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**Informal review session on Chapter IV of the Monterrey
Consensus:**

**The European Union preliminary views
on
“Increasing international financial and technical
cooperation for development”**

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1. EU as a major global donor

The Monterrey Consensus recognises that ODA is an important financial source for development, alongside domestic resource mobilisation, foreign direct investment inflows and other international private flows, such as proceeds from international trade and remittances. The EU recognizes the pivotal role of ODA for poverty reduction and the attainment of the international development targets, in particular the Millennium Development Goals. The EU agrees that there is a need for ODA flows, to support country's own development endeavours, for capacity building, to support countries to lift themselves from man made and natural disasters and from state fragility.

The Union has collectively surpassed the 2006 ODA target of 0,39% of GNI, set before Monterrey Conference. Prior to the 2005 World Summit **the Union established targets for 2010 and 2015 – including specific targets for Africa**. The EU is currently providing over 60% of total ODA and is **committed to reach the target of 0.56% ODA/GNI by 2010 and 0,7 % of GNI by 2015**. While the aid levels did not develop in the EU as predicted in 2007, this transitory descent is expected to pass in 2008 with a return to increasing EU aid levels. Based on existing international pledges, the EU is set to contribute more than 90% of the global scaling up of aid from 2006 to 2010 (€20.4 billion out of €22.3 billion of the scaling up forecasts).

The EU is also strongly committed to ensuring that these resources reach the poorest. According to the latest UN MDG progress report (July 2007), Africa is the continent least likely to meet the Millennium Development Goals. For that reason **the EU committed, in 2005, to channel 50% of combined aid increases to that continent**.

The EU shall also address development efforts more systematically in situations of fragility and pay more attention to the "aid orphan" countries. It is important to continue strengthening the EU Policy Coherence for Development (PCD), in order to take advantage of the substantial possible contribution that policies other than development can make in assisting developing countries' efforts in their poverty reduction strategies.

2. ODA must be utilized with other financial flows in a double goal of complementarity and leverage

The EU believes that ODA should be seen as a complement to other sources of financing for the development of developing countries. The potential role and catalytic effect of ODA in leveraging larger levels of domestic and foreign capital needs to be fully recognised, both directly, as in the case of strengthening taxation systems and financial markets, and indirectly, by creating an enabling environment for investments and thereby increasing confidence of potential private investors. The EU views the many emerging public-private partnerships as promising. These could play important roles in mobilising resources for sustainable development. In this context ODA also brings the benefit of reinforcing developing countries' potential for achieving better access to global markets. In October 2007, the EU adopted a joint Aid for Trade Strategy, aimed at supporting all developing countries, particularly Least Developed Countries (LDCs), to better integrate into the rules-based world trading system and to use trade more effectively in promoting the overarching objective of eradicating poverty in the context of sustainable development. The Aid for Trade agenda is now clearly finding its way into the EU development cooperation.

3. Quality of aid – improving aid effectiveness

The Monterrey Consensus has initiated an in-depth process that leads to the current international high standards on **aid effectiveness** and it rightly points out that quality

matters as much as quantity. The EU has been a constant advocator of those high standards based on its conviction that the promised **scaling-up of aid necessitate more efficient and effective delivery.**

In the run up to Monterrey the European Council of Barcelona committed the EU to develop quickly concrete steps towards the coordination of policies and the harmonisation of procedures. As a consequence, the EU has adopted two inter-twined tracks:

- The **Paris Declaration on aid effectiveness:** the EU has been an active supporter of the Paris Declaration with committing principles, time bound objectives and a strong monitoring and implementation process. In addition the EU unilaterally committed within those objectives four higher standards in terms of ownership, aid coordination, harmonisation and measurements of results. Those principles have been transferred into all EU development policy frames and operational guidance.
- The **European Consensus for Development:** establishes common values, principles and working methods, and has been translated into the geographical specificities of several regional strategies, in particular the EU-Africa Strategy. Furthermore an EC Action Plan on Aid effectiveness has allowed translating these commitments into concrete and pragmatic tools in particular an **EU Joint Programming Framework, an EU Code of conduct on Complementarity and Division of Labour** and **co-financing mechanisms.** They are closely linked to ongoing **support to local processes and an enhanced use of country systems.** In this regard, the good track record of general and sector **budget support, where appropriate,** as well as **untying of aid** needs to be highlighted as an important expression of the EU commitment to ownership and alignment.

