



EUROPEAN CENTRE FOR DEVELOPMENT POLICY MANAGEMENT
CENTRE EUROPÉEN DE GESTION DES POLITIQUES DE DÉVELOPPEMENT

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Annual Report 2006 on the EC's Development Policy and the Implementation of External Assistance in 2005

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Table of contents

1	Introduction.....	1
2	Strategic Question about the Coverage and Purpose of the Annual Report.....	1
2.1	Coverage of the Annual Report.....	1
2.2	Purpose of summary and annexes.....	2
2.3	Challenges and strategic priorities	2
2.4	Information and Communication.....	3
3	Structural observations about Aid Effectiveness and Policy Coherence for Development in the Annual Report	3
3.1	Aid Effectiveness.....	3
3.1.1	Background information.....	3
3.1.2	Comments	4
3.2	Policy coherence for development	5
3.2.1	Background	5
3.2.2	Comments	5

1 Introduction

The following note is a technical analysis of key aspects of the Annual Report on the European Commission's development policy and the implementation of external assistance in 2005. Our input is limited to two strategic areas:

- Strategic decision about the coverage and purpose of the Annual Report,
- Structural observations about Policy Coherence for Development and Aid Effectiveness in the Annual Report

2 Strategic Question about the Coverage and Purpose of the Annual Report

2.1 Coverage of the Annual Report

Analysis: the scope and title of the Annual Report is 'the European Community's Development Policy and the Implementation of External Assistance'. This dual objective to cover both the EC development policy and the External Assistance has a number of consequences which affect the report (and the Council Conclusions). At present it is not a report purely focused on development policy as it entails a series of aspects which are at best indirectly linked to development cooperation and/or developing countries. For example, the report covers such aspects as the 'common spaces with Russia' and non-development related aspects of the European Neighbourhood Policy and cooperation with the Balkans. The result is that the report does not focus exclusively on development policy nor indeed does it capture all the EU external actions (CFSP activities financed from EU budget line, stability (RRM), enlargement etc.). Furthermore, the report does not cover 100% of the EC external assistance but only the financing managed by EuropeAid/Aidco. The result is that approximately 34% of the euro 10 billion spent annually is not covered by the report since they are managed by other EC Directorate Generals.

The results of the current somewhat confusing coverage of the Annual Report are several:

- The report does not provide a full overview or clear monitoring tool of the implementation of EC Development Policy and EC external assistance;
- The report (and by extension the external assistance itself) is perceived as lacking direction and strategic priorities;
- The report cannot be used as an effective information and communication tool, rather it reduces transparency and accountability.

What could be done?: the Presidency, Council and the EC should ideally agree on the purpose and strategic focus of the Annual Report by choosing one of the following options:

- *The ODA option* where the report covers exclusively EC development policy and related external assistance. In other words, the report should only include elements which are directly or primarily development oriented. The advantages of this option are that the report could then be used to as a transparent, monitoring tool to track developments and implementation of the EC's Development Policy (DPS 2000 and now the European Consensus);
- The EU budget + EDF option where the report covers all areas of EC external actions and related external assistance. In other words, the report includes all external policies financed from the EU budget/EDF and all external assistance. The advantages are a comprehensive, policy-mix oriented, transparent and monitoring tool covering all aspects of the EC financed external assistance. Such a report would reflect the EU's move towards more integrated external policies/actions and lay the ground for implementation of the new

external instruments. It would probably also be welcomed by all actors involved and interested in EU external action rather than just the development community, and would thus reach a wider audience.¹

2.2 Purpose of summary and annexes

Analysis: Overall the Annual Report has improved over the last few years but a lot still needs to be done, especially with regard to the summary (main part of the Communication). As it stands, the summary is little else than a copy and past from the Annexes. As a result it is nothing more than a descriptive summary. It does not provide any strategic guidance, framework or any sense of a reflection on whether qualitative results are being achieved in the direction set out in the EC's policies. Instead of being a summary it should build on the annexes and provide the reader with a sense of the strategic framework, priorities, direction and challenges in EC external assistance/development cooperation (depending on point 1). Furthermore, this year's summary does not clearly reply to the comments and questions on the report in last year's Council Conclusions (Nov. 2005). Nor are major forward-looking strategic orientations and challenges covered. It could be expected that the EC explains why and not just how it spends euro 10 billion of EU taxpayers' money on external assistance every year.

The annexes have improved compared to earlier years and are getting better. The structure and logic are rather weak, however. In terms of structure and logic, the annexes are messy (there are annexes in the annexes, there are featured articles in the middle of a section etc). The perceived lack of logic enhances the sense that the external assistance is lacking focus and strategic guidance. Both the summary and annexes are rather descriptive and simply informative rather than analytical. Some sections are better than others but overall the report provides information about what has been done in the year. Only in a few places are the reasons (the why's) provided and the rationale spelt out.

