission