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EU Accountability Report 2013 on Financing for Development
Review of progress by the EU and its Member States

Accompanying the document

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

Beyond 2015: towards a comprehensive and integrated approach to financing poverty eradication and sustainable development

VOL 1

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ABBREVIATIONS	
ACP	African, Caribbean and Pacific
ADF	Asian Development Fund
AfT	Aid for Trade
AGOA	US African Growth and Opportunity Act
ALSF	African Legal Support Facility
AMC	Advance Market Commitment
ANDI	African Network for Drugs and Diagnostics Innovation
AT	Austria
ATAF	Africa Tax Administration Forum
B4D	Business for Development
BE	Belgium
BG	Bulgaria
BMZ	German Federal Ministry of Economic Cooperation and Development
BWI	Bretton Wood Institutions
C2D	Debt Reduction-Development Contracts
CAC	Collective Action Clauses
CBD	Convention on Biological Diversity
CIAT	Inter-American Centre of Tax Administrations
COP	Conference of the Parties to the CBD
CPA	Country Programmable Aid
CPSS	Committee on Payment and Settlement Systems
CRS	Creditor Reporting System
CSO	Civil Society Organisation
CSR	Corporate Social Responsibility
CY	Cyprus
CZ	Czech Republic
DAC	Development Assistance Committee
DC	Developing Countries
DE	Germany
DFID	Department for International Development – UK
DK	Denmark
DMF	World Bank Debt Management Facility for Low Income Countries
DMFAS	Debt Management and Financial Analysis System – United Nations (UNCTAD)
DRTF	Debt Relief Trust Fund
DSF	Debt Sustainability Framework
EBA	Everything-but-Arms Arrangement
EBRD	European Bank for Reconstruction and Development
ECOSOC	United Nations Economic and Social Council
ECREEE	ECOWAS Regional Centre For Renewable Energy And Energy Efficiency
EDCTP	European and Developing Countries Clinical Trials Partnership
EDF	European Development Fund
EE	Estonia
EEAS	European External Action Service
EIB	European Investment Bank
EIF	Enhanced Integrated Framework

EITI	Extractive Industries Transparency Initiative
EL	Greece
EPO	European Patent Organisation
ES	Spain
EST	Environmentally Sound Technologies
ETS	EU Emissions Trading System
EU	European Union
EUR	Euro
FAT	Financial Activities Tax
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FEMIP	Facility for Euro-Mediterranean Investment and Partnership
FfD	Financing for Development
FI	Finland
FIAS	Facility for Investment Climate Advisory Services
FP	Framework Programme
FR	France
FTT	Financial Transaction Tax
G20	Group of Twenty (G8 countries plus Argentina, Australia, Brazil, China, EU, India, Indonesia, Mexico, Saudi Arabia, South Africa, South Korea, and Turkey)
G8	Group of Eight (i.e. Canada, France, Germany, Italy, Japan, Russia, United Kingdom and USA, plus EU)
GAVI	Global Alliance for Vaccines and Immunisation
GCCA	Global Climate Change Alliance
GDP	Gross Domestic Product
GEEREF	Global Energy Efficiency and Renewable Energy Fund
GEF	Global Environment Facility
GEOSS	Global Earth Observation System of Systems
GIIN	Global Impact Investing Network
GIZ	*Gesellschaft für Internationale Zusammenarbeit*
GNI	Gross National Income
GSP	Generalised System of Preferences
HIC	High Income Countries
HIF	Health Insurance Fund
HIPC	Heavily Indebted Poor Countries
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
HLF	High Level Forum
HLPF	High Level Political Forum on Sustainable Development
HR	Croatia
HU	Hungary
IATI	International Aid Transparency Initiative
ICF	International Climate Fund
ICT	Information and Communication Technology
IDB	Inter-American Development Bank
IE	Ireland
IF	EIB Investment Facility
IFCA	Investment Facility for Central Asia

IFD	Innovative Financing for Development
IFFIm	International Financial Facility for Immunisation
IFHA	Investment Fund for Health in Africa
IFI	International Financial Institutions
IFM	Innovative Financing Mechanisms
ILO	International Labour Organisation
IMF	International Monetary Fund
IMF/RTC	IMF Regional Technical Centre
ISO	International Standard Organisation
IT	Italy
ITC	International Tax Compact
ITF	EU–Africa Infrastructure Trust Fund
KfW	*Kreditanstalt für Wiederaufbau*
LAIF	Latin America Investment Facility
LDC	Least Developed Countries
LIC	Low Income Countries (LDC+OLIC)
LT	Lithuania
LU	Luxembourg
LV	Latvia
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MDTF	EITI Multi-Donor Trust Fund
MIC	Middle Income Countries
MNC	Multinational Corporation
MOI	Means of Implementation
MoU	Memorandum of Understanding
MS	Member States
MSME	Micro, Small and Medium-Sized Enterprises
MT	Malta
MTO	Money Transfer Operators
NGO	Non-Governmental Organisation
NIF	Neighbourhood Investment Facility
NL	Netherlands
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PCD	Policy Coherence for Development
PEFA	Public Expenditure and Financial Accountability
PEFA-PFM	Performance Measurement Framework for Public Finance Management
PFM	Public Financial Management
PIDG	Private Infrastructure Development Group
PPIAF	Public-Private Infrastructure Advisory Facility
PPP	Private Public Partnerships
PRD	Poverty-Related Diseases
PSD	Payment Services Directive
PT	Portugal
R&D	Research and Development
REACT	Renewable Energy and Adapting to Climate Technologies
REDD and REDD+	Reducing Emissions from Deforestation and Forest Degradation. REDD+ goes beyond deforestation and forest degradation, and includes conservation, sustainable management of forests

	and enhancement of forest carbon stocks.
REGMIFA	Regional Micro Small and Medium-Sized Enterprises Investment Fund for Sub-Saharan Africa
REPARIS	The Road to Europe: Programme of Accounting Reform and Institutional Strengthening
RO	Romania
SE	Sweden
SK	Slovak Republic
SIDS	Small Island Developing States
SME	Small and medium-sized enterprises
StAR	Stolen Assets Recovery Initiative
STI	Science Technology & Innovation
TA	Technical Assistance
TCX	The Currency Exchange
TIEA	Tax Information Exchange Agreements
TR AID	Transparent Aid
TRA	Trade-Related Assistance
TRIPS	Agreement on Trade-Related Aspects of Intellectual Property Rights
UK	United Kingdom
UN	United Nations
UN DESA	United Nations Department of Economic and Social Affairs
UNCAC	United Nations Convention Against Corruption
UNCTAD	United Nations Conference on Trade and Development
UNEP	United Nations Environment Programme
UNFCCC	United Nations Convention on Climate Change
UNGA	United Nations General Assembly
UNITAID	International Drug Purchasing Facility
US or USA	United States of America
US$	United States Dollar
VAT	Value Added Tax
WB	World Bank
WIPO	World Intellectual Property Organisation
WP-STAT	Working Party on Development Finance Statistics
WTO	World Trade Organisation

EXECUTIVE SUMMARY

This Staff Working Document is the eleventh in a series of annual progress reports prepared by the European Commission since 2003 (previously referred to as 'Monterrey reports') under its mandate from the Council to monitor progress and report annually on the European Union's collective commitments, initially focusing on official development assistance (ODA) commitments agreed to at the 2002 Monterrey International Conference on Financing for Development. The Council subsequently extended the original mandate to other areas of Financing for Development, including domestic resource mobilisation, aid effectiveness, aid for trade and 'fast-start' climate finance. The table below summarises progress by the EU and its Member States in the implementation of 40 commitments in all areas of Financing for Development.

Overall, the 2013 EU Accountability Report found:

- **substantial progress** on EU commitments concerning private investment, trade, finance relating to climate change adaptation and mitigation, STI and innovative financing sources and instruments;
- **moderate progress** on EU commitments concerning domestic resource mobilisation, debt sustainability, remittances, biodiversity protection and development effectiveness; and
- **limited or no progress** on EU commitments concerning volumes of ODA.

All commitments analysed in this report have emerged over the past decade, as new challenges have become clearer and the EU has recognised the need to strengthen its leadership role in finding solutions to global problems.

EU Commitment	Target Date	Status[1]	Comments
1. Domestic Resource Mobilisation			
Support on tax policy, administration and reform	No date specified		Member States (MS) are providing support, but this is still rather limited.
Support for established regional tax administration frameworks (e.g. CIAT, ATAF)	No date specified		The EU and six MS support the ATAF; four MS are members of the CIAT.
Exploring country-by-country reporting by MNCs, exchange of tax information, transfer pricing and asset recovery	No date specified		26 MS and the Commission are members of the Global Forum on Transparency and Exchange of Information for Tax Purposes. Five MS participated in the OECD's informal Task Force on Tax and Development, which includes a work stream on transfer pricing. Six MS support the StAR Initiative.
Encourage the participation of developing countries in international tax cooperation	No date specified		17 MS and the Commission support at least one forum or dialogue platform, including the OECD Convention on Mutual Administrative Assistance in Tax Matters; the

[1] **Green**: achieved or on-track; **amber**: limited achievement, partly off-track; **red**: off-track.

EU Commitment	Target Date	Status[1]	Comments
			International Tax Dialogue and the International Tax Compact.
Ratify and implement the UN Convention Against Corruption (UNCAC) and the OECD Convention on Combatting Bribery of Foreign Public Officials in International Business Transactions	As soon as possible, preferably before 2010, for UNCAC; no date specified for OECD Convention		Germany and the Czech Republic have not ratified UNCAC. 22 MS are party to the OECD Convention but, according to Transparency International, only four actively, and seven moderately, enforce it.
Support transparency and accountability through EITI and similar initiatives, possibly also in other sectors	No date specified		Ten MS and the Commission supported the EITI in 2012, e.g. through direct support to the Secretariat, bilateral support at country level or through the MDTF; five MS provided support to other initiatives (e.g. the Construction Sector Transparency Initiative and the Kimberley Process).
2. Debt Sustainability			
Support existing debt relief initiatives, in particular the HIPC Initiative and the MDRI	No date specified		Three countries reached HIPC completion point in 2012. Several MS initiatives support MDRI and similar programmes.
Support discussions, if relevant, on enhanced sovereign debt restructuring mechanisms, on the basis of existing frameworks and principles	No date specified		Limited support (only the EU and 11 Member States see a need for reform, not necessarily structural).
Participate in international initiatives such as the WB/IMF Debt Sustainability Framework (DSF) and promote responsible lending practices	No date specified		A recent IMF assessment found broad compliance with the DSF[2].
Promote the participation of non-Paris Club members in debt-workout settlements	No date specified		No bilateral action, only support for dialogue through one annual meeting with non-members, not attended by China and India[3].
Take action to restrict litigation against developing countries by distressed debt funds	No date specified		No action to restrict litigation mentioned by MS, only legal support to developing countries for litigation through multi-donor trust funds (e.g. DMF, ALSF).
3. Private Investment for Development			
Support the development of the private sector, including small and medium-sized	No date specified		The EU and MS have provided substantial funding for private sector development (in 2004-10, the

[2] IMF, *Review of the policy on debt limits in fund-supported programs*, 2013.

[3] Press release on the Paris Club meeting with representatives of non-Paris Club bilateral creditors and the private sector, 11 September 2012.

EU Commitment	Target Date	Status[1]	Comments
enterprises, through measures to enhance the overall investment climate for their activity, inter alia by promoting inclusive finance and through relevant EU investment facilities and trust funds			Commission alone provided EUR 2.4 billion in direct support in the form of grant funding). Since 2007, the EU, together with some MS, has set up eight regional blending facilities, covering all regions of EU external cooperation. Several MS'[4] national development finance institutions also support blending activities (EU facilities and others). MS reported over 100 ODA activities for private sector development in 2012.
Strengthen the EIB's capacity to support EU development objectives and promote the efficient blending of grants and loans in third countries, including in cooperation with MS' finance institutions or through development financing facilities	No date specified		Half of the Commission-funded private sector development support mentioned above was channelled through the EIB. Support for blending facilities as described above.
Enhance efforts to promote the adoption by European companies of internationally-agreed CSR principles and standards, the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises	No date specified		Exploratory research was undertaken by the Commission in June 2012. Commitments by large EU enterprises are expected by 2014[5].
Respond to the Commission's invitation to develop or update MS' plans or lists of priority actions in support of CSR	No date specified		On-going discussion with MS on plans and peer review mechanism[6]. Several MS intend to complete their plans in 2013.
4. Trade and Development			
Increase collective TRA to EUR 2 billion a year by 2010 (EUR 1 billion from MS; EUR 1 billion from Commission). Around 50% of the increase to be available to ACP countries.	2010		Collective EU TRA commitments reached EUR 2.8 billion in 2011; EU collective wider AfT amounted to EUR 9.5 billion. TRA to Africa increased by 50% in 2011 as compared with 2010.
Sustain EU and MS efforts, giving increased attention to LDCs and joint AfT response strategies and delivery	No date specified		Active participation in the EIF, a multi-donor programme to help LDCs become more active in the global trading system. The proportion of EU collective AfT going to LDCs increased from 16% in 2010 to 19% in 2011. However, these shares are much lower than those of non-EU DAC donors.
Reach agreement on regional AfT packages in	No date specified		In terms of total volume, regional AfT is growing faster than overall

4 AT, BE, DE, FR, SE, UK.

5 See implementation table in the Commission Communication on CSR, 2011.

6 Ibid.

EU Commitment	Target Date	Status[1]	Comments
support of ACP regional integration, under the leadership of the ACP regional integration organisations and their Member States, and involving other donors			AfT. In 2011, the EU and MS committed EUR 726 million to ACP regional programmes and projects (8% of collective EU AfT, as compared with 4% in 2008). EUR 642 million were committed to Sub-Saharan Africa alone. Challenges were encountered with respect to the absorption capacity and performance of some regional organisations and their capacity to effectively coordinate donors.
Continuously review the EU's AfT strategies and programmes, taking into account lessons learnt and focusing on results	No date specified		The EU is active in the International Policy Dialogue on Aid for Trade in the OECD (latest meeting in January 2013) and WTO (next Global Aid for Trade Review in July 2013). Regular discussions are held with MS and an EU monitoring report on AfT is published annually as part of this Accountability Report.
Enhance the complementarity and coherence between trade and development instruments, focusing on LDCs and developing countries most in need, and increasing private sector involvement	No date specified		The Trade, Growth and Development Policy adopted in 2012 enhances complementarity and coherence and takes a differentiated approach to LDCs and other developing countries most in need. The new GSP adopted by the EU in 2012 focuses on countries most in need, strengthens the GSP+ as an incentive to good governance and sustainable development and makes the scheme more transparent, stable and predictable.
Better coordinate EU AfT, and align it behind the development strategies of partner countries	No date specified		38% of the respondents to a survey carried out in 2013 among EU Delegations and EU MS field offices in developing countries (see AfT report in Annex) believe that there have been moderate improvements in coordination (including through joint needs assessments, implementation and monitoring/evaluation).
5. Remittances and Development			
Enhance the development impact of remittances	No date specified		The EU and several MS have launched initiatives to train migrants and foster migrants' savings and diaspora investments in their countries of origin.
Reduce the average cost of transferring remittances from 10% to 5% by 2014	2014		The average cost of sending remittances from the EU is estimated at 10.6% of the amount sent – higher than the global average of 9.1% and only marginally lower than the EU average of 11.71% in Q3 2008, when monitoring of remittance costs started.
6. Official Development			

EU Commitment	Target Date	Status[1]	Comments
Assistance			
The EU and MS agreed to achieve a collective ODA level of 0.7% of GNI by 2015	2015		The EU ODA/GNI ratio is projected to reach 0.43% by 2015.
Take realistic, verifiable action to meet individual ODA targets by 2015 and share information about this action	No date specified		22 MS provided information on 2013 financial year allocation, but limited information was provided on realistic/verifiable action.
Increase collective ODA to Sub-Saharan Africa	No date specified		2012 EU ODA to Sub-Saharan Africa increased as compared with 2004.
Provide 50% of the collective ODA increase to Africa as a whole	No date specified		Only 7% of total EU ODA growth between 2004 and 2012 went to Africa.
Provide between 0.15% and 0.20% of collective ODA/ GNI to LDCs by 2010	2010		EU ODA/GNI to LDCs was 0.14% in 2010, 0.13% in 2011, and 0.12% in 2012.
7. Funding for Tackling Climate Change			
Contribute EUR 2.4 billion annually in 2010-12 to 'fast start' climate funding	End 2012		The EU and MS contributed EUR7.3 billion in 2010-12 to 'fast start' climate funding.
Work towards pathways for scaling up climate finance from 2013 to 2020 from a wide variety of sources to reach the international long-term joint goal of mobilising US$ 100 billion a year by 2020	2013-20		Not applicable yet. Work has started.
8. Funding for Protection of Biodiversity			
Hyderabad commitment to double total biodiversity-related international financial resource flows to developing countries (in particular LDCs, SIDs and countries with economies in transition), as compared with 2006-10, by 2015 and at least maintain this level until 2020	2015 and 2020		Not applicable yet.
9. Science, Technology and Innovation			
Improve mechanisms for international STI cooperation and for the development of ICT on major sustainable development challenges	No date specified		The EU Research Framework Programme and EU ODA increasingly support cooperation with partner countries in a range of sectors. Several EU-funded research projects have specifically targeted the use of ICT to share experience and knowledge across countries[7].
Promote clean and	2014-20		The EU and 15 MS support STI and

EU Commitment	Target Date	Status[1]	Comments
environmentally sound technologies as a means to facilitate a transition to a green economy for all countries, regardless of their development status			technology transfer activities relating to the green economy.
Support STI research cooperation and capacity building to enhance sustainable development in developing countries, including through the new Horizon 2020 research and innovation programme''	2014-20		'Horizon 2020 will put increased emphasis on STI partnerships with developing countries, in particular through bi-regional partnerships. Several MS implement programmes in this field.
10. Innovative Financing Sources and Instruments			
Consider proposals for innovative financing mechanisms with significant revenue generation potential, with a view to ensuring predictable financing for sustainable development, especially for the poorest and most vulnerable countries	No date specified		Several MS are using innovative sources of development funding, although they accounted for only 2% of ODA in 2010-12. It is unclear whether revenue generation for development from existing and new taxes (e.g. FTT) will be significant.
Promote new financial tools, including blending grants and loans and other risk-sharing instruments	No date specified		Several blending instruments have been introduced and further developed over 2012, now covering all regions of EU external cooperation. The EU Platform for Blending in External Cooperation was established in December 2012.
Use innovative financing mechanisms taking into account debt sustainability and accountability and avoiding market disturbances and budgetary risks.	No date specified		MS and Commission funds for innovative financial instruments increased from EUR 600 million a year in 2010-11 to over EUR 2 billion in 2012.
11. Development Effectiveness			
Implement the European Transparency Guarantee and commitments relating to the common open standard for the publication of information on development resources, e.g. by publishing implementation schedules by December 2012, with the aim of full implementation by December 2015	December 2012 (schedules) and December 2015 (implementation)		By December 2012, the Commission and 20 MS, including all nine that are signatories to IATI, had published schedules to implement the common standard. In their schedules, the Commission and 13 MS set out plans for implementation by 2015. A majority of the schedules (11 out of 21) were rated 'unambitious' by Publish What You Fund (PWYF). 19 MS had a rating of 'poor' in PWYF's 2012 Transparency Index, four MS and the Commission were rated as 'fair' and four MS as 'moderate'.

EU Commitment	Target Date	Status[1]	Comments
Promote joint programming and increase coordination in order to develop a EU joint analysis of, and response to, partner countries' national development strategies	No date specified		Joint programming was taken forward in six partner countries in 2012 and is expected to be in place at the start of the next programming period (2014) in at least eight. The opportunities for joint programming were assessed on the ground in a total of 55 countries and preparations for joint programming will go ahead in almost all of these. Nine MS have issued guidelines on joint multi-annual programming.
Implement the results and mutual accountability agenda	No date specified		Currently, the EU and 24 MS participate in mutual accountability arrangements in over 10% of their priority countries, and 13 MS and the EU do so in 50% or more. The EU and 21 MS participate in country-level results frameworks and platforms in over 10% of their priority countries, and 12 MS and the EU do so in 50% or more.

INTRODUCTION

This Accountability Report is the eleventh in a series of annual progress reports prepared by the European Commission since 2003 (previously referred to as 'Monterrey reports'). Building on previous reports, it assesses where the EU and its Member States stand in relation to 40 common commitments on Financing for Development. This report focuses on the evolution in key areas since the 2012 report, and thus only summarises issues discussed at length last year.

The Report responds to the Council's invitation to the European Commission to monitor progress and report annually on common EU commitments, initially focusing on ODA commitments made at the 2002 International Conference on Financing for Development in Monterrey. The Council later expanded the original monitoring mandate to cover other areas of Financing for Development, including domestic revenue mobilisation, aid effectiveness, aid for trade, and fast-start climate finance.

For the third time, the Commission presents a single, comprehensive report covering all topical issues of the international Financing for Development agenda. This year, the report also covers Science, Technology and Innovation, to reflect new commitments made as part of the Rio+20 process, and domestic resource management in addition to resource mobilisation, in line with the new EU Budget Support Guidelines. Building on this comprehensive approach, the report is also intended to contribute to discussions on the post-2015 international development framework, including the UN Special Event to review progress towards achieving the MDGs. Financing and other Means of Implementation issues are an integral part of the discussions on the Rio+20 follow-up on sustainable development and the post-2015 overarching framework.

The report is based on input provided by the 28 EU Member States, including Croatia, and the Commission through (i) the 2013 EU annual questionnaire on Financing for Development, which covers key EU commitments related to the international Financing for Development agenda, and (ii) public sources and online databases on development cooperation.

The Council also called on the Commission to make the annual progress report a model of transparency and accountability. As in 2011 and 2012, all Member States have agreed to the online publication of their replies to the annual questionnaire on Financing for Development. The Commission complements this exercise through Donor Profiles that give an overview of the overall development strategy of each Member State. All these documents are available on the EuropeAid webpage[8].

Annex 1 lists the bibliography for all chapters. **Annex 2** presents the methodology applied for analysing ODA and climate finance. **Annex 3** is the Statistical Annex on ODA trends (including individual graphs for all EU Member States showing the gaps to reaching 2015 targets). **Annex 4** consists of the Aid for Trade Report 2013.

1. BEYOND MDGS AND BEYOND AID

The Millennium Development Goals (MDGs) and the funding commitments of the Monterrey Conference were made more than a decade ago. Over this period, the global political and economic landscape has significantly changed. Growth in emerging economies has become the key driver of the global economy. Disparities among and within developing countries have increased and the GNI per capita of a few upper middle-income countries has outscored that of some European Member States. Likewise, new actors have emerged in the development arena, including from the private sector. The understanding of what development means is also changing, with a greater focus on sustainability in all its dimensions, and broader issues relating to governance, human rights and peace and security.

1.1. Towards an Integrated Approach to All Financing Processes

EU Commitments

- ***Council Conclusions of 25 October 2012 on Rio+20****, §33: Underlines the need for coherence, coordination and non-duplication of efforts with regard to the Financing for Development process; expresses its support for an integrated approach to the various MoI aspects of the Rio+20, the post-2015 development agenda and other relevant processes, given that the potential financing sources are the same, and highlights the importance of addressing in a comprehensive manner the various strands relating to finance and technology transfer including those undertaken in the context of climate change, biodiversity and desertification.*
- ***Council Conclusions of 25 June 2013 on the Overarching Post-2015 Agenda****, §17c: There is a need for a common and comprehensive approach to financing for development beyond 2015. It will be important to address, in a coherent and comprehensive manner, relevant international processes relating to finance, role of ODA, innovative sources of financing, financial regulation and illicit financial flows, technology transfer, capacity building, trade and those processes undertaken in the context of climate change, biodiversity and desertification. It will also be important to bear in mind the outcome from Rio+20 on a process proposing options for a financing strategy for sustainable development.*

As emphasised throughout the EU public consultation on 'Towards a post-2015 development framework'[9] and underlined in the European Report on Development 2013[10], the values and principles of the Millennium Declaration remain relevant today, but achieving them 'requires agreement on a broader set of goals than the MDGs, (…) a wider range of instruments than ODA, the main tool of the MDG effort, and an approach that moves beyond the historical donor-recipient relationship.'

The goal of EU Development Policy, as stated in the European Consensus on Development[11] and in Article 21 of the Treaty on European Union[12] and Article 208 of the Treaty on the Functioning of the European Union[13], remains 'poverty elimination in the context of sustainable development'[14]. The 'Agenda for Change'[15] further underlines the importance of promoting 'inclusive and sustainable growth for human development', stressing that 'development is not sustainable if it damages the environment, biodiversity and natural resources and increases the exposure/vulnerability to natural disasters.'

The recent UN Task Team Report on the Post-2015 Development Agenda on 'A renewed global partnership for Development' stated clearly that the commitments made at Monterrey will remain an important cornerstone of this renewed global partnership for development[16]. However, while the framework agreed at Monterrey remains useful, it should be extended to accommodate recent developments. Some of these developments have been incorporated into the Global Partnership for Effective Development Cooperation, agreed to at the Busan High Level Forum on Aid Effectiveness in 2011.

In February 2013, the Commission adopted a Communication on '*A Decent Life for All: Ending poverty and giving the world a sustainable future*'[17]. The Communication proposes a common approach to the follow-up of Rio+20, and in particular the definition of Sustainable Development Goals, and to the review of the Millennium Development Goals. It suggests working towards an overarching framework to address these issues. In June 2013, the Council endorsed this general approach.[18]

International processes have multiplied, and there is now a momentum for consolidating these. The UN High Level Panel on post-2015 has published its report, the UN Open Working Group on Sustainable Development Goals has started its work and the UN Expert Committee for proposing options on a sustainable development financing strategy is being established. Various other processes also ponder what the post-2015 agenda should look like and how this could be implemented. Recent reports from the UN Secretary General, ECOSOC and UN General Assembly resolutions[19] all seem to favour merging the Financing for Development and Rio+20 Means of Implementation follow-up strands.

In May 2013, the High-Level Panel of Eminent Persons on the Post-2015 Development

Agenda published its final report[20], in which it also recognised the need to promote a single and coherent post-2015 development agenda that integrates economic growth, social inclusion and environmental sustainability. All post-2015 intergovernmental processes, including the Rio+20 follow-up, should be coherent and brought together into one comprehensive vision and approach.

The European Union can lead these processes as it did for the Monterrey and Doha Conferences on Financing for Development, and this is the time to flesh out the Union's vision for a post-2015 overarching framework.

At the time of drafting this report, financing issues had been actively discussed neither in the post-2015 development agenda nor the Rio+20 follow-up process[21]. However, an intergovernmental expert group is being established in the framework of the Rio+20 follow-up to propose options for a sustainable development financing strategy by 2014; and the UN will decide in 2013 on the appropriateness of holding a new Financing for Development Review Conference.

As stated in the Global Partnership Roadmap for 2013[22], 'bridging the Financing for Development and post-2015 discussions is the nascent intergovernmental process on sustainable development finance. The UN intergovernmental expert group is expected to be composed of 30 experts from different regions, and will hold four meetings in 2013 and two meetings in 2014. The process will assess financing needs, consider the effectiveness, consistency and synergies of existing instruments and frameworks and evaluate additional initiatives. A report should be presented to the UN General Assembly in 2014 and this sustainable development finance process may eventually be integrated with the existing FfD process'.

As potential sources of finance are identical and limited, the means to achieve poverty eradication and sustainable development should not be considered or measured separately. In its Conclusions on Rio+20[23], of October 2012, the Council of Ministers expressed 'its support for an integrated approach to the various Means of Implementation aspects of the Rio+20, the post-2015 development agenda and other relevant processes, given that the potential financing sources are the same'.

Every euro allocated to serve global policy objectives can only be spent once, but may, at the same time, serve several objectives. As underlined in the EU's contribution to the Rio+20 Outcome Document[24], 'a joint approach by traditional donors, emerging economies, international financial institutions (IFIs) and the private sector is needed, addressing the 'silo' approach to channelling funds and ensuring a more effective identification and use of existing resources, as well as mobilisation of available and innovative sources of finance'. As shown Table 1.1.1 below, the Financing for Development process encompasses all Means of Implementation. The process started at Rio+20 has the potential to have essentially the same scope. Other financing initiatives do not necessarily address some of the issues (e.g. remittances, trade, debt or systemic issues). The present report provides an overview of all the different means, including, for the first time, Science, Technology and Innovation.

Table 1.1.1 – Elements of Means of Implementation Covered under existing UN Processes

Means of implementation for:	Process			
	Financing for Development	Rio+20	Climate Change	Biodiversity
Domestic resources	Yes	Yes	Yes	Yes
Private flows, FDI, innovative mechanisms	Yes	Yes	Yes	Yes
Other private flows/CSR/Remittances	Yes	Yes	Yes	No
Trade	Yes	Yes	Yes	No
ODA	Yes	Yes	Yes	Yes
Effectiveness	Yes	Yes	Yes	Yes
Capacity building	Yes	Yes	Yes	Yes
Innovative sources	Yes	Yes	Yes	Yes
Debt	Yes	Yes	No	Yes
Systemic issues/international architecture	Yes	Yes	Yes	No
Policy Coherence for Development and other policy challenges	Yes	In part	No	In part
Science, Technology and Innovation	In part	Yes	Yes	Yes

1.2. Towards a Comprehensive Approach to All Financing Sources

EU Commitments

- ***Council Conclusions of 25 October 2012 on Rio+20***, *§34: Underlines that resources for the implementation of sustainable development policies have to be mobilised by all types of stakeholders and come from all sources, national and international, public and private as well as financial and non-financial actions.*
- ***Council Conclusions of 25 June 2013 on the Overarching Post-2015 Agenda***, *§17d: The mobilisation of all resources, public and private, domestic and international and their*

effective and innovative use will be vital for the successful development and implementation of the [post-2015] framework.

Recent studies[25] show that most developing countries have the financial means to end poverty[26] by 2030. While the cost is negligible for Upper MICs, it is estimated at around 5.5% of GDP in 2008 for Lower MICs (an amount that could be easily covered for example by better tax collection), where almost 80% of the global poor live (bearing in mind that every individual country situation is by definition unique). MICs also have stronger national buffers to deal with exogenous shocks. Progress depends primarily on the design and implementation of appropriate national policies to ensure the inclusiveness of development and pro-poor growth. In contrast, the investment needs of LICs for ending poverty were estimated at 25.4% of their GDP[27] in 2008, and they are projected to remain significant in 2020 (14.9%), and 2030 (9.7%). LICs have much lower levels of national resource mobilisation and greater vulnerability to global shocks due to low buffers. The progress in LICs will continue to require external financing to support national efforts in ending poverty by 2030.

At an aggregate level, as shown in **Table 1.2.1** below, most resources to end poverty by 2030 can be mobilised by the public sector domestically and by the private sector both domestically and internationally, while public international finance is very small in comparison. Data are readily available only for ODA, while they need to be assembled from a variety of sources for all other means of implementation. The methodology used in assembling such data is described in **Annex 2**.

Public finance fulfils the same function whether coming from domestic or external sources. Domestic public finance is directly available for implementing government plans from the moment of collection. International public finance should complement domestic resources and help to implement nationally owned development strategies, using development finance effectively.

For middle-income countries, domestic revenues constitute the main financial source, while ODA has only a marginal role (0.4% of GDP). The domestic revenues of low-income countries are relatively lower, and ODA remains a significant source (12% of GDP) representing the most important external financial flow.
The aggregate data above hide many national-level differences. While the specific situation of each country requires an individual approach, the above analysis shows massive differences of vulnerabilities and abilities between MICs and LICs. Yet, it is clear that all countries need to do more to mobilise resources and use them in a targeted way in order to reach the global development goals.

Private sector finance accounts for about one quarter of all flows in both low-income and middle-income countries. It can serve as means of implementing the fight against climate change and the protection of biodiversity, or be leveraged through innovative financial instruments like blending, presented in Chapter 5. This illustrates the extent to which private finance has become pivotal in many developing countries and confirms the need to work more closely with private sector actors and include them into the post-2015 dialogue.

While all resources fluctuate somewhat, domestic sources tend to be more stable and exceed by far external finances. Experience shows that, with the right policies, more resources can be mobilised. With regard to private finance and private sector actors, it is important to work towards streamlining their contribution towards global goals, including through the use of policy incentives.

Table 1.2.1 – Total Resources Available to Developing Countries by Income Group

(EUR billion, 2010)

Flow	LIC		MIC		Unallocated by income	Total
	Amount	share of GDP	amount	share of GDP		
Public Domestic Finance	**42**	**13.1%**	**3,275**	**22.0%**		**3,317**
Tax revenue	41	13.0%	3,211	21.6%		3,252
Public or Publicly Guaranteed External Debt	0	0.0%	64	0.4%		65
Memo item: Total Reserves	41	12.9%	4,033	27.1%		4,074
Public International Finance	**39**	**12.1%**	**57**	**0.4%**	**63**	**158**
ODA Grants	35	11.2%	28	0.2%	29	92
(of which EU)	*15*	*4.8%*	*11*	*0.1%*	*13*	*39*
Concessional Loans	1	0.2%	5	0.0%	2	7
(of which EU)	*0*	*0.1%*	*1*	*0.0%*	*1*	*3*
Other official finance	2	0.7%	24	0.2%	28	54
(of which EU)	*-0*	*-0.1%*	*-2*	*-0.0%*	*-2*	*-4*
International security operations					5	5
(of which EU)					*2*	*2*
Private Finance – domestic and international	**71**	**22.4%**	**3,538**	**23.8%**	**42**	**3,652**
Domestic Private Investment	42	13.1%	2,636	17.7%		2,678
External private finance (debt, FDI, portfolio investment, remittances)	29	9.2%	902	6.1%	42	974
of which: *Private non-guaranteed External Debt*	1	0.2%	69	0.5%		70
FDI	11	3.5%	431	2.9%		443
Foreign Portfolio Investment		0.0%	181	1.2%		181
Remittances	18	5.5%	221	1.5%		238
(of which EU)	3		40			43
Private charity					42	42
Total finance for investments	**151**	**48%**	**6,870**	**46%**	**105**	**7,126**
International Trade (facilitates private and public finance mobilisation)						
Total volume of developing countries' exports of goods and services	78	**24.5%**	4,304	**29.0%**		4,382

See **Annex 2** for details on the methodology used. Data on EU private finance flows to and EU imports from developing countries as a group are not currently provided by Eurostat.