The way aid is allocated among recipient countries and sectors is an aspect of "international financial and technical cooperation" that, the EU feels, deserves the attention of the international community. There is a plethora of literature on criteria for **aid allocation.** The degree of poverty and the perceived quality of development policies belong to the most frequently stated criteria. But there also voices arguing for prioritizing aid to post-conflict countries and so called fragile states. No donor seems to use a single set of criteria for its aid allocation among recipient countries. And the same seems to be true for sector-wise aid allocation. As an upshot, worldwide aid allocation does not necessarily respond to the priority needs of the beneficiaries. Donor coordination on aid allocation is rather new and has not yet led to sizable results. With its "Code of Conduct on Complementarity and Division of Labour" the EU has taken steps in this direction. It is hoped this initiative will be joined by other donors. Total transparency on effective aid allocation and the underlying criteria is an indispensable first step.

To further develop the aid effectiveness agenda the EU welcomes the upcoming **Accra High Level Forum** (HLF-3) on Aid Effectiveness in September. This forum is a crucial political opportunity to agree on strong and decisive action by all donors and partner countries for the outstanding implementation issues that are a key to meeting the Paris Declaration targets. It will be important at Doha to consider those conclusions of Accra that should be incorporated as appropriate into the Doha outcome document.

Improving effectiveness of and results from the operational activities of the United Nations development machinery is an **important part of the global aid effectiveness agenda.** The EU therefore fully supports the UN reform process on system-wide coherence, including its aims to improve the effectiveness and coherence of UN actions at country level through the "One UN" approach.

In aid-dependent countries the lack of stability and **predictability of aid** may undermine aid effectiveness by affecting short-and medium-term budget planning and programming, disrupting implementation of expenditure allocations, complicating macroeconomic

management, and deepening the challenge of enhancing absorptive capacity. Volatile and unpredictable disbursements hamper the attainment of the Millennium Development Goals and other development objectives of the partner's government. Against this background improving aid predictability and limiting its volatility becomes eminently important, particularly for those spending programmes that entail long-term recurrent cost commitments. More progress is essential, and donors must mobilise the political will to make ODA flows more predictable, timely and transparent. In 2007, the EU Council acknowledged the crucial role of year-on-year timetables and encouraged Member States that have ODA levels below EU targets to establish them by end 2007, while underlining that this issue falls within the competence of Member States.

Volatile aid flows also require **governments of developing countries to adopt economic policies to control inflation, currency appreciation, sustainability of internal and external debt and excess liquidity**. Capacity-building in monetary policy, public finance and debt management are essential complementary approaches that should include the development of the financial sector as it impacts on the effectiveness of monetary policy measures and the adjustment capacity of the economy.

The Monterrey Consensus also calls for intensified efforts on **untying aid**, such as the 2001 OECD/DAC Recommendation on untying aid to least developed countries. EU member states have successfully contributed to the commendable result that all aid that should have been untied according to the Recommendation has almost fully been untied. Furthermore, some EU member states have even untied their aid beyond the coverage of the Recommendation by unilateral moves. EU member states will undertake further efforts to underpin their political will for more effective ODA.

4. National ownership as a backbone for aid effectiveness

Monterrey Consensus also calls upon donor and partner countries to establish effective **development partnerships based on national ownership**. These, according to the consensus, require **sound policies and good governance** at all levels. Therefore, it is important to stress that national efforts in partner countries must be enhanced to establish good governance procedures and policies that benefit the poor.

The European Union supports the processes and capacity building for/of democratic governance under a partnership-based approach, through dialogue with partner countries' government and, as a donor, through its various financial instruments. To maximise its impact, it needs to combine the means of action available to it more effectively and thereby strengthen its role as an agent for change, with due regard for the principles of partnership and ownership. In relations between the partner country and donors, it is vital that ownership of the reform processes be respected. Only the countries concerned can decide and implement their reforms. If there is no political will inside the country, outside support is unlikely to deliver results.

We should also be aware that the impact of aid highly depends on the general quality and efficiency of national policies and development strategies.