What could be done? The Presidency and the Council should request the EC to:

- i) Use the summary as a communication tool covering the main strategic focus, orientation and aspects of the ECs external policies and related external assistance (depending on outcome of point 1). It must not be a descriptive copy and past summary from the annexes. Rather it should be a strategic tool used by the EC to communicate the main achievements, focus, progress against objectives and challenges faced in a given year;
- ii) The annexes should maintain a more or less set structure which provides some continuity from year to year without being rigid. The Annexes would thus be the constant part of the report whereas the 'summary' should be the important, strategic and political element which gives justification, a sense of direction and lay down the main developments and challenges faced in a given year.

2.3 Challenges and strategic priorities

Analysis: The EC is under constant pressure from EU member states, the Parliament and civil society to improve its external assistance. One of the results is that the EC tends to underplay the weaknesses or challenges that it faces in the external assistance. This approach is reflected throughout the summary and the annexes of the annual report: there are few if any mentioning about the constraints and challenges in the delivery of EC external assistance. The same could be said about the strategic priority setting – at the moment the report tries to show

¹ Such a broader annual report would also have certain grey areas since it would only cover certain areas of the CFSP and not the ESDP activities. The High Representative does provide an annual report on these activities which could complement an EC annual report policies and activities financed from the EU budget and the European Development Fund (EDF).

that the EC is doing everything (few choices made about what the external assistance should to focus on).

What could be done? The annual report should also cover the main challenges and lessons which the EC face in its development policy and external assistance in the various geographical and thematic areas. The challenges and lessons can be summarised in the 'summary' and/or at the end of each section/chapter in the Annexes.

2.4 Information and Communication

Analysis: The Annual Report is an important information and communication tool which reaches out to EU citizens as well as partners outside Europe. The target group and purpose go beyond the direct accountability function and the EU institutions. As such the Annual Report should reflect the EC's new information and communication strategy: be user-friendly, readable, interesting, and attractive to a wider audience.

What could be done? The EC should be asked to improve the Annual Report so that it becomes an interesting and user-friendly information and communication tool which is not just aimed at the Council and the EP but at EU citizens interested in the external policies/assistance (depending on point 1). Such an Annual Report would also help building public support.

3 Structural observations about Aid Effectiveness and Policy Coherence for Development in the Annual Report

3.1 Aid Effectiveness

3.1.1 Background information

3.1.1.1 The November 2005 Council Conclusions on the Annual Report 2005 only give secondary attention to aid effectiveness because the subject was really dealt with separately at another moment of the Council in the Orientation Debate which dealt exclusively with this issue and made a long series of specific recommendations on aid effectiveness, some of which apply both to the European Commission as well the EU member states. The Council Conclusions on the Annual Report 2005 were complemented, however, by references to the two regulations on access to EC external assistance (untying of aid, 3642/05, 12719/05).

3.1.1.2 Based on a discussion paper from the British EU presidency, the GAERC Council (November 2005) dealt exclusively with the issue of aid effectiveness in the Orientation Debate on the effectiveness of EU external action. The Conclusions which apply to both EU member states and the European Commission address: transaction costs of partner countries receiving aid, qualitative of aid, nature of partnerships, aid volumes, alignment, devolution of management, systems for monitoring progress against Paris indicators (in place early 2006) and Monterrey commitments, joint multi-annual programming, coordination, harmonisation of procedures and complementarity, flexibility of implementation procedures, delegated cooperation, lead donors, EU road maps, outcome and impact based indicators, effective allocation of resources, and predictability of aid.

3.1.1.3 A number of specific *GAERC Conclusions regarding EC managed external assistance* were also made:

- i) the EC should bring forward detailed proposals for a new long-term, flexible and harmonised budget support mechanism (by April 2006),*
- ii) the EC should inform the Council of the further impact of its reform efforts on an annual basis;*
- iii) welcomes devolution of aid management to EC delegations and invites the EC to further strengthen its delegations in terms of staffing and skills mix and to explore further whether delegations should have increased financial authority,*
- iv) the Council also noted that the EC is still hampered by complex rules and procedures and invites the EC to further rationalise and streamline its systems and rules, including the Financial Regulations with a view to facilitating its role in co-funding, joint donor actions and national harmonisation efforts so as to improve quality,*
- v) to further increase speed of delivery across all regions, invites the EC to further concentrate its aid at national/regional levels (in CSP/RSPs). Specific Conclusions were made about the EUs role in Middle-Income Countries were also repeated.*

3.1.2 Comments

It can well be argued that the EC responds indirectly to the Council Conclusions on Aid Effectiveness (Orientation Debate) in the Annual Report 2006, but on the other hand there is nothing specifically about the progress achieved so far in the 'Summary'. The Annexes only address the above issues in a compartmentalised manner. It should be noted, however, that these Council Conclusions were made towards the end of 2005 and that most of them are either process-dependent (i.e. linked to ongoing processes such as revision of the Financial Regulations or the discussions in EU expert groups on joint programming and financing etc). Some of the Conclusions also explicitly invite the EC to address aid effectiveness issues in 2006 which of course makes it impossible for the EC to reply in an Annual Report covering 2005. It is therefore difficult to hold the EC to account for these at this stage. That being said, it will be important to further reinforce or update last year's Council Conclusions on Aid Effectiveness and pave the way for the German EU Presidency.