1.3. Strengthening Global Governance

EU Commitments

- ***Council Conclusions of 18 May 2009**, §36: Considering that world trade, investment and financial stability are essential for restoring global sustained growth, the Council welcomes the G20 agreement on the reform of the mandates, scope and governance of [International Financial Institutions]to reflect, inter alia, changes in the world economy and the new challenges of globalisation, to ensure greater voice and representation for emerging and developing countries, including open, transparent and merit-based top management selection processes.*

The European Union promotes effective multilateralism and supports the fundamental role of the UN system in global governance. It is indeed a founding principle of the EU, as stated in Article 21 of the Lisbon Treaty[28].

Many development challenges of the 21st century, spanning from climate change to biodiversity protection, from fighting illicit capital flows to increasing developing countries' access to global markets, from financial stability to security, defy borders, call for innovative instruments, blur the lines between development cooperation in the context of sustainable development and other policy fields, and require solutions that are often not only multilateral, but also multipolar involving new or re-emerging sovereign players, and a much more active civil society without borders. The new Global Partnership for Effective Development Cooperation that has recently emerged calls for a more inclusive, efficient and effective global governance – an important objective of the EU. To this end, there is a need to reform the institutional framework, centred on the UN System, while confirming its leading role in the coordination and monitoring of the implementation of global policy goals.

An important step in this direction was made at the Rio+20 Conference, held in June 2012 in Rio de Janeiro, which initiated a process to strengthen the institutional framework for sustainable development. This includes further integration of sustainable development within the work of the General Assembly and of the Economic and Social Council (ECOSOC) as a key element of the overarching framework of the UN activities and its agenda setting. In this context, Rio+20 decided to establish a High Level Political Forum (HLPF) on Sustainable Development, replacing the Commission on Sustainable Development. The HLPF will, among other agreed functions[29], follow-up on the implementation of sustainable development commitments, provide political leadership and guidance, enhance integration of the three dimensions of sustainable development, improve cooperation and coordination within the UN system, and strengthen the science policy interface. The EU and Member States support the idea that the HLPF should be 'directly linked with ECOSOC, and working at a higher political level (UNGA) at regular intervals'[30]. This should contribute to enhance coherence with the review of the MDGs and the post 2015 framework.

A High Level Panel (HLP) of Eminent Persons was also established by the UN Secretary-General to make proposals on the post-2015 Development Agenda. The HLP formulated recommendations regarding the vision and shape of a 'Post-2015 development agenda that will help respond to the global challenges of the 21st century, building on the MDGs and with a view to ending poverty' in May 2013. The Panel also advised on how to strengthen the global partnership for development, improve accountability at all levels, build political consensus on the Post-2015 development agenda, and include the private sector.[31]

With regard to International Financial Institutions, IMF members are in the process of ratifying the 2010 Quota and Governance Reform, which is a major achievement in enhancing the credibility, legitimacy and effectiveness of the Fund. All EU Member States have fully ratified the 2010 Quota and Governance Reform. In January 2013, the Executive Board formulated important building blocks for agreement on a revised quota formula and agreed that the review of the quota formula will be taken together with the 15th General Review of Quotas by January 2014. An agreement on an integrated package needs to be reached by that deadline. It is foreseen that the review will lead to further increases in the quota shares of dynamic emerging market economies.

The World Bank governance reform process is less advanced. Some progress has been made on the implementation of the 2010 reforms for enhancing voice and participation of developing countries and meeting new challenges, but more is needed in terms of finding an appropriate voting formula by 2015 and ensuring that future selection processes are truly merit based regardless of nationality.

The World Bank has recently put forward its Common Vision Paper, outlining the proposed goals and principles for the future strategy of the World Bank Group, to be endorsed in 2013. With the aim of ending extreme poverty and promoting shared prosperity and environmental sustainability, the World Bank goals and principles mirror very much those of the EU Agenda for Change.

2. DOMESTIC PUBLIC FINANCE FOR DEVELOPMENT

2.1. Domestic Resource Mobilisation

EU Commitments

- *EU policy on tax and development is set out in the 2010 Communication on 'Tax and Development – Cooperating with Developing Countries on Promoting Good Governance in Tax Matters'*[32] *and the accompanying Staff Working Document. Their main recommendations were endorsed by the* ***Council in its Conclusions of 14 June 2010***[33] ***and by the European Parliament in a resolution of March 2011****. In these Conclusions, the Council encouraged the Commission and Member States to:*

1. *support developing countries in tax policy, tax administration and tax reforms, including in the fight against tax evasion and other harmful tax practices;*
2. *support, including financially, already established regional tax administration frameworks such as CIAT (Centro Inter-Americano de Administraciones Tributarias) and ATAF (African Tax Administration Forum), as well as IMF Regional Technical Centre;*
3. *work towards exploring country-by-country reporting as a standard for multinational corporations; a global system for exchange of tax information; reducing incorrect transfer pricing practices; and promoting asset recovery;*
4. *encourage the participation of developing countries in structures and procedures of international tax cooperation should be strongly encouraged, including in the United Nations and the OECD, in the International Tax Dialogue and International Tax Compact; and*
5. *enhance their support to the EITI (Extractive Industries Transparency Initiative) and consider expanding similar practices to other sectors.*

- *The relevance of this agenda was reinforced through the 2011 Commission Communications on 'An Agenda for Change' and 'The future approach to EU Budget support to third countries'*[34]*. These Communications provide further emphasis on tax policy and administration by stating that 'the EU will continue to promote fair and transparent domestic tax systems in its country programmes, in line with the EU principles of good governance in the tax area, alongside international initiatives and country by country reporting to enhance financial transparency'*[35]*. The main recommendations of the Agenda for Change were endorsed by the* ***Council*** *in its* ***Conclusions of 14 May 2012****.*
- *In September 2012, the EU adopted new 'Budget Support Guidelines' in line with the 2011 Communication which places a stronger emphasis on encouraging partner countries' efforts to mobilise domestic revenues and to reduce their aid dependency. In particular, the guidelines state that 'within budget support contracts, DRM will be considered within the macroeconomic (fiscal policy) and public financial management (tax administration) eligibility criteria, and it should be given greater attention in policy dialogue and capacity development.'*

- *An updated synthesis of EU position on tax reform is presented in the 2012 Commission Communication on 'Improving EU support to developing countries in mobilising Financing for Development'*[36]*. The Commission stressed that 'it is up to the partner government to enact and uphold the appropriate regulatory measures and policies to ensure that the virtuous cycle of tax collection-development spending-development progress-increased tax collection materialises. The EU and its Member States can facilitate this process by continuing to expand their support to strengthen the capacity of tax systems, and to 'incorporate tax administration and fair tax collection, including rationalising tax incentives and good governance in tax matters, into policy dialogue with partner countries.' Additional support can be through regulatory means, such as combating illicit capital flows and reducing the misuse of transfer pricing as well as strengthening the Extractive Industries Transparency Initiative (EITI) and adopting legislation for country by country reporting for multinational enterprises.*

- *The EU has committed to take action at the international level to fight corruption, tax evasion and illegal financial flows. In the* ***Council Conclusions of 11 November 2008 (EU position for Doha FfD conference)****, §18, the EU promised in particular to:*

1. *ratify and implement the United Nations Convention against Corruption (Merida) as soon as possible and best before 2010;*
2. *adhere to the OECD Convention on Combating Bribery of Foreign Officials in International Business Transactions;*
3. *adopt and implement international norms to prevent money laundering, as well as the financing of terrorism and proliferation, support international cooperation repatriation of stolen assets, among those the Stolen Assets Recovery initiative (STAR); and*
4. *promote the principles of transparency and accountability over natural resource revenue by supporting and implementing the Extractive Industry Transparency Initiative (EITI), as well as other specific initiatives aiming at improved governance and transparency in the extractive sector.*

- ***Commission Communication of 6 December 2012 (and ensuing ECOFIN Council Conclusions of 14 May 2013 and European Council Conclusions of 22 May 2013) on an Action Plan to strengthen the fight against tax fraud and tax evasion***[37]*. The Action Plan sets out 34 actions that the Commission proposes to take with Member States over the next two years, in order to combat tax fraud and evasion, and is accompanied by two Recommendations on measures intended to encourage third countries to apply minimum standards of good governance in tax matters, and on aggressive tax planning*[38]*.*

2.1.1. Introduction

Domestic revenue is the most important source of development finance directly available to governments. As emphasised in the 2012 Communication on *Improving EU support to developing countries in mobilising Financing for Development*[39] ‘the primary responsibility for development lies with the developing countries themselves’. Studies have shown that many developing countries need substantial additional revenue[40] and a corresponding increase in fiscal space to finance poverty-reduction and adaptation to climate change. Increasing domestic revenue not only supports this type of spending, it also allows a country to assume ownership for its policy choices, thus strengthening good governance[41].

The objective of this section is to present current EU thinking and progress in the area of tax and development. The analysis below reveals that the EU policy framework put forward in 2010 has been mainstreamed by some Member States and associated with an emerging consensus amongst practitioners on how best to support tax reforms to enhance effective domestic resource mobilisation. The rest of the section presents the evolution of EU and Member State’s support during the past year.

2.1.2. Implementation Table

The table below summarises progress made in 2012 in implementing the EU commitments on domestic resource mobilisation. Further details are discussed in the main text.

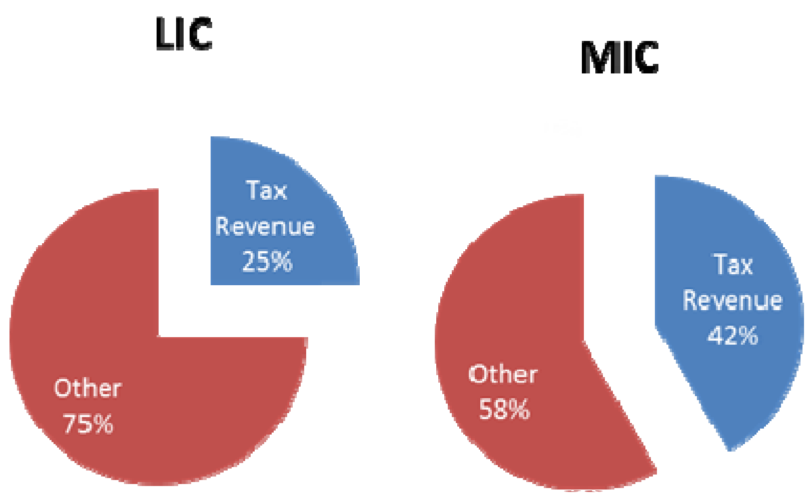
EU Commitment	Target Date	Status[42]	Comment
Support on tax policy, administration and reform	No date specified		Member States (MS) are providing support, but this is still rather limited.
Support for established regional tax administration frameworks (e.g. CIAT, ATAF)	No date specified		The EU and six MS support the ATAF; four MS are members of the CIAT.
Exploring country-by-country reporting by MNCs,	No date specified		26 MS and the Commission are

EU Commitment	Target Date	Status[42]	Comment
exchange of tax information, transfer pricing and asset recovery			members of the Global Forum on Transparency and Exchange of Information for Tax Purposes. Five MS participated in the OECD's informal Task Force on Tax and Development, which includes a work stream on transfer pricing. Six MS support the StAR Initiative.
Encourage the participation of developing countries in international tax cooperation	No date specified		17 MS and the Commission support at least one forum or dialogue platform, including the OECD Convention on Mutual Administrative Assistance in Tax Matters; the International Tax Dialogue and the International Tax Compact.
Ratify and implement the UN Convention Against Corruption (UNCAC) and the OECD Convention on Combatting Bribery of Foreign Public Officials in International Business Transactions	As soon as possible, preferably before 2010, for UNCAC; no date specified for OECD Convention		Germany and the Czech Republic have not ratified UNCAC. 22 MS are party to the OECD Convention but, according to Transparency International, only four actively, and seven moderately, enforce it.
Support transparency and accountability through EITI and similar initiatives, possibly also in other sectors	No date specified		Ten MS and the Commission supported the EITI in 2012, e.g. through direct support to the Secretariat, bilateral support at country level or through the MDTF; five MS provided support to other initiatives (e.g. the Construction Sector Transparency Initiative and the Kimberley Process).

2.1.3. Recent Trends

Domestic tax revenues represented a significant share of the overall development finance available for both low income and middle income countries in 2010, as shown in Figure 2.1.3.

Figure 2.1.3 – Domestic Tax Revenues as a Share of Total Resource Flows of Low-Income (LIC) and Middle-Income Countries (MIC) in 2010



The relative level of domestic revenue collection is generally a function of per-capita income. **The ratio between tax revenues and GDP** in developing countries varies, but is in general a smaller share of GDP than in higher income countries. Overall, government revenues have been a stable and increasing source of financing[43] for most developing countries, except for LICs where ODA funding often exceeds efforts in domestic revenue mobilisation. On average, tax revenues account for 13% of GDP in LICs, 20% of GDP in MICs, and 35% of GDP in High Income Countries (HICs)[44]. Moreover, the share in LICs has been essentially stationary since 1970, while it has grown in both MICs (+9%) and HICs (+4%). This is partly for structural reasons, but mostly results from suboptimal tax systems (e.g. narrow tax base) and weak tax administration (collection capacity). Fragile countries, in particular, have much lower average tax revenue (14%) as a proportion of GDP than non-fragile countries (20%)[45]. Natural resources are an important source of tax revenues: between the early 1980s and 2005, resource-rich countries in sub-Saharan Africa increased their tax–GDP ratios by about seven percentage points; non-resource related tax revenue in the region, on the other hand, was essentially stagnant[46].

The most significant additional long-term mobilisation efforts should be undertaken by LICs and fragile states, which lag behind in terms of tax ratio, while avoiding distortions that would penalise private sector investment. This usually involves institution and state building, but does not preclude shorter-term reforms even in the absence of fully effective institutions[47].
Many developing countries offer **tax incentives and exemptions** to investors, particularly in areas which would otherwise be considered undesirable for investment. For example, in the last decades many African countries provided tax exemptions in their Value Added Tax (VAT) system and other forms of tax incentives and exemptions. Tax incentives and their corresponding tax expenditures have been characterised as 'substantial' even if they are not easy to quantify on the basis of a consistent methodology and they vary significantly from one country to the other[48]. Tax incentives are estimated to reduce tax revenues by several percentage points of GDP (e.g. 3% in Tanzania according to the Tanzania Revenue Authority[49]) and their efficacy in attracting foreign direct investment is also open to question, especially in Africa[50].

Illicit financial flows[51] are particularly harmful for developing countries, although their size is difficult to estimate. According to a recent report by Global Financial Integrity[52], developing countries lost EUR 442 billion per year through illicit flows over the decade 2000-2010. In 2010 alone, illicit outflows from developing countries had grown to EUR 649 billion – almost six times the value of net ODA from all donors in the same year.

2.1.4. EU Policies and Programmes

2.1.4.1. Domestic Revenue Mobilisation

The EU and 19 Member States[53] reported new initiatives to strengthen developing countries' tax systems. This reflects the continued importance of taxation in support to developing countries. The content of such support varied from the very narrow (e.g. study tours for instance in the case of Czech Republic and Romania) to the quite broad and multi-country programmes (e.g. UK support to EITI, and France's support to capacity building in West Africa). New initiatives in the area of domestic revenue mobilisation include Germany's support to South Sudan and UK's support to the Palestinian Authority.

A recent UK Parliamentary report[54] has put added emphasis on the importance of tax in developing countries, in line with EU commitments. The critical importance of taxation in development and poverty reduction is at the centre of this report. It states that effective tax collection involves: (a) with respect to the extractive industries, a heavier focus on taxing volumes of extraction or turnover; and (b) improved collection of personal income taxation, VAT and local property taxation. Underpinning the latter is an urgent need to provide incentives for formalisation of enterprises to join the formal sector. The report underlines the global nature of tax collection, where regulatory issues play a major role, and recommends enacting laws unilaterally requiring (i) tax authorities to exchange information automatically to deter cross-border tax evasion; (ii) corporations to report their financial information on a country-by-country basis; and (iii) assess any new primary or secondary UK tax legislation against its likely impact on revenue-raising in developing countries – especially to discourage the misuse of transfer pricing.

The 2012 Accountability Report had noted the absence of a joint diagnostic framework for assessing tax systems. In the course of 2012, efforts have been made by several donors (including EU MS and the Commission) and the IMF to develop a joint assessment tool. The 2012 report had also noted that the coordination and complementarity of the Member States' approaches could be enhanced, while country coverage seemed improved based on suitable division of labour between Member States. These observations appear to remain valid and international coordination platforms (e.g. the International Tax Compact) should be further deployed. Finally, there is no information on whether the weakness related to the relatively low engagement with national parliaments and civil society organisations have benefitted from any specific support. These organisations are an important part of the good governance and accountability frameworks in developing countries and would benefit from capacity-building.

To improve support to developing countries, several new studies provide guidance for prioritisation and sequencing of support and identify approaches that are the likeliest to succeed, as discussed in **Box 2.1.4** below.
Portugal remains the only Member State to report funding tax reform in developing countries at a share above 50% of its ODA for public financial management (PFM). Another fourteen Member States[55] provide support for tax reform, but at lower shares of their PFM aid, while nine Member States[56] do not provide any. These results are in line with what had been reported last year.

The EU and twelve Member States[57] report monitoring domestic resource mobilisation through **budget support operations**. The monitoring takes place in a number of ways, with many taking advantage of this task being performed by donor groups and/or through Joint Performance Assessment Frameworks – which minimises the reporting burden imposed on recipient countries. Other approaches have been pursued by Austria, through its dialogue on aid dependency, Germany's 'fiduciary risk assessment tool' which sets a 10% threshold on revenue to GDP as a trigger for budget support, and Denmark, which is issuing new guidelines on budget support to address this area more systematically.

The EU and the majority of Member States support developing countries' efforts to assess the impact of **tax incentives**. Member States' support is largely through technical assistance, provision of experts, twinning, training and studies. Some, such as Germany and Denmark, go beyond the simple quantification of the expenditures and assess impact in terms of investments, cost benefit and efficiency. Other donors, such as the UK, Germany and Ireland also provide indirect support by funding related work by institutions such as the IMF (including its Regional Assistance Centres) and the World Bank, in line with the Council Conclusions of June 2010 on Tax and Development.

Box 2.1.4 –Tax and Development: recent findings

A 2013 OECD study[58] shows that taxation should be regarded not only as a means to raise revenue but also as an essential component of good governance. In that sense, how revenue is collected is as important as how much gets collected. And linkages between taxation and governance also involve supporting institutions and organisations outside the revenue system (e.g. the Judiciary, Parliament, civil society). Donors can support revenue collection processes, but partner country ownership and leadership are preconditions for success.

Two focused studies conducted in 2012 by the International Centre for Tax and Development, with funding from DfID and Norad, update knowledge in selected areas, provide further validation of current approaches, and may help EU and Member States to prioritise their interventions:

- The report on Taxation and Development[59] summarises lessons learnt from 50 years of research. It concludes that: (i) encouraging and funding local think tanks has important long-term payoff; (ii) better tax policy and administration depend on country circumstances and need to be tailor-made; and (iii) support needs be oriented to build capacity within and outside government and sustaining such efforts over the long-term.
- The report on Donors, Aid and Taxation in Developing Countries[60] proposes seven 'big picture' considerations for the design of donor programmes: (a) supporting local leadership of reform efforts; (b) incorporating more systematic political economy analysis into the design and implementation of reform; (c) designing tax reform that seek to foster broader linkages between taxation, state-building and governance; (d) paying careful attention to the complexity of the relationship between aid and tax effort; including tax exemptions on aid; (e) better designing tax-related conditionality, particularly by developing a more nuanced set of performance indicators; (f) ensuring the effective coordination of donor interventions; ; in line with the implementation of the Paris declaration and subsequent commitments and (g) paying greater attention to the international policy context, and particularly the role of tax exemptions for donor projects, tax havens and tax evasion by some multinational corporations in undermining developing country tax systems.

There is still no consensus in the EU on foregoing **tax exemptions on projects financed through external aid**. At EU level, some progress has been achieved in this area, for instance when financing framework contracts, but there continues to be lack of consensus on the way forward. Some Member States, such as France, Romania and Slovenia have mainstreamed this approach in their disbursement of foreign aid. Others, such as Denmark, have implemented it partially – in the case of VAT on goods and services purchased in partner countries. A few Member States are not in favour of the elimination of exemptions on various grounds including the concern it will reduce the volume of goods, services and civil works that may be purchased. A large majority of Member States consider however that a coordinated approach towards the elimination of tax exemptions would be desirable, arguing that such an approach would need to: (a) apply to all donors, not just European ones; (b) exclude humanitarian aid; (c) be based on a prior study that determines which exemptions to be maintained and provides a thorough analysis of implications; and (d) be linked to harmonisation of taxes within the EU.

2.1.4.2. Tax Evasion and Fraud

Tax evasion and fraud are widely believed to be important factors limiting revenue mobilisation but also undermining good governance and institutional development. Tax evasion and fraud threaten governments´ revenues, both in developed and developing countries, thereby limiting their capacity to carry out their economic policy and to proceed to necessary structural reforms. Tax evasion generally comprises illegal arrangements where liability to tax is hidden or ignored, i.e. the taxpayer pays less tax than he is legally obligated to by hiding income or information from the tax authorities. Tax fraud is a form of deliberate tax evasion which is generally punishable under criminal law. The term includes situations in which deliberately false statements are submitted or fake documents are produced[61].

In recent years, the challenge posed by tax fraud and evasion has increased considerably. The globalisation of the economy, technological developments, the internationalisation of fraud, and the resulting interdependence of tax authorities reveal the limits of strictly national approaches and reinforce the need for joint action. The interaction of many different tax systems in the context of a global economy creates many possibilities for the undermining of tax systems[62]. The private sector is accused to use the possibilities offered by 'tax havens' which, generally speaking, are countries that base their attractiveness on opacity and harmful tax competition in the direct tax area to relocate their tax bases in their low-tax jurisdictions, and to conceal this from their country of residence (through means such as obstacles to the identification of beneficial ownership, bank secrecy and conduit companies).

The revenue losses which can arise from both tax evasion and tax fraud as well as tax avoidance[63] are difficult to estimate. According to some estimates concerning only the United States, the revenue cost of profit shifting towards 'tax havens' by US multinationals could be up to EUR 45 billion, while individual tax evasion could cost up to EUR 38 billion yearly[64]. Estimates of this kind are not available for the EU, but on the basis of the similar amount of FDI stocks in 'tax havens' in both USA and the EU, the tax revenue losses can be estimated to be of similar magnitude[65].

The OECD and the G20 have been calling for more determined action to combat tax evasion and fraud. There is growing pressure on tax havens to increase the transparency of their tax systems and put an end to unfair competitive practices. The EU and most Member States have provided further support for addressing tax evasion, tax fraud and harmful tax competition, and promote the principles of good governance in tax matters in their cooperation policy.

In the area of exchange of information, the EU and twenty-six Member States are supporting the Global Forum on Transparency and Exchange of Information for Tax Purposes. According to OECD data[66], sixteen Member States[67] signed a total of thirty-six new Tax Information Exchange Agreements with twenty-seven developing countries in 2012. In addition, Croatia has signed fifty-five Double Taxation Agreements and is continuing with the negotiations in order to spread the network of Double Taxation Agreements as a good tool for tackling cross-border tax evasion.

Furthermore, several Member States, such as Germany, Ireland, Luxembourg, the Netherlands, the Slovak Republic and the United Kingdom supported initiatives in 2012 such as the International Tax Compact[68] (ITC) and the OECD tax and development programme[69] aimed at helping developing countries fight tax evasion, improve information exchange and limit the misuse of transfer pricing.

In 2011, the Commission initiated a Tripartite Initiative with the World Bank and the OECD to enhance the capacity of developing countries to adopt and implement Transfer Pricing Guidelines while providing a secure and stable environment for multinational corporations to invest in these countries. This initiative supports training and technical assistance initiatives in countries that are politically committed and institutionally ready.

In March 2012, the European Council called on the Commission to step up action against tax fraud and tax evasion. The European Parliament had also adopted a Resolution in April 2012 calling for concrete ways to combat tax fraud and tax evasion[70]. In response to this, the Commission adopted a Communication in June 2012 on 'Concrete ways to reinforce the fight against tax fraud and tax evasion including in relation to third countries'[71], setting out key challenges posed by tax fraud and evasion, and concrete measures to address them, highlighting the importance that EU partners under international trade and cooperation agreements commit to good governance principles in the tax area.

In December 2012, the Commission adopted an *Action Plan to strengthen the fight against tax fraud and tax evasion*[72]. Through the description of 34 specific actions, the Action Plan presents a comprehensive set of measures to help Member States protect their tax bases and recapture taxes legitimately due. This action plan is accompanied by two recommendations to encourage Member States to take immediate and coordinated action on aggressive tax planning and so called 'tax havens'[73]. These initiatives constitute an immediate response to the identified needs to ensure a coherent policy vis-à-vis third countries, to enhance exchange of information and to tackle certain fraud trends. Furthermore, it calls for EU Member States to consider offering closer cooperation and technical assistance to third countries, especially developing ones, which are committed to complying with minimum standards of good governance in tax matters in order to assist them in fighting effectively against tax evasion (e.g. possible secondment of tax experts to such countries for a limited period of time) which could have a positive impact on their capability to raise revenues and institutional development.

2.1.4.3. Money Laundering, Illicit Flows, and Corruption

More coordinated international action to prevent money leaving developing countries illicitly and taking the necessary policy measures (fiscal transparency and exchange of information, country-by-country reporting, anti-money laundering measures, efficient tax collection systems) to reduce illicit flows would bring a significant increase in resources that are available to developing countries' governments.

In February 2013, the Commission adopted two proposals to reinforce the EU's existing rules on anti-money laundering and fund transfers. The proposals include a directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing and a regulation on information accompanying transfers of funds to secure 'due traceability' of these transfers. Both proposals fully take into account the latest Recommendations of the Financial Action Task Force (FATF), the world anti-money laundering body, and go further in a number of fields to promote the highest standards for anti-money laundering and counter terrorism financing.

Many Member States have in the past provided support to developing countries in combating corruption and money laundering, some of which is on-going. The Commission has allocated more than EUR 93 million on 69 projects dedicated to the fight against corruption in various regions since 2009. Moreover, the Commission is financing a number of Rule of Law and sectoral capacity building projects that address corruption indirectly.

EU Member States are signatories to several conventions aimed at combatting corruption, including the OECD Anti-Bribery Convention, and the UN Convention Against Corruption (UNCAC). Twenty-two EU Member States[74] are signatories of the OECD Convention, while all Member States and the EU have signed UNCAC. According to the 2012 Transparency International Progress Report on Country Enforcement of the Anti-Bribery Convention[75], only four EU Member States[76] (out of the twenty-two analysed in the report) do actively enforce the OECD Anti-Bribery Convention, while five do not enforce it at all[77]. Germany and the Czech Republic are the only EU Member States that have not ratified the UNCAC yet, although they signed it, respectively, in 2003 and 2005[78].

At the Third Conference of States Parties in Doha, in November 2009, it was decided to set up a Mechanism for the Review of Implementation of the UNCAC (UNCAC Review Mechanism). Only the executive summaries of the country review reports are published, unless a reviewed country chooses otherwise. Austria, France, Germany, the Netherlands, Sweden and the UK have supported financially the review mechanism with EUR 1.3 million over the period 2010-2012.

The Stolen Asset Recovery (StAR) initiative was launched in 2007 by the World Bank and UN to support international efforts to end safe havens for corrupt funds. In 2012, six Member States[79] provided support to the StAR Initiative in various forms (including financial support, or staff secondment). Spain is providing Albania with training on fighting money laundering and financial crimes.

2.1.4.4. Extractive Industries

In 2011, the European Commission proposed amendments to the existing Transparency and Accounting Directives regarding transparency requirements for listed and large non-listed EU companies, and made proposals on country by country reporting[80]. The main thrust of the proposal[81] is to provide mandatory disclosure requirements for extractive industry companies on a country and project basis. These requirements are in line with the voluntary requirements set by the Extractive Industry Transparency Initiative (EITI) standards.

In 2012, the Commission and ten Member States[82] supported EITI, either politically, technically or financially. Financial support was channelled through direct support to the EITI Secretariat, bilateral support at country level and/or through the EITI Multi-Donor Trust Fund (MDTF). Germany for instance is supporting EITI implementation through bilateral and regional technical cooperation projects. Other recent financing provided by Member States in this area include UK's contribution of about EUR 30 million to a World Bank project[83] in the Democratic Republic of Congo, or Belgium's contribution of EUR one million to the Extractive Industries Technical Advisory Facility.

There is no consensus among Member States over whether and how the approach of EITI should be extended to other sectors. Some would be favourable to such extension to sectors such as forestry and/or on the basis of country driven priorities. Others are in favour of strengthening the reporting requirements under the existing EITI, as it is currently under way.

Germany is supporting the Constructive Sector Transparency initiative (CoST).

2.2. Maintaining Sustainable Debt Levels

EU Commitments

- *The EU is committed to supporting debt sustainability in developing countries, in line with the 2001 Doha Declaration. This has been clearly articulated, inter alia, in the* ***Council Conclusions of 18 May 2009*** *(§12), which state that 'the EU will continue supporting the existing debt relief initiatives, in particular the Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) and values the Evian approach as an appropriate flexible tool to ensure debt sustainability'. The EU also confirmed that it 'supports discussions, if relevant, on enhanced forms of sovereign debt restructuring mechanisms, based on existing frameworks and principles, including the Paris Club, with a broad creditors' and debtors participation and ensuring comparable burden-sharing among creditors with a central role for the Bretton Woods Institutions (BWI) in the debate'.*
- *More recently, the* ***Council Conclusions of 15 October 2012*** *stated that (§3) 'The EU will continue to deliver on debt relief commitments to support the sustainability of public finances in developing countries, participate in international initiatives such as the WB/IMF Debt sustainability framework, and promote responsible lending practices. Moreover, the EU will promote the participation of non-Paris Club members in debt-workout settlements, and Member States that have not yet done so will take action to restrict litigation against developing countries by distressed-debt funds. The EU will also support developing countries' efforts to avoid unsustainable debt levels.'*

2.2.1. Introduction

Many developing countries built up their foreign debt to unsustainable levels in the 1970's and 1980's. Starting from the mid 1990's and accelerating from the mid 2000's, heavily indebted developing countries have received debt relief, whereby a large share of past official debt to bilateral and multilateral official creditors was forgiven or repaid through grants, allowing these countries to reallocate resources from debt service to development expenditure.

As debt relief has also created fiscal space for new borrowing, often from emerging donors, there is always a risk that the debt of poorer countries might return to unsustainable levels.

2.2.2. Implementation Table

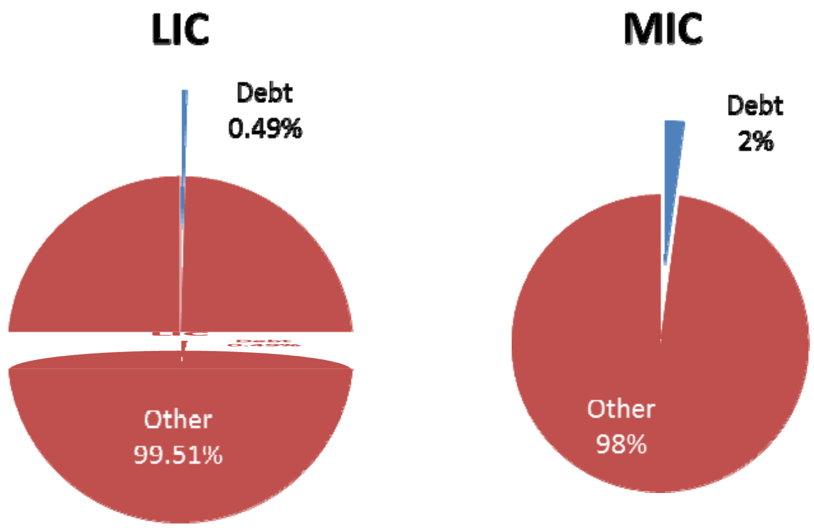
The table below summarises progress made in 2012 in implementing the EU commitments on debt sustainability. Further details are discussed in the main text.

EU Commitment	Target Date	Status[84]	Comment
Support existing debt relief initiatives, in particular the HIPC Initiative and the MDRI	No date specified		Three countries reached HIPC completion point in 2012. Several MS initiatives support MDRI and similar programmes.
Support discussions, if relevant, on enhanced sovereign debt restructuring mechanisms, on the basis of existing frameworks and principles	No date specified		Limited support (only the EU and 11 Member States see a need for reform, not necessarily structural).
Participate in international initiatives such as the WB/IMF Debt Sustainability Framework (DSF) and promote responsible lending practices	No date specified		A recent IMF assessment found broad compliance with the DSF[85].
Promote the participation of non-Paris Club members in debt-workout settlements	No date specified		No bilateral action, only support for dialogue through one annual meeting with non-members, not attended by China and India[86].
Take action to restrict litigation against developing countries by distressed debt funds	No date specified		No action to restrict litigation mentioned by MS, only legal support to developing countries for litigation through multi-donor trust funds (e.g. DMF, ALSF).

2.2.3. Recent Trends

Net external private and public debt flows to developing countries represented a marginal share of the overall development finance available for both low income and middle income countries, as shown in Figure 2.2.3.

Figure 2.2.3 – Net External Public and Private Debt Flows as a Share of Total Resource Flows of Low-Income (LIC) and Middle-Income Countries (MIC) in 2010



Borrowing by developing countries is an important source of finance that dissociates government spending from revenue inflow fluctuations, and allows frontloading development investments. As such, borrowing can be a stable source of finance. In this context, it is important to note the stabilising role international official lending has played in the financial crisis during the first year of the crisis, replacing private sector lending that contracted significantly in 2009.

Overall, the total external debt outstanding as a percentage of GNI declined from 37.9% in 2000 to 21.5% in 2011, and debt service to export ratio of developing countries has declined from 20.4% in 2000 to 8.8% in 2011. The improvement in debt indicators was widespread across regions. Low income countries also improved their external debt to GNI ratio from 68.7% in 2000 to 28.7% in 2011, and their debt service to export ratio from 11.2 to 4.6% over the same period[87].

In 2011, net debt inflows from official creditors declined by 14%, while net debt inflows from private creditors remained steady. In 2010 and 2011, private lending proved more resilient and remained close to its 2007 peak in both years, with volumes 6 to 14 times higher than public and publicly guaranteed lending. This growing importance of private lending, even though within a framework of improving debt indicators, poses a risk to overall economic stability as systemic unsustainable private debt tends to become public debt. A study of 90 defaults and renegotiations on debt owed to private creditors by 73 countries found that debt renegotiations have an average length of over seven years, produce average creditor losses of 40% and lead to limited debt relief[88].

2.2.4. EU Policies and Programmes

Substantial debt relief was provided in 2012 by EU Member States, either bilaterally or through multilateral initiatives such as the HIPC and MDRI. Over the period 2000-2011, debt relief provided collectively by the EU Member States and the Commission amounted to EUR 58 billion at 2010 prices, equivalent to 71% of global debt relief.

Active participation in the HIPC (Heavily Indebted Poor Countries) Initiative - aiming at providing debt relief to Low Income Countries - continued in 2012. Full relief was granted to the three countries that reached HIPC completion point in 2012: Ivory Coast, Guinea and Comoros. The Paris Club reached debt restructuring agreements for Guinea, St Kitts and Nevis, Côte D'Ivoire and Myanmar.

UNCTAD prepared a set of principles on sovereign lending and borrowing in 2011, and launched the endorsement process at the Doha Conference in December 2012. The principles aim to reduce the frequency and severity of debt crises by developing a set of voluntary guidelines that promote and reinforce responsible sovereign lending and borrowing practices. Lack of globally agreed rules and regulations guiding sovereign financing have contributed to irresponsible sovereign borrowing and lending to sovereign countries. The principles are meant to fill this gap.

Several debt swap programmes have been launched by Member States in developing countries. EU Member States and the Commission also contributed to the Debt Relief Trust Fund (DRTF) that allows the participation of the African Development Bank in the HIPC Initiative. Some Member States also assisted countries that are not eligible for HIPC. The United Kingdom, for example, provides bilateral assistance to poor countries that are not eligible for debt relief under the HIPC initiative. Under the UK Multilateral Debt Relief Initiative (UK MDRI), the UK reimburses ten per cent of qualifying countries' debt service payments to the World Bank and African Development Bank. The UK provided over EUR 18 million via the UK MDRI in 2012 and is scheduled to provide up to EUR 3.3 million in 2013. The EU is focusing on supporting stronger debt management capacities and better public finance management. Several EU donors and the Commission support UNCTAD's Debt Management and Financial Analysis Software (DMFAS) Programme, and the World Bank's Debt Management Facility (DMF), to strengthen debt management capacity in Low Income Countries through the provision of software and technical assistance. DMF support in particular focuses on diagnosing weaknesses in the management of debt and in the set-up of medium term reform strategies, as well as legal support against vulture funds. Several EU Member States address the problem of vulture funds also through the African Legal Support Facility (ALSF), administered by the African Development Bank.

Existing debt workout mechanisms for Low Income Countries (e.g. HIPC, Paris Club) need to be adjusted to reflect a changing reality: only four potentially eligible countries remaining for HIPC, increased importance of emerging donors, and shift of debt portfolios to private commercial lending. There is also increasing demand within the UN System for reopening the international discussion on a structured approach to solving sovereign debt crises[89] with a series of meetings organised by the Economic and Social Council to consider options. According to some Member States, the promotion and further development of collective action clauses (CAC) in bond contracts are preferable to the alternative of large-scale structural changes to the current mechanisms available to LICs. Sovereign debt restructuring has long been complicated by a free rider problem, as any restructuring had to be negotiated with each bondholder individually. CACs allow borrowers to restructure their debt if a qualified majority of bondholders agrees to the proposed terms.

3. PRIVATE FINANCE FOR DEVELOPMENT

3.1. Private Investment for Development

EU Commitments

Private Sector Development

- ***Council Conclusions of 15 June 2010 on the Millennium Development Goals****, §25: The EU and its Member States will continue to encourage and to support the development of the private sector, including small and medium enterprises through measures enhancing the overall investment climate for their activity, inter alia through promoting inclusive finance and through relevant EU Investment Facilities and Trust Funds. § 27. In the framework of the review of the European Investment Bank's (EIB) external mandate, the EU and its Member States should strengthen the capacity of the EIB to support EU development objectives and to promote efficient blending of grants and loans in third countries including in cooperation with Member States finance institutions or through facilities for development financing.*
- ***Council Conclusions of 9 March 2012 on Rio+20****, §30: Underscores the importance of the private sector and of partnerships between the private and the public sector in promoting investment, trade and innovation, including in delivering a global GESDPE.*
- ***Council Conclusions of 14 May 2012 'Increasing the Impact of EU Development Policy: an Agenda for Change'****: The private sector and trade development are important drivers for development. An enabling business environment and more effective ways of leveraging private sector participation and resources in partner countries as well as increased regional integration, aid for trade and research and innovation will be key to the development of a competitive private sector. This has to go along with promoting labour rights, decent work and corporate social responsibility.*

Corporate Social responsibility

- ***Council Conclusions of 11 November 2008 (EU position for Doha FfD conference),*** *§25: [the EU] will further enhance efforts to promote the adoption, by European companies, of internationally agreed principles and standards on Corporate Social Responsibility.*
- ***Council Conclusions of 18 May 2009 (Support to developing countries in coping with the crisis)****, §9: The EU underlines the importance of the concept of corporate social and environmental responsibility.*
- ***Council Conclusions of 15 June 2010 on the Millennium Development Goals****, §26: In addition the EU and its Member States commit to increasing their efforts to mobilise the private sector and engage with business to help accelerate progress towards the MDGs including by promoting the UN Global Compact and the Corporate Social Responsibility principles. Innovative public-private partnerships with the business and NGO community, combining and reinforcing each other's knowledge and capabilities, can enhance the effectiveness of our aid.*
- ***Competitiveness Council Conclusions of 5 December 2011****, §7: Welcomes the Communication from the Commission A Renewed EU Strategy 2011-2014 for Corporate Social Responsibility as well as of the Social Business Initiative; emphasises market advantages of responsible business conduct; encourages the Member States to respond to the Commission's invitation to develop or update their plans or lists of priority actions in support of the Europe 2020 Strategy.*
- ***Council Conclusions of 9 March 2012 on Rio+20****, §30: reaffirms the need to implement worldwide sound corporate governance as well as international principles and standards on corporate social responsibility.*

3.1.1. *Introduction*

The private sector is a critical stakeholder and partner for development. It plays a key role in supporting inclusive growth, notably by creating jobs (local small-scale businesses provide 90% of jobs in developing countries)[90], providing essential goods and services (including health, education, water, energy and infrastructure), as well as being a major source of tax revenues.

Engaging the private sector as a development partner has been an approach pursued since the 1980s by bilateral donors and multilateral organisations. It has been rallying even more support in recent years, as illustrated by the official recognition of the importance of the private sector as actor in development at the Busan 4th High-Level Forum on Aid Effectiveness in 2011, and at the Rio+20 Summit in 2012.

Against this background, and as stated in the 'Agenda for Change', the EU is thus striving to work more closely with the private sector for achieving the objective of inclusive and sustainable growth and poverty eradication.

When considering the role and contribution of the private sector to development outcomes, it is important to acknowledge that the private sector is not a homogeneous entity. It should indeed be captured in its multiplicity, ranging from micro, small and medium enterprises (MSMEs) - operating in the informal or formal sector - through to large multinational corporations (MNCs). Development partnerships with the private sector must therefore be tailored to the type of private actors that are being considered, including by distinguishing between foreign and local private companies, and between large firms and MSMEs.

Such partnerships with the private sector can take many forms. For instance, at the level of policy reform, business and professional associations, trade unions and private sector organisations, as well as large operators can play an important role in policy dialogue around reforms to improve the business environment.

At the level of private companies' business operations, development partnerships should be promoted in areas that advance both development and business outcomes so that they are mutually reinforcing (e.g. inclusive business models and responsible business practices, public-private partnerships for the delivery of basic public goods and infrastructure services, and/or business linkages through a 'growth poles' approach etc.).

At the level of development financing, innovative financial mechanisms can be used to leverage additional private finance for delivering public goods. The main EU instruments to engage with the private sector at the level of development financing are the Regional Investment Facilities, which combine EU grants with loans in view of unlocking additional financing for important investments in EU partner countries. The use of so-called blending mechanisms[91] to catalyse private investment has increased in 2012. Support to the private sector – mainly SMEs – was in 2012 twice the amount of 2011 and represented 13% of the total grants blended that year. A new 'EU Platform for Blending in External Cooperation'[92] was established in December 2012 with the European Development Finance Institutions (EDFI) to further increase this catalysing role.

Domestic and foreign private investments are a key source of employment, wealth creation and innovation, and as such, can contribute to sustainable development and poverty reduction in developing countries[93]. The 'Agenda for Change' also stresses that private domestic and foreign investment and improving infrastructure are critical success factors for igniting and sustaining private sector growth.

In June 2012, at the G20 Summit in Mexico, the Working Group on Private Investment and Job Creation presented its report on '*Promoting responsible investment for sustainable development and* *job creation*'[94]. Eleven key policy recommendations were made to developing countries and development partners for creating a supportive environment for domestic and foreign private investment. These recommendations are grouped into the following four distinct policy stages:

- Improving the business climate and the regulatory framework for foreign and domestic investment;
- Assisting developing countries to attract the most value adding investment to their economies;
- Promoting responsible investment in value chains; and
- Stimulating investment in local enterprise development.

3.1.2. *Implementation Table*

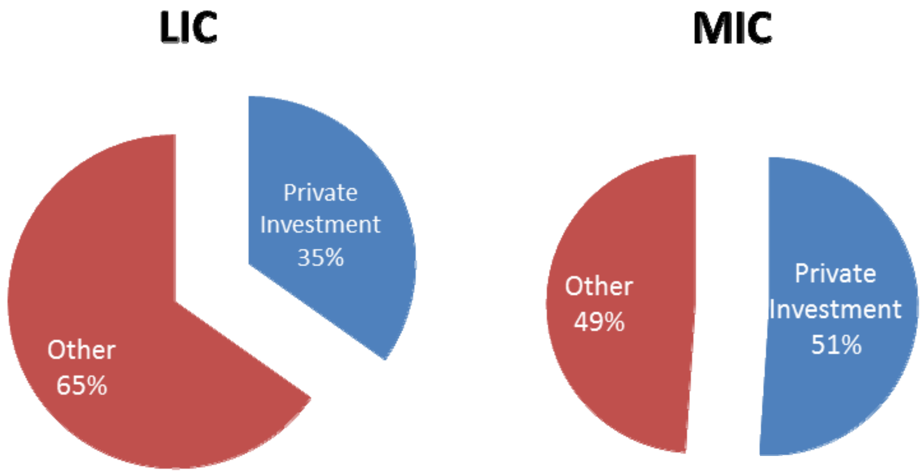
The table below summarises progress made in 2012 in implementing the EU commitments on private sector development. Further details are discussed in the main text.

EU Commitment	Target date	Status[95]	Comment
Support the development of the private sector, including small and medium-sized enterprises, through measures to enhance the overall investment climate for their activity, inter alia by promoting inclusive finance and through relevant EU investment facilities and trust funds	No date specified		The EU and MS have provided substantial funding for private sector development (in 2004-10, the Commission alone provided EUR 2.4 billion in direct support in the form of grant funding). Since 2007, the EU, together with some MS, has set up eight regional blending facilities, covering all regions of EU external cooperation. Several MS'[96] national development finance institutions also support blending activities (EU facilities and others). MS reported over 100 ODA activities for private sector development in 2012.
Strengthen the EIB's capacity to support EU development objectives and promote the efficient blending of grants and loans in third countries, including in cooperation with MS' finance institutions or through development financing facilities	No date specified		Half of the Commission-funded private sector development support mentioned above was channelled through the EIB. Support for blending facilities as described above.
Enhance efforts to promote the adoption by European companies of internationally-agreed CSR principles and standards, the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises	No date specified		Exploratory research was undertaken by the Commission in June 2012. Commitments by large EU enterprises are expected by 2014[97].
Respond to the Commission's invitation to develop or update MS' plans or lists of priority actions in support of CSR	No date specified		On-going discussion with MS on plans and peer review mechanism[98]. Several MS intend to complete their plans in 2013.

3.1.3. Recent Trends

Domestic and foreign private investment in developing countries represented a substantial share of the overall development finance available for both low income and middle income countries, as shown in Figure 3.1.2.

Figure 3.1.3 – Domestic and Foreign Private Investment Flows as a Share of Total Resource Flows of Low-Income (LIC) and Middle-Income Countries (MIC) in 2010



FDI can stimulate domestic investment, increase local market competition, enlarge international market access for local products and generate externalities and knowledge 'spillovers'. FDI attraction has become a priority of development agendas. It is worth noting however that the impact of domestic and foreign private investment on development depends on the type and strategy of investors, as well as host country conditions, policies and institutions.

The global financial and economic crisis had a major impact on FDI flows. According to the latest data from UNCTAD[99], global FDI flows fell by 18% to an estimated EUR 1.0 trillion in 2012, down from a revised EUR 1.2 trillion in 2011.

The 2012 figure is close to that of 2009, when FDI flows reached their lowest level of just slightly over EUR 0.9 trillion. This decline is mainly due to macroeconomic fragility and policy uncertainty faced by investors. For example, the EU-27's FDI inflows and outflows dropped from a peak in 2007 to a low point in 2010; provisional figures for 2011 indicate an upturn in both directions.

For the first time ever in 2012, **FDI flows to developing countries** exceeded those to developed countries by EUR 101 million, reaching EUR 529 billion, the second highest level ever recorded. FDI flows to developing economies remained resilient, declining only by 3%.
Rising FDI to developing countries was driven by a 10% increase in Asia and a 16% increase in Latin America and the Caribbean. However, Africa and the least developed countries (LDCs) saw a third year of declining FDI inflows, although prospects for Africa are brightening. The 2011 decline in flows to the continent was due largely to divestments from North Africa. In contrast, FDI inflows to sub-Saharan Africa recovered from EUR 22 billion in 2010 to EUR 27 billion in 2011, a level comparable with the peak of 2008.

Emerging economies, mainly in Asia and South America have clearly become more important destinations for EU FDI. This trend had started well in advance of the economic crisis of 2008/2009 but the European recession intensified it.

While developed countries remain the leading source of outward FDI, developing and transition economies have emerged as important sources of outward FDI since the 1990s. Many multinational corporations from developing and transition economies are increasingly undertaking cross-border investment activities through FDI. Between 1980 and 2011, their share of world outward FDI rose from 6.2% to 26.9%, peaking at 31.8% in 2010.

3.1.4. EU Policies and Programmes

Policies and programmes of the EU and its Member States focus essentially on two fronts: the first concerns the creation of an enabling environment for private sector development in partner countries, while the second involves seeking new forms of engagement with the private sector to achieve development goals. The type of engagement with the private sector generally takes one of the following forms: co-financing projects or providing blending facilities and other financial tools to crowd in investment from private sector to support growth and job creation in partner countries; fostering public-private dialogue, supporting development partnership with private sector (DPP) aiming to achieve business and development goals, promoting Public-Private Partnerships (PPP) for the delivery of public goods and services (notably, infrastructure, health, etc.), testing and disseminating innovative business models (IBM).

3.1.4.1. Private Sector Development

In line with the 'Agenda for Change', EU support is being notably targeted towards the development of competitive local private sectors as a means to promote inclusive and sustainable growth. Even if private sector development is not a focal sector in all partner countries, the EU seeks to mainstream it in its cooperation programmes (at national and regional level) with most partner countries (e.g. in agriculture, energy, governance).

To date, EU support to private sector development has mainly focused on creating an enabling environment for local businesses. A recent study on the '*Evaluation of EU support to Private Sector Development*'[100] indicates that over the period 2004-2010, the EU provided substantial grant funding for private sector development, spanning a wide range of activities, including capacity building, regulatory reform, and technology transfer. This made the EU an important player in private sector development both financially and in terms of scope covered, and private sector development an important area of its aid delivery. The report further indicates that the European Commission provided EUR 2.4 billion of direct support to private sector development. There are also several well-recognised private sector development donors among Member States, such as Austria, Denmark, France, Germany, Sweden, or the UK.

Roughly half of EU total support to private sector development (considering both grants and loans) is channelled through the EIB[101]. The EIB manages several EU instruments to support private sector development in partner countries. Two of them specifically target the private sector:

- The 'Facility for Euro-Mediterranean Investment and Partnership' (FEMIP) supports growth and job creation in two priority areas: private sector development (notably SMEs and the industrial sector) and the creation of an investment-friendly environment in the Mediterranean region. Since 2002, EUR 13 billion have been invested through FEMIP, mobilising roughly EUR 35 billion of additional capital together with international financing institutions, bilateral agencies and the private sector in order to advance the integration of the region. The European Commission provides an annual envelope of EUR 32 million to the EIB to carry out risk capital operations.
- The 'ACP Investment Facility' is an instrument financed from the EDF and managed by the EIB. It is geared specifically to fostering private sector investment in the ACP countries

(through risk capital and loans to the private sector). Between 2004 and 2010, EUR 3.5 billion have been contracted via the ACP Investment Facility.

Several EU Member States have also undertaken initiatives aimed at improving the business environment and investment climate in partner countries. This support is driven in part by indicators to measure the business environment of countries; the so-called 'Doing Business Indicators'[102], and its related publication, the *Doing Business Report*[103]. Despite some shortcomings[104], including bias in favour of large firms[105] and concerns over labour protection[106], these indicators have been effective in drawing attention to the importance of reducing the burdens of business regulation and improving the investment climate.

For example, Austria and France have provided financial support (EUR two million and EUR one million respectively) to the 'Facility for Investment Climate Advisory Services' (FIAS)[107]. Implemented by the World Bank Group, the FIAS offers client governments a range of advisory services to assist them in improving the investment climate for domestic and foreign investors. Other important aspects of private sector development supported by Member States include initiatives aimed at facilitating access to financial services by MSMEs, such as micro-finance activities supported by Austria, Belgium and Latvia. Furthermore, France, Germany and Lithuania are also supporting capacity building programmes in partner countries.

Alongside promoting the development of the private sector in partner countries, EU donors are also striving to engage with private enterprises through different instruments in view of maximising development impact. Examples of activities and programmes of Member States include:

– Swedish Sida's 'Business for Development' (B4D) Programme, which presents a framework for, and an approach to, collaboration with private sector actors. The main instruments are challenge funds, Public-Private Partnerships and drivers of change. The objective is to stimulate private sector development and entrepreneurship in developing countries.
– Danida's Business Partnerships, aimed at facilitating the establishment of commercial partnerships that have a significant impact on development in poor communities. The aim is to create value both for partners and the local society.
– Finland has provided a grant amount of EUR 15 million to Finnfund (Finnish Fund for Industrial Cooperation), a development financing company which offers long-term risk funding for commercially profitable investments in developing and transition countries. The funded projects have development objectives, specifically for the increase in the production capacity.

Six Member States[108] are members of the 'Private Infrastructure Development Group' (PIDG) which aims at mobilising private investment in infrastructure, in order to increase service provision for the poor, boost economic growth and reduce poverty in the world's poorest countries.

As part of the new programming cycle for 2014-2020, the EU is considering new initiatives regarding private sector engagement for development, including possible support to the up-scaling of inclusive business models and other forms of private sector engagement in development through core business operations. This includes a preliminary analysis on a new set of Guiding Principles for engaging with the private sector.

3.1.4.2. Blending[109]

As mentioned in the 'Agenda for Change', the use of innovative financial instruments which blend EU grants with additional non-grant funds, such as loans and equity from financing institutions, is seen as powerful tool to leverage private sector support. Blending has the potential to address several factors that currently hold back private investment into projects with a strong developmental impact.

Since 2007, the EU, together with several Member States, has set up eight regional blending facilities. Currently, the Facilities mainly support public investment projects. The main bulk of all grants contributions approved since 2007 went to investments promoted by a public entity, although in recent years, the EU regional blending facilities have also increasingly supported local businesses through risk capital, loan guarantees and technical assistance to leverage private investment and commercial finance (representing 11% of grants committed to date).

The European Commission is currently working to extend the use of innovative financial tools such as risk capital and guarantees with a view of unlocking additional private investments and commercial finance for developmental projects, including in other sectors, such as transport and energy.

3.1.4.3. Corporate Social Responsibility[110]

Although it is difficult to assess and monitor the extent to which Corporate Social Responsibility (CSR) impacts sustainable development outcomes in developing countries, the EU has underlined the relevance of CSR in the context of the EU's external relations, including trade policy.

As a matter of fact, corporate social responsibility is increasingly present in trade agreements that the EU concludes. In as much as trade flows interface with investment in development, the fact that trade agreements contain CSR clauses will enhance a development cooperation potential that is sustainable.

The 2012 Communication on 'Social Protection in EU Development Cooperation'[111] states for instance that *'the EU's initiative on Corporate Social Responsibility can support the private sector in developing countries to implement relevant international guidelines in order to achieve more inclusive and sustainable growth and further development'*.

The EU and fourteen Member States[112] have supported (and/or are planning to undertake) initiatives aimed at promoting CSR principles. Such initiatives include:

- the development of national plans on CSR and business and human rights (as requested by the European Commission in its 2011 CSR Communication[113]);
- the participation in international initiatives such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, ILO Tripartite Declaration on Multinational Enterprises and Social Policy, the Extractive Industries Transparency Initiative (EITI) and the Kimberley process;
- policies linked to the UN Guiding Principles on business and human rights, and to CSR in trade and development; and
- support to capacity building and knowledge exchange programmes (e.g. on uptake of ISO 26000 guidelines).

A peer review of Member States' policies on CSR and their participation in related initiatives was initiated by the European Commission in 2012. The peer reviews aim at: 1) spurring the production by Member States of national action plans on CSR and national action plans on business and human rights, and 2) facilitating the production of an updated compendium of Member States' CSR policies and activities.

A central aspect of the EU Strategy on CSR is improving EU companies' disclosure of social and environmental information. Following up on the 2011 Communication and on the Single Market Act 1[114], the Commission has recently put forward a legislative proposal amending the existing rules in the Fourth and Seventh Accounting Directives in order to enhance the transparency and usefulness of the non-financial information disclosed by large companies and groups with more than 500 employees. The need to improve the quality of CSR disclosure via regulatory measures has also been recently highlighted by two resolutions from the European Parliament[115]. Moreover, the EU Strategy on CSR makes a commitment to monitor the pledges made by European enterprises with more than 1000 employees to take account of internationally recognised CSR principles and guidelines.

Human rights are an increasingly important aspect of corporate social responsibility, but until now there has been no practical guidance specifically for smaller enterprises. The 'UN Guiding Principles on Business and Human Rights'[116] define what companies and governments should do to avoid and address possible negative human rights impacts by businesses, but many challenges remain when it comes to the implementation of the Guiding Principles. In December 2012, the first UN Forum on Business and Human Rights, in which several EU Member States participated, was a first attempt at addressing some of the key trends and challenges in implementing the Guiding Principles.

The EU itself encourages and contributes to the implementation of the UN Guiding Principles. To this end, the European Commission is supporting a process to develop guidance for enterprises on the corporate responsibility to respect human rights, currently focusing on three business sectors (i.e. employment and recruitment agencies; ICT/Telecommunications; and oil and gas). The three practical guidance notes were published in June 2013[117] and are based on the UN Guiding Principles on Business and Human Rights[118].

The EU has also published an introductory guide to human rights for SMEs[119], available in 28 languages. Launched at the UN Forum on Business and Human Rights, this guide seeks to explain why human rights are relevant for European SMEs, and how they can address human rights risks.

3.2. Trade and Development

EU Commitments

The EU has consistently supported developing countries in using trade as a tool for development. As the impact of Trade policy on development is covered in a separate report on Policy Coherence for Development, it is not covered in detail in the current report, which concentrates on Aid for Trade (AfT)[120].

- ***Council Conclusions of 15 October 2007*** *laying down a joint 'EU Strategy on Aid for Trade: Enhancing EU support for trade-related needs in developing countries', focused on increasing volumes of Aid for Trade, especially to the poorest countries, and enhancing the impact of this support. One of the commitments was to collectively spend EUR two billion annually on Trade-Related Assistance by 2010 (EUR one billion from MS and the Commission respectively). In the range of 50% of the increase should be made available to ACP countries.*
- ***Council conclusions of 15 June 2010****, §24: The EU and its Member States have already reached their collective target to spend EUR 2 billion annually on Trade Related Assistance, and their total Aid for Trade has reached record high levels of EUR 10.4 billion. The Council calls upon them to sustain their efforts, and in particular to give increased attention to LDCs and to joint AfT response strategies and delivery. (...) In particular, the Council calls on the EU and its Member States to reach agreement on regional Aid for Trade packages in support of ACP regional integration, under the leadership of the ACP regional integration organisations and their Member States, and involving other donors.*
- ***Council Conclusions of 16 March 2012****, §28: Confirming that the EU and its Member States should continue to lead global efforts to respond to the Aid for Trade demands, and calling on the Commission and Member states to continuously review the EU's Aid for Trade strategies and programmes, taking into account lessons learned and focusing on results; §29: Recognising the need for better targeted, result-oriented and coordinated Aid for Trade as part of the aid and development effectiveness agenda, as agreed in Busan, by encouraging developing*

countries to integrate trade as a strong component in their development strategies, enhancing the complementarity and coherence between trade and development instruments, focusing on LDCs and developing countries most in need and increasing the engagement of the private sector; §30: Calling on the Commission and Member States to better coordinate their aid for trade, and to align it behind the development strategies of partner countries, supporting efforts to integrate the inclusive and sustainable growth dimension in these strategies, keeping in mind the importance of capacity building.

- ***Council Conclusions of 15 October 2012**, §4: The EU will continue work to deliver more focused, targeted and coordinated Aid for Trade in line with the EU's Agenda for Change and with robust monitoring and evaluation framework.*

3.2.1. Introduction

Trade is an essential engine of growth and one of the principal sources of revenue for developing countries. Although trade revenues are not a source of development finance *per se*, trade can help boost development and reduce poverty by generating growth through increased commercial opportunities and investment, as well as broadening the productive base through private sector development. Between 2000 and 2008, GDP per capita increased from EUR 353 to over EUR 433 in LDCs. Much of this can be attributed to an increase in trade and foreign investment[121].

While many developing partners have furthered their integration into the world economy and global trade order and have increased their competitiveness, others, in particular LDCs, continue to lag behind and risk further marginalisation.

The new EU policy framework for trade, growth and development, adopted in 2012, aims precisely at focusing efforts on LDCs and other developing countries most in need. It acknowledges the need for more differentiation among developing countries in order to better reflect their differences in needs, potentials and objectives.

In line with the EU PCD commitments, the EU has also strived to improve the coherence and complementarity between the EU's trade and development policies. The forthcoming EU Report on PCD will take stock of progress in that area.

3.2.2. Implementation Table

The table below summarises progress made in 2012 in implementing the EU commitments on Trade and Development. Further details are discussed in the main text.

EU Commitment	Target date	Status[122]	Comment
Increase collective TRA to EUR 2 billion a year by 2010 (EUR 1 billion from MS; EUR 1 billion from Commission). Around 50% of the increase to be available to ACP countries.	2010		Collective EU TRA commitments reached EUR 2.8 billion in 2011; EU collective wider AfT amounted to EUR 9.5 billion. TRA to Africa increased by 50% in 2011 as compared with 2010.
Sustain EU and MS efforts, giving increased attention to LDCs and joint AfT response strategies and delivery	No date specified		Active participation in the EIF, a multi-donor programme to help LDCs become more active in the global trading system. The proportion of EU collective AfT going to LDCs increased from 16% in 2010 to 19% in 2011. However, these shares are much lower than those of non-EU DAC donors.
Reach agreement on regional AfT packages in support of ACP	No date specified		In terms of total volume, regional AfT is growing faster

EU Commitment	Target date	Status[122]	Comment
regional integration, under the leadership of the ACP regional integration organisations and their Member States, and involving other donors			than overall AfT. In 2011, the EU and MS committed EUR 726 million to ACP regional programmes and projects (8% of collective EU AfT, as compared with 4% in 2008). EUR 642 million were committed to Sub-Saharan Africa alone. Challenges were encountered with respect to the absorption capacity and performance of some regional organisations and their capacity to effectively coordinate donors.
Continuously review the EU's AfT strategies and programmes, taking into account lessons learnt and focusing on results	No date specified		The EU is active in the International Policy Dialogue on Aid for Trade in the OECD (latest meeting in January 2013) and WTO (next Global Aid for Trade Review in July 2013). Regular discussions are held with MS and an EU monitoring report on AfT is published annually as part of this Accountability Report.
Enhance the complementarity and coherence between trade and development instruments, focusing on LDCs and developing countries most in need, and increasing private sector involvement	No date specified		The Trade, Growth and Development Policy adopted in 2012 enhances complementarity and coherence and takes a differentiated approach to LDCs and other developing countries most in need. The new GSP adopted by the EU in 2012 focuses on countries most in need, strengthens the GSP+ as an incentive to good governance and sustainable development and makes the scheme more transparent, stable and predictable.
Better coordinate EU AfT, and align it behind the development strategies of partner countries	No date specified		38% of the respondents to a survey carried out in 2013 among EU Delegations and EU MS field offices in developing countries (see AfT report in Annex) believe that there have been moderate improvements in coordination (including through joint needs assessments, implementation and monitoring/evaluation).

3.2.3. *Recent Trends*

Over the period 2005-2011, the volume of world merchandise trade grew by an average of 3.7% annually – despite a sharp downturn in 2009. Growth rates over this period have been much higher for many developing countries and for LDCs in particular with an average of 4.6% annual increase[123].

Total volumes of developing countries' exports of goods and services revenues are only marginally smaller than finance for development flows, and larger for middle income than for low income countries.

Developing countries, in particular LDCs, have made measurable progress in their participation in the global trading system. However, for many LDCs this participation still remains too narrowly focused on a limited range of exports (often primary commodities). In addition, prospects for further integration into the global economy continue to be hampered by a range of supply-side and trade-related infrastructure constraints.

LDCs still remain on the margin of global trade: they only account for 1.12% of global exports (despite a 23.9% increase of the value of their exports in 2011 compared to 2010)[124], attract little Foreign or Domestic direct investment, and are locked into supplying a narrow range of goods and services.

3.2.4. EU Policies and Programmes

3.2.4.1. Trade Policies

The EU is the largest trading partner of developing countries and the market most open to them. It accounts for 15.5% of their total trade. According to Eurostat, EU imports of goods and services from ACP countries amounted to over EUR 113 billion in 2011.

The main EU trade preference programme for developing countries is the Generalised Scheme of Preferences (GSP), which provides reduced tariffs for their goods when entering the EU market. The GSP covers three separate regimes:

- The 'standard' GSP, which currently provides 176 developing countries and territories with preferential access to the EU;
- The special incentive arrangement known as 'GSP+', which offers additional tariff reductions to support vulnerable developing countries in the implementation of international conventions in the areas of human rights, labour rights, environment and good governance.
- The 'Everything but Arms' arrangement (EBA), under which all products from LDCs, except arms and ammunitions, can enter the EU market at zero tariffs and without quotas.

In 2011, imports that received GSP preferences were worth EUR 87 billion, which represents around 5% of total EU imports and 11% of the total EU imports from developing countries.

On 31 October 2012, the EU has adopted a new GSP which will come into effect in 2014. The scheme was reformed in order to better pursue the main goal of supporting economic growth in developing countries according to their development, trade and financial needs. As a result, the new GSP is focused on countries which are most in need of it, i.e. on poorer beneficiaries (89 countries: 49 LDCs in the EBA scheme, and 40 other low and lower-middle income partners), via the deferral of preferences for countries which are already competitive or have a better access to the EU market thanks to bilateral agreements. At the same time, thanks to the new GSP+ arrangement, more support and incentives are provided to countries effectively implementing international human rights, labour rights and environment and good governance conventions. The scheme, that will last ten years instead of the customary three years, is also more transparent, stable and predictable.

In January 2013, the European Commission issued a comparative analysis[125] of EU and US trade preferences for the LDCs and the AGOA[126] beneficiaries, presenting product and country coverage of the preferences and a detailed analysis of the structure of EU and US imports from the two groups of beneficiaries. The analysis shows that: (i) a larger share of EU imports benefits from duty-free tariffs compared to the US, (ii) the EU's EBA initiative offers duty-free and quota-free entry to all products from the LDCs (except arms and ammunition), while the US extends preferences to three quarters of all imports (with figures on par for the AGOA beneficiaries), (iii) EU preference schemes are better utilised, and (iv) the EU imports more goods duty free than does the US.

3.2.4.2. EU Aid for Trade

An estimated EUR 151 billion[127] have been mobilised globally since the launch of the Aid for Trade (AfT) initiative in 2005. AfT resources have grown by more than 80% and reached approximately EUR 34 billion in 2010, with a third of that share going to LDCs. This figure would increase further if the trade-related assistance and wider aid for trade offered by South-South partners was included.

Progress has been made not just in terms of the amounts of money committed, but also in terms of results. For example, it has been estimated that a 10% increase in Aid for Trade spending on infrastructure has led to a 6.5% increase in goods exports[128].

The EU and its Member States are collectively the major contributor to AfT programmes worldwide, accounting for around a third of total worldwide Aid for Trade in 2011. The EU collective wider AfT commitment amounted to EUR 9.5 billion in 2011. With a decrease of -11% in 2011 (after an increase of 17% in 2010), this growth rate is far below the average annual growth rate recorded by the EU and its Member States since 2002 (+10%) but less than the global decline of -16% in 2011. The decline in EU collective AfT in 2011 was not an isolated phenomenon. In fact, the reduction remained far below those of the USA (-41%) and Japan (-20%).

AfT remains concentrated in some EU Member States (Germany, France, UK, Spain and the Netherlands) and EU institutions. The two most important donors, accounting for almost 60% of EU collective AfT in 2011, were Germany (EUR 2.7 billion) and the Commission (EUR 2.7 billion). The EU has met the 2010 G20 Seoul commitment[129] to (at least) maintain AfT levels at the average of 2006-2008.

Although Africa saw the largest decrease in AfT observed in 2011, it remains the most important recipient of collective EU AfT programmes, accounting for almost 36% of EU AfT flows. There has also been a clear downward trend of the share of AfT commitments dedicated to LDCs and ACP since 2000. For instance, the share of EU collective AfT to LDCs has declined after having remained stable in the period 2006-2009. Commitments to LDCs accounted for 24% of EU collective AfT in 2008 (EUR 2.3 billion) and they now represent only 19% of the total (EUR 1.7 billion). ACP States have also been affected by this negative trend, from 44% of the total in 2005 to less than 35% in 2011. There is however an exceptional and substantial increase in the share of programmes dedicated to these countries in 2011 (with respectively 34% of AfT dedicated to ACPs and 19% dedicated to LDCs).

Over 90% of EU collective AfT commitments are focused on two broad categories: trade related infrastructure (43% of the total since 2001), and building productive capacity (49% of the total since 2001). There are strong similarities in the structure of AfT by broad category between the EU and its Member States, albeit covering different sectors. The EU is more specialised on agriculture, transport and storage and trade policy, while EU Member States are more involved in energy, banking and financial services, business and other services.

The EU and its Member States participate in several donor coordination fora such as the 'International Policy Dialogue on Aid for Trade' in the OECD and the WTO Global Aid for Trade Reviews. The EU and its Member States have also set up an experts group in order to better coordinate EU AfT and align it behind partner countries' priorities. 38% of the respondents to a survey carried out in 2013 among EU Delegations and EU MS field offices in developing countries (see AfT report in Annex) believe that there have been moderate improvements in coordination (in terms of joint needs assessments, joint implementation, and joint monitoring/evaluation).

The EU is also a strong supporter of, and active participant to, the 'Enhanced Integrated Framework' (EIF), a multi-donor programme housed in the WTO Secretariat supporting LDCs to be more active players in the global trading system by helping them tackle supply-side constraints to trade. The programme is currently helping 47 LDCs worldwide, supported by a multi-donor trust fund, the EIF Trust Fund, with contributions from 23 donors including the EU and several EU Member States[130]. The European Commission has pledged EUR 10 million to the EIF Trust Fund and provides support on the ground by taking the role of a 'facilitator' in several LDCs.

3.3. Remittances for Development

EU Commitments

- *The Council has repeatedly committed to reduce the cost and improve the safety of transfers and to further work to enhance the impact of remittances on development (e.g.* ***Council Conclusions of 18 May 2009****, §11). It has committed to 'adopt General principles for International Remittances Services agreed by the Committee on Payments and Settlements Systems (CPSS) and operational definitions and recommendations allowing the improvement of data on remittances' (Council conclusion of 11 November 2008, §27). The Council also committed 'to ensure that relevant legislation does not contain provisions hampering the effective use of legal remittances channels' (Council conclusions of 18 November 2009, §10).*
- ***Council Conclusions of 29 May 2012****, §27: The Council reaffirms the need to ensure faster, easier and cheaper remittance transfers and enhance the impact on development of social and financial remittances, while ensuring coherence with other development priorities.*
- ***Council Conclusions of 15 October 2012****, §5: Remittances are a key private source of financing for developing countries. The EU recalls the G8 and G20 goal of reducing the average cost of transferring remittances from 10% to 5% by 2014 and reaffirms the need to ensure faster, easier and cheaper remittance transfers, in line with the 29 May 2012 Council Conclusions, to maximise the development impact of migration and mobility.*

3.3.1. Introduction

Remittances are cross-border, person-to-person financial transactions of relatively low value. Even if often indistinguishable from any other low-value cross-border transfers, remittances are typically recurrent transfers sent by migrants to their families in the country of origin. Remittances are vitally important for recipients and their communities, as a source of income (providing disposable funds), for developing country governments, as a valuable inflow of funds, as well as for banks in recipient countries (by providing foreign currency and access to new potential customers).

Over the past 15 years, remittances have largely outpaced global development aid to developing countries and they proved to be more resilient than foreign direct investment during the crisis. However, persistent unemployment in Europe and the narrowing of migration entry channels present serious downside risks.

3.3.2. *Implementation Table*

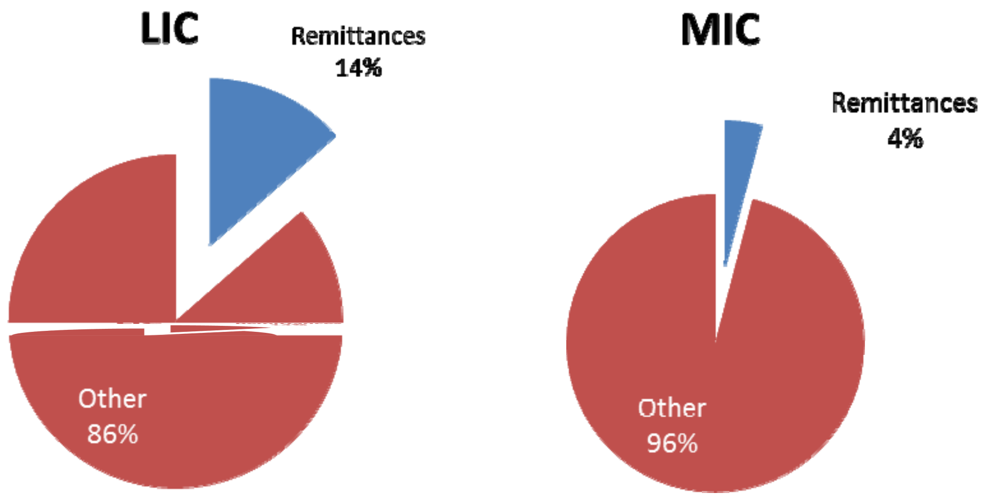
The table below summarises progress made in 2012 in implementing the EU commitments on Remittances for Development. Further details are discussed in the main text.

EU Commitment	Target date	Status[131]	Comment
Enhance the development impact of remittances	No date specified		The EU and several MS have launched initiatives to train migrants and foster migrants' savings and diaspora investments in their countries of origin.
Reduce the average cost of transferring remittances from 10% to 5% by 2014	2014		The average cost of sending remittances from the EU is estimated at 10.6% of the amount sent – higher than the global average of 9.1% and only marginally lower than the EU average of 11.71% in Q3 2008, when monitoring of remittance costs started.

3.3.3. *Recent Trends*

Remittances to developing countries represented a significant share of the overall development finance available for low income countries in 2010, as shown in Figure 3.3.3, while it was more marginal for middle income countries.

Figure 3.3.3 – Remittances to Developing Countries as a Share of Total Resource Flows of Low-Income (LIC) and Middle-Income Countries (MIC) in 2010



Officially recorded remittance flows to developing countries were estimated by the World Bank[132] to be close to EUR 312 billion in 2012 (an increase of 5.3% compared to 2011). Remittances to developing countries are projected to grow by 8.8% annual rate during 2013 - 2015 to about EUR 400 billion in 2015.

Global trends show that remittance flows are predominantly going to low and lower middle income countries. Among the top ten countries in terms of value of remittances received, one is low income (Bangladesh), six are lower middle income (India, Philippines, Nigeria, Egypt, Pakistan, Vietnam), and three are upper middle income (China, Mexico, Lebanon).

The primary body responsible for collecting remittances data at the EU level is Eurostat. While World Bank estimates are based on migrant stocks in each country and their income, Eurostat obtains and consolidates remittances data from each Member State's balance of payment statistics. However, the way that data is collected in individual countries varies considerably and some Member States do not collect remittances data at all. Moreover, World Bank statistics include both remittances (i.e. transfers made by migrants who are residents of the host country) and workers' compensation (i.e. transfers made by non-residents), while Eurostat covers only remittances. The two sources therefore differ, with the latter being much more conservative.

World Bank figures for EU remittances to developing countries in 2011 amount to EUR 46.7 billion. According to Eurostat, remittances from the EU amounted to EUR 39.2 billion in 2011, up by 2% compared with 2010. This total includes both intra-EU27 and extra-EU27 flows. Extra-EU27 flows of workers' remittances, which represented nearly three quarters of the total, grew by 3% to reach EUR 28.5 billion, while intra-EU27 flows remained relatively stable at EUR 10.7 billion.

Among the Member States for which data are available, the outflow of workers' remittances in 2011 was highest from France (EUR 9.7 billion, or 25% of total EU27 remittances), Italy (EUR 7.4 billion, or 19%), Spain (EUR 7.3 billion, or 19%), Germany (EUR 3 billion, or 8%) and the Netherlands (EUR 1.5 billion, or 4%). Among these five Member States, the share of extra-EU27 remittances in the total ranged from 64% in France to 83% in Italy.

3.3.4. EU Policies and Programmes

The EU and its Member States have undertaken a number of remittance related initiatives over recent years and some improvements have been made. However, there is still a significant amount of work to be done if the commitments made by the EU and its Member States over the last five years with respect of remittances are to be met.

In 2012, the Commission published a report[133] assessing the state of play of the EU commitments on remittances. The study addressed a variety of themes, such as data collection, transparency and competition, transfer prices, development impact of remittances and policy coherence.

The report confirms that there has been significant progress towards facilitating remittance transfers from Europe. In particular, the regulatory and operational environment for remittance transfers has been improved, and the price of transfers has been reduced by a small amount. The Payment Services Directive (PSD) – which provides the legal basis of a single European market for payments by promoting competition and strengthening market transparency - has considerably improved the payment environment, notably by increasing the number of businesses that can offer remittances services.

However, the report also points to the need for Member States to take further measures to improve the quality and comparability of remittances data. Several EU Member States are already taking measures to improve the data collection of remittances as part of their Balance of Payments statistics.

The introduction of the PSD has also resulted in greater reporting requirements for money transfer operators (MTO). Accurate data on the volume of remittance flows helps to make informed decision-making and design appropriate development initiatives. However, until now there has been no real connection between the PSD and data collection. It is expected that leveraging the reporting requirements of the PSD could lead to more accurate data collection.

In order to improve data collection, a new EU Regulation on Community Statistics concerning balance of payments, international trade in services and foreign direct investment stipulates that the reporting of annual data on remittances with full geographical breakdown will be mandatory as of 2014.

Moreover, the report recommends that the Payment Services Directive be broadened to include transactions that are sent to countries outside of the European Economic Area (EEA) - the PSD is currently only binding for intra-EEA transfers. Some EU Member States have already chosen to extend its reach to transactions where one of the parties is located outside the EEA.

A full review of the PSD was conducted by the Commission in 2012 to evaluate the impact of the PSD and identify areas that should be addressed. Results of the review process suggest that the PSD may need to be revised; both to adjust some of its provisions to take into account the lessons from experience since its entry into force, and to cater for the latest market developments and innovation in retail payments. A revision of the PSD therefore features as one of the main levers in the Single Market Act II, presented in mid-2013.

3.3.4.1. Reducing the Cost of Remittances

In 2011, the G20 committed to reduce the cost of remittances from a global average of 10% to 5% by 2014[134]. According to the World Bank[135], the worldwide average remittance cost in the first quarter of 2013 was 9.05%, while they are averaging 7.5% in the top 20 remittance corridors. It is estimated that if the 5% reduction were achieved, up to an additional amount of EUR 12 billion a year would become available to citizens in developing countries.

Much still has to be done within the EU to reduce transfer costs to 5% by 2014. According to the above-mentioned report, the average price in 2012 for sending remittances from the EU was estimated at 10.6% of the sent amount; higher than the global average of 9.1% and a little lower than the EU average of 11.71% in Q3 2008. Remittance prices vary considerably within the EU depending on the countries they are being sent from and to, the method that is used, and the speed of the transfer.

Several EU Member States[136] have indicated that they are taking action towards reducing the cost of remittances, in line with the G20 commitment. For example, Italy has abolished a tax on remittances towards extra-EU countries, while the Dutch Minister for Trade and Development Cooperation has promised to take up the subject with the banking sector.

Five Member States[137] have also set up website portals to facilitate the comparison of transfer costs through different operators. Sweden is considering doing likewise.

The role of recipient countries must not be overlooked. Public authorities in recipient countries can also significantly contribute to reducing remittance costs through measures aimed at improving the efficiency of their payment system infrastructure as well as ensuring competitive market conditions. Receiving countries are also important potential providers of data, notably on informal remittances. More attention should therefore be paid to support measures addressing these challenges.

Although they account for approximately 40% of remittances received by developing countries, South-South remittance flows have been overlooked. As a matter of fact, remittance flows to Africa mainly originate elsewhere in Africa rather than in other continents. It is estimated that about 67%[138] of incoming flows to Africa come from migrants living in other African countries, with the majority of these flows being informal.

Remittance costs can be very high in other regions of the world. This is particularly true for Africa, with an average percentage cost of sending money to (or within) Africa close to 12% in January 2013[139]. The World Bank's database 'Send Money Africa'[140] shows that the ten most expensive corridors globally were all intra-Africa, with the top five originating from South Africa and rates as high as 25%.

3.3.4.2. Enhancing the Development Impact of Remittances

As highlighted in a 2011 report by the OECD[141], migration poses a number of challenges that need to be addressed. One of them concerns the dependency remittances can create for the recipient families. It is thus essential to promote the channelling of remittances flows towards a more informed and productive use.

The EU and several Member States have undertaken initiatives to this end. For example, the German GIZ has published a 'Handbook on Financial Literacy for Remittances and Diaspora investment', collecting different methodologies of financial literacy activities targeting migrants and recipient families. The purpose of the handbook is to guide the design of development projects that support increased financial inclusion and independence of migrants and their families; link remittance flows to other financial products/services (savings, insurance, loans); and foster migrant savings and Diaspora investments in their countries of origin.

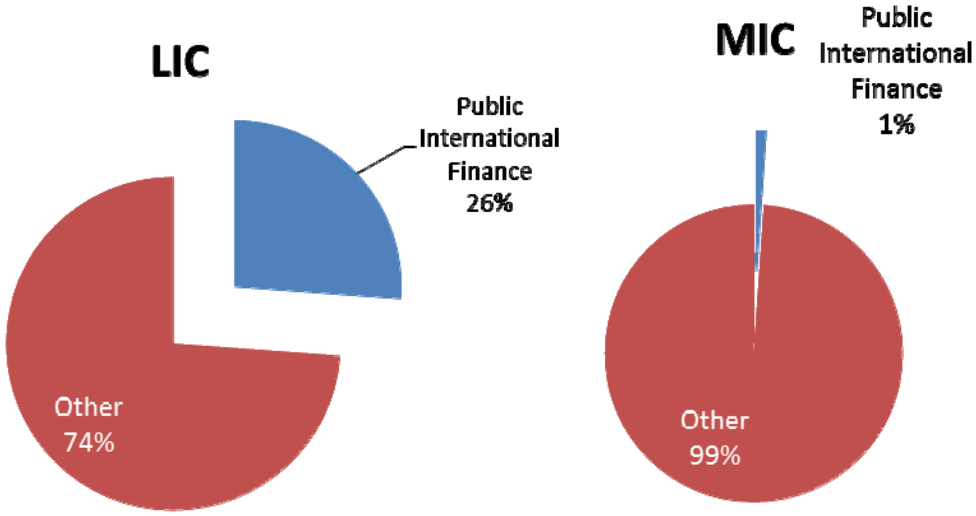
Other Member States (Italy, Belgium and the Netherlands) have set up capacity building and training programmes to mobilise and support Diasporas in setting up businesses in their countries of origin.

4. International Public Finance for Development

4.1. Introduction

International public finance has been a stable and increasing source of finance at the global level but volatile at the country level. While the situation varies at country level, it is overall of little importance to MICs, accounting for only 0.4% of their GDP and 3% of foreign resource flows. At the same time, it remains an important source of finance for LICs, where it accounts for around 12% of GDP and 60% of foreign resource flows. The potential of significant increases in ODA is low, due to the current recession and limited increases in the national budgets of donor countries, but existing sources can be better used.

Figure 4.1.1 – International Public Finance Flows as a Share of Total Resource Flows of Low-Income (LIC) and Middle-Income Countries (MIC) in 2010



There are two types of commitments relating to international public finance for development: those concerning the quantity and volume of flows and those concerning their quality and effectiveness. **Quantitative commitments are the subject of this chapter, while qualitative commitments are analysed in Chapter 6.** As the focus of this chapter is on quantitative targets, EU policies or programmes will not be reviewed, unless they have a direct bearing on such quantities. The chapter will end with a brief discussion of the current debate on the ODA concept as it has a direct impact on the future of existing collective and individual ODA targets.

Numerous commitments have been made in terms of increasing and distributing the quantity of public finance for development and for tackling global challenges and their impact on developing countries. Most of them concern a subset, Official Development Assistance or ODA, which comprises official loans of concessional character and grants used for development purposes. EU Member States and other donors have agreed to global targets for ODA to developing countries, expressed as shares of their GNIs, and to a subset of targets concerning aid to specific groups of countries (e.g. LDCs, Africa, or Sub-Saharan Africa) or for specific purposes (e.g. aid for trade, Fast Start Climate Finance). Other quantitative targets were set for additional public finance for global goals (e.g. climate change adaptation and mitigation activities), but are not necessarily funded through ODA.

The concept of ODA itself is under discussion, as many feel the need to broaden its definition and/or to monitor the full breadth of public financial flows to developing countries, even at less than concessional terms, provided they have a developmental focus. The terms under which public finance is provided are also crucial. Lending has gained prominence in the debate about different development financing instruments. According to some studies, grants have a tendency to substitute (instead of adding to) domestic revenues, while loans are associated with stronger domestic revenue mobilisation[142]. While the shift towards lending instruments helps to frontload development spending, it also needs to be accompanied by measures to ensure debt sustainability of the borrower.

4.2. Official Development Assistance (ODA)

EU Commitments

- ***ODA Levels****. In 2002, the EU and its Member States adopted joint commitments on ODA increases. These commitments were further developed and broadened, and endorsed by the European Council in 2005 ahead of the UN World Summit that undertook the first review of progress on the Millennium Declaration and the MDGs. Then, the EU and its Member States agreed to achieve a collective ODA level of 0.7% of GNI by 2015 and an interim target of 0.56% by 2010, both accompanied by individual national targets. The EU Member States agreed to increase their ODA to 0.51% of their national income by 2010 while those countries which had already achieved higher levels (0.7% or above) promised to maintain these levels. The Member States that acceded to the EU in or after 2004 (EU12) promised to strive to spend 0.17% of their GNI on ODA by 2010 and 0.33% by 2015.*
- *The commitment to these goals has been repeatedly confirmed by the Council, most recently in the Council Conclusions of 15 June 2010 on the Millennium Development Goals, the Conclusions of the European Council of 17 June 2010, the Environment Council Conclusions of 9 March 2012 on Rio+20, the Council Conclusions of 14 May 2012 (on the Annual Report 2012 to the European Council on EU Development Aid Targets), the Council Conclusions of 14 May 2012 (on Agenda for Change), the European Council Conclusions of 8 February 2013 and the* ***Council Conclusions of 29 May 2013*** *(on the Annual Report 2013 to the European Council on EU Development Aid Targets).*
- *The* ***European Council Conclusions of 8 February 2013*** *reaffirmed that the 0.7% goal was a key priority, adding that 'the European Union should as part of this commitment therefore aim to ensure over the period 2014-2020 that at least 90% of its overall external assistance be counted as official development assistance according to the present definition established by the OECD Development Assistance Committee (DAC).'*
- ***Predictability of ODA increases.*** *The Council has also stressed the importance of increasing predictability of the ODA increases through national multiannual planning. In 2007, the Council invited Member States concerned to introduce such timetables by the end of 2007. In* ***November 2008 and May 2009*** *this call was reiterated and the deadline extended to the end of 2010.*
- *In its* ***Conclusions of 15 June 2010*** *(§30)* ***and 14 May 2012*** *(on the Annual Report 2012 to the European Council on EU Development Aid Targets) (§5b), the Council asked Member States to take realistic, verifiable actions for meeting individual ODA targets by 2015 and to share information about these actions and, within the budgetary processes of the Member States, to share information on their planned ODA spending for the next budgetary year as well as the intentions for remaining period until 2015.*
- ***ODA to Africa.*** *In addition the EU committed in* ***2005*** *to: (a) increase ODA to Sub-Saharan Africa and (b) provide 50% of the ODA increase to Africa as a whole (North Africa and Sub-Saharan Africa).*
- ***ODA to LDCs.*** *In* ***2008*** *the EU collectively also committed to provide between 0.15 and 0.20% ODA/ GNI to the Least Developed Countries by 2010[143].*

4.2.1. Introduction

Although the goal of allocating annually 0.7% of GNI to ODA is accepted by all DAC donors except the United States of America, only EU donors and Norway have set a date to achieve it, transforming the long-standing UN 0.7% goal, considered by many as aspirational, into an achievable, time-bound target. The EU decided to move forward and achieve this goal in steps within 15 years (2000 – 2015), in line with the set deadline for reaching the MDGs, and based on a mix of individual and collective intermediate targets. The first intermediate EU ODA objectives were defined in 2002 during the preparation for the Monterrey International Conference on Financing for Development, based on the EU's ODA levels in 2000.

4.2.2. Implementation Table

The table below summarises progress made in 2012 in implementing the EU ODA commitments. Further details are discussed in the main text.

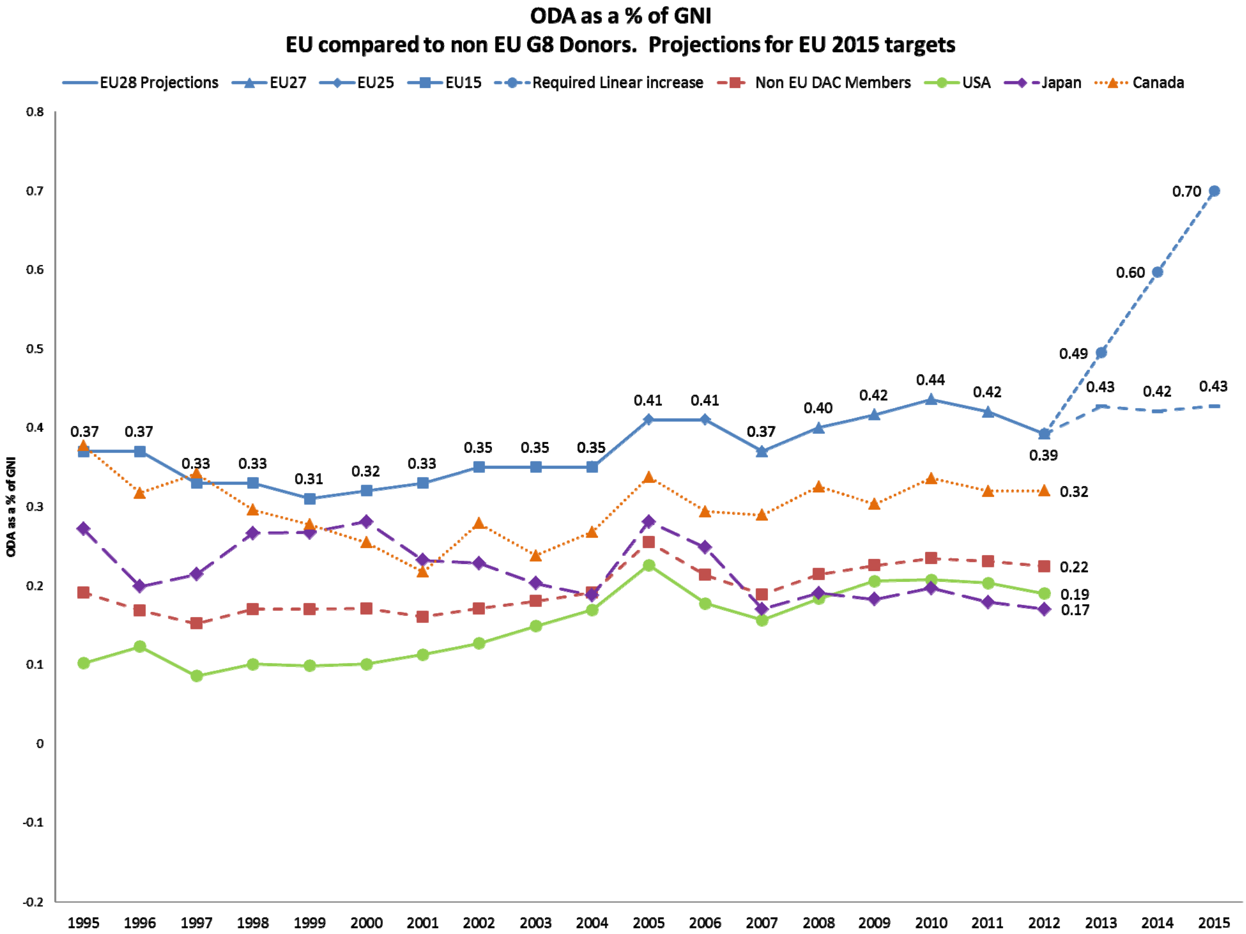
EU Commitment	Target Date	Status[144]	Comment
The EU and MS agreed to achieve a collective ODA level of 0.7% of GNI by 2015	2015		The EU ODA/GNI ratio is projected to reach 0.43% by 2015.
Take realistic, verifiable action to meet individual ODA targets by 2015 and share information about this action	No date specified		22 MS provided information on 2013 financial year allocation, but limited information was provided on realistic/verifiable action.
Increase collective ODA to Sub-Saharan Africa	No date specified		2012 EU ODA to Sub-Saharan Africa increased as compared with 2004.
Provide 50% of the collective ODA increase to Africa as a whole	No date specified		Only 7% of total EU ODA growth between 2004 and 2012 went to Africa.
Provide between 0.15% and 0.20% of collective ODA/ GNI to LDCs by 2010	2010		EU ODA/GNI to LDCs was 0.14% in 2010, 0.13% in 2011, and 0.12% in 2012.

4.2.3. Recent Trends

4.2.3.1. EU ODA Performance 2005-2012 compared to other donors

The EU's combined efforts are already delivering substantially greater amounts of ODA than non EU donors, and individual EU countries (with a few exceptions) are still making greater efforts in relative terms, although the gap is narrowing.

Figure 4.2.3a –ODA/GNI by Donor (% and EUR million, current prices)



Source: OECD/DAC and European Commission

Table 4.2.3a – ODA/GNI and ODA per capita of EU Member States and Non-EU DAC Members

Donor	ODA per capita (EUR)			ODA/GNI (%)			ODA (EUR Billion)		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
EU	107	105	100	0.44	0.42	0.39	53.5	52.8	50.6
Non EU DAC Members	79	79	85	0.23	0.23	0.22	44.4	44.6	48.1
USA	74	71	75	0.21	0.20	0.19	22.9	22.2	23.7
Japan	65	61	64	0.20	0.18	0.17	8.3	7.8	8.2
Canada	115	113	126	0.34	0.32	0.32	3.9	3.9	4.4

Source: OECD/DAC and European Commission

As shown in **Figure 4.2.3a** and **Table 4.2.3a**, both **the EU's per capita ODA and its ODA/GNI ratios are greater than those of non-EU DAC Members**. Indeed, its ODA/GNI ratio is more than double that of Japan and the USA. Collectively, the EU outperforms most other donors by a wide margin. The USA, Japan and Switzerland have higher per capita income than the average for EU Member States but much lower per capita ODA. The US GNI is close to 90%of the EU27 GNI, but US ODA represents less than half of EU ODA. It is clear that most of the gap to achieving the 0.7% target lies outside the EU. However, the gap between EU and non EU DAC Members has been narrowing since 2010, because the former are reducing their ODA efforts while the latter are keeping theirs essentially stable, as shown in Table 4.2.3. The difference between EU and non EU DAC averages for ODA/GNI ratios has fallen from 0.21 in 2010 to 0.17 in 2012.

4.2.3.2. Performance on ODA targets (2005-2012)

ODA figures on 2012 net disbursements are preliminary, based on information provided by EU Member States and the European Commission. For those EU Member States that report to the OECD/ DAC, final and more comprehensive ODA figures will become available at the end of 2013.

EU collective ODA spending in 2012 was EUR 55.2 billion (0.43% of the European Union's GNI), compared to EUR 56.3 billion (0.45% of GNI) in 2011. A significant amount of EU Institutions' ODA (EUR 4.5 billion equivalent to 0.04% of EU GNI) is not imputed as ODA to EU Member States by the DAC Secretariat. As a consequence, the **ODA spending of the twenty-eight Member States** (i.e. the sum of ODA imputed to them) in 2012 was EUR 50.6 billion, equivalent to an ODA/GNI ratio of 0.39%, continuing the previous year's decline from 0.44% in 2010 to 0.42% in 2011. The reduction in nominal terms was of EUR 2.2 billion (-4%).

The downward trend of EU aggregate ODA spending started in 2011, and accelerated in 2012, with a rate of decrease in ODA/GNI ratios expanding from 0.02% of GNI between 2010 and 2011, to 0.03% of GNI between 2011 and 2012.

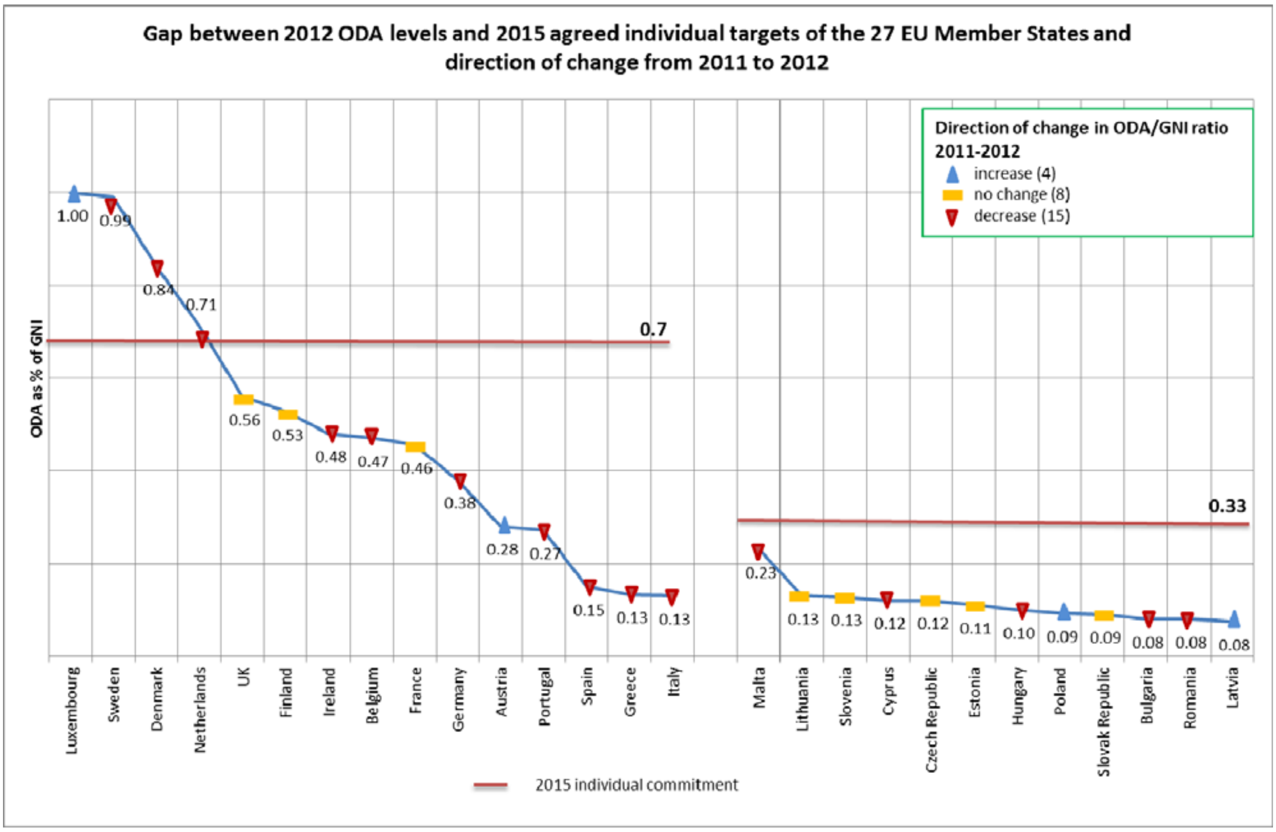
Since the EU took its first time-bound ODA commitments in 2002, EU aggregate ODA fluctuated, but overall was on an upward trend until 2010. Since then, EU aggregate ODA has been declining in both absolute and relative terms, and the speed of this decline accelerated in 2012. In real terms, EU aggregate ODA is back to its 2005 levels. However, one third of the reduction between 2011 and 2012 was due to lower debt relief, which accounted for 26% of EU ODA at its peak in 2005 and only for 2% in 2012.

– Since 2008, EU Member States have been hardly hit by the financial crisis, triggering the deepest global economic recession in decades. State-financed rescue packages for the affected banking sector, higher social protection costs and lower budget revenues have dramatically changed the fiscal situation in many Member States. Low or negative economic growth rates in the EU as a consequence of the crisis, and the related austerity measures that Member States introduced, led to pressures on ODA.
– Through the first three years of the crisis, the EU's aggregate ODA spending continued to increase, but eventually succumbed to the pressure in 2011 and 2012, resulting in a reversal in the slow trajectory of scaling up to meet 2015 targets.

The 2012 decline in ODA by EUR 2.2 billion was the result of an overall negative performance by most Member States. In nominal terms, fifteen Member States reduced their ODA by a total of EUR 3.2 billion, while twelve Member States increased theirs by a total of EUR 1.0 billion, although most of these increases were due to fluctuations in the exchange rate between their national currencies and the Euro[145]. ODA budget cuts in Spain (EUR 1.5 billion), Italy (EUR 1.1 billion), the Netherlands (EUR 0.3 billion), and Belgium (EUR 0.2 billion) accounted for 94% of the total reduction in EU ODA spending. Only Austria, Luxembourg, Latvia and Poland increased their ODA/GNI ratios between 2011 and 2012, as shown in Figure 4.2.3b.

Looking at overall developments since 2004, six Member States now have lower ODA/GNI ratios than at the beginning of the period under consideration. Four Member States (i.e. Greece, Italy, Portugal and Spain) reduced their ratios from an initially low level, while the remaining two (Denmark and the Netherlands) had ratios above the 2015 collective target of 0.7% both at the beginning and the end of the period. Only Greece, Portugal and Spain had also ODA volumes at current prices that were lower in 2012 than in 2004.

Figure 4.2.3b – Gap between 2015 targets and 2012 results [146]



Source: OECD/DAC and European Commission (EU annual questionnaire on Financing for Development)

There is limited information available on the **predictability EU ODA**. In both the 2011 and 2012 EU Accountability Reports, one-year EU ODA/GNI ratio projections were relatively accurate but slightly optimistic: 3% higher than the actual ratio in 2011, and 6% higher in 2012. The two-year projection included in the 2011 Accountability Report was 11% higher than the actual EU ODA ratio of 2012.

An OECD/DAC Survey[147] – carried out in July 2012 – revealed that ten Member States[148] and the Commission provide 3-5 year plans for country programmable aid, but only the Commission, Sweden and the United Kingdom do so for all partner countries.

4.2.3.3. Achievement of the 0.7% ODA/GNI Target by 2015

Based on the projections provided by Member States and/or estimates prepared using their 2006-2012 compound annual growth rate[149], the EU28 ODA is expected to increase to 0.43% of GNI by 2015, below the level reached in 2010 and almost 40% below the 0.7% target. Considering the expected GNI growth rate until 2015, reaching the 0.7% ODA/GNI target would require the EU and its Member States **to almost double their current ODA in nominal terms from EUR 50.6 billion today to EUR 97.1 billion by 2015**. **Figure 4.2.3c** below shows the long-term trends in ODA volumes for the EU28. ODA growth has stalled, and the path to 0.7% is unclear, even if EU ODA is projected to stabilise between its 2010 and 2011 levels by 2015. There is also a significant risk that the current decline might continue until 2015 and beyond.

Table 4.2.3b: Estimates and gaps to be bridged for reaching the 2015 ODA targets, based on Member States' forecast information and Commission simulation