5. Regional co-operation, South-South and triangular cooperation

Regional co-operation can further countries' development in many areas. The EU welcomes and supports South-South cooperation as it can improve the aid effectiveness in emphasizing ownership and inclusive partnership. The results achieved so far in South-South cooperation should be regularly evaluated. The EU Member States have also engaged in a number of triangular cooperation activities over the past years with mostly enhanced economies for the benefit of countries in Africa and Latin America. Our

experience shows that triangular cooperation is a well suited instrument for mutual south-south and south-north learning although it requires a significant amount of coordination.

6. Mitigation of exogenous shocks

The Monterrey Consensus calls for ensuring long-term **resources for social and environmental protection schemes**. The 2005 European Consensus commits the EU to support disaster prevention and preparedness in disaster-prone countries and regions with a view to increasing their resilience in the face of these challenges. Evidence has long suggested that disaster risk reduction has a high cost/benefit ratio, i.e. preparedness, prevention and mitigation pay off.

7. Emerging issues

a. Innovative sources of financing

Innovative sources of financing for development, as suggested by the Monterrey Consensus, are supported and used by many EU countries through air ticket contributions, the International Financing Facility for Immunisation, the International Drug Purchase Facility and a first Advance Market Commitment for the pneumococcal disease.

In addition, some are using the proceeds from emissions trading – an instrument originally created to combat climate change – to fund measures for the mitigation of and adaptation to climate change in developing countries. All of these innovative sources of financing generate new funds and are a long-term source of financing. In the context of total ODA volume, innovative sources of financing have a potential to play a bigger role and are expected to figure more prominently in the forthcoming review of the financing for development process in Doha at the end of 2008.

b. Financing for climate change

Also mitigation and adaptation to **climate change** is needed as response to the worsening climate conditions which are hampering developing countries' efforts to reach the MDGs. Both developed and developing countries need to adapt to the challenge. Climate change needs to be systematically integrated into development policy-making and planning at all levels. Enhanced action by the international community is necessary to help countries continuing their development path, namely the mobilization of additional resources through innovative financing will be crucial. We therefore consider:

- Additional financing is required to implement low carbon, climate resilient development and adaptation measures;
- The carbon market should play an essential role in delivering funds to tackle climate change;
- Existing financial mechanisms should be used where possible. Any additional finance, including the post-2012 financial architecture to be agreed within the UNFCCC, should be integrated within established development processes, in country and internationally.

It will be essential to focus on the role of private-sector investments as they constitute the largest share of investment and financial flows (86% according to the UNFCCC). However, it is still necessary to attract additional funding from other sources, including innovative financing approaches. It is also important to ensure that public funds trigger the mobilisation of significant amounts of private sources.

To reinforce the EU leadership a Global Climate Change Alliance (GCCA) initiative between the EU and poor developing countries most vulnerable to climate change, in particular the Least Developed Countries (LDCs) and the Small Island Developing States, has been launched.

*c. **New aid architecture** (non-traditional donors)*

New players such as **non-DAC bilateral donors, private foundations, and vertical funds** provide fast growing sources of funding. Their increasing role is changing the aid landscape. There are thousands of developing country NGOs which are increasingly active in raising local funds for development, and possibly millions of community-based organizations that implement development projects. Private players are changing the aid landscape in two ways: providing significant sums of money to complement official aid, and operating largely outside official structures, dealing directly with local beneficiaries. Innovative approaches to financing development have also spurred increased voluntary contributions from individuals. Also vertical funds are one of the most rapidly increasing sources of official aid and have also become platforms where the private can cooperate.

The EU welcomes new donors bringing new resources and new modalities which promise innovation. However, the increased complexity of the aid architecture adds to the challenge of ensuring effectiveness and coherence of aid. The Paris Declaration addresses some of these issues, since its framework represents an important international consensus and it can resolve to improve the effectiveness of aid. The Accra High Level Forum scheduled for September 2008 provides an opportunity to address the new, dynamic dimensions of aid harmonization. More discussion on how to maximise the volume and effectiveness of these rapidly increasing sources of finance without reducing the volume of the traditional aid resources can enrich discussions/negotiations at Doha.