3.1.2.1 A quick analysis of Aid Effectiveness in the Annual Report 2006 shows that the Council should probably invite the EC to not only focus on information (on what has been done) but also on analysis and assessment of progress achieved on the various Aid Effectiveness aspects (see above).

3.1.2.2 A large part of the EC external assistance has not been directly addressed in last year's Council Conclusions on Aid Effectiveness and it might thus be worth focusing on these (while reinforcing/updating the rather solid 2005 GAERC Conclusions on Aid Effectiveness): effectiveness of EC/EDF financing of global funds, EU facilities (such as water, energy and infrastructure) and multilateral institutions (which currently implement app. 25% of the annual budget of AIDCO (app. Euro 7 bn)). Furthermore, the intra-ACP envelope of the 9th EDF (and the 10th EDF) has a significant budget (app. Euro 3 bn) but relatively little information about the effectiveness of these resources are available. The Council might want to ask the Commission to pay specific attention to the effectiveness of the way these resources are used.

3.1.2.3 There are also some strategically important sectors/areas which could be focused on: So-far little is known about aid effectiveness in budget support, in governance related funding, in regional integration and trade related assistance. The Presidency could also focus on these areas but it is recognised that it the Council should avoid a long, micro-management type of list of specific conclusions but rather focus on a few strategic issues.

3.2 Policy coherence for development

3.2.1 Background

3.2.1.1 The EU commitment towards policy coherence for development (PCD) has a firm legal basis in the Maastricht Treaty (a. 178). MDG 8 has given to this commitment a global nature and a stronger political status. In its MDG package during the Spring 2005, the European Commission issued a Communication on Policy Coherence for Development examining how the EU could further contribute to a better achievement of MDG 8. The EC identified in its 2005 Communication on Policy Coherence for Development 10 policy areas that have a significant impact on development: trade, environment, security, agriculture, fisheries, social dimension of globalisation, employment and decent work, migration, research and innovation, information society, transport. The EC listed a series of commitments on how, through these non aid policies, the EU could assist developing countries achieve the MDGs.

3.2.1.2 In its May 2005 conclusions, the Council confirmed that the EU was committed to the implementation of the objectives listed in the Communication (see annex 2 of this document) and also invited the Commission to further reinforce its existing instruments and consider new ones when necessary in support of a strengthened policy coherence for development. It also called for the EC and MS to strengthen their procedures, mechanisms aiming at ensuring policy coherence for development as well as to secure adequate resources.

3.2.1.3 PCD will also be high on the European agenda in 2007. Indeed the EC has committed to monitor the progress of EU policy coherence in the context of MDGs by drafting a mid-term EU PCD report before the next international MDG Review. This report should be published and discussed in 2007. Some studies are also being carried out on how the Council promotes coherence through its institutional setting as well as on the different mechanisms used by the EU to promote PCD. A scoping study of the mechanisms used by European institutions and EU Member States to promote PCD was carried out in 2005.

3.2.2 Comments

3.2.2.1 PCD has barely been analysed in the 2006 annual report. Indeed the Summary only states the commitments taken by the Council in May 2005 (p. 5). No further analysis is provided, notably on the use and assessment of the Commission instruments and mechanisms, such as the impact assessment, to ensure these policy commitments.

3.2.2.2 The Policy Coherence for Development Commitments approved by the Council and further integrated in the European Consensus constitutes a significant step of the action of the EC on the policy coherence aspect. Since these commitments were approved in May 2005, the EC could have also integrated in its Annual Report an analysis of the challenges it will face to implement these commitments as well as how it intends to monitor them. However, it should be noted, that the report only covers 2005 and that the EC working paper² presenting the work plan for 2006-2007 to implement these commitments has only been published and discussed in 2006. It is therefore difficult to hold the EC accountable for these at this stage. That being said, it would also have been interesting to provide more information on on-going studies

² SEC (2006) 335/1

linked to the topic, such as the 3Cs joint evaluations, in the evaluation section. Next year's annual report should be much more analytical on this aspect, notably on the assessment of existing mechanisms to ensure policy coherence for development. It will also be important to further elaborate on this issue during the Orientation debate to pave the way for the German EU Presidency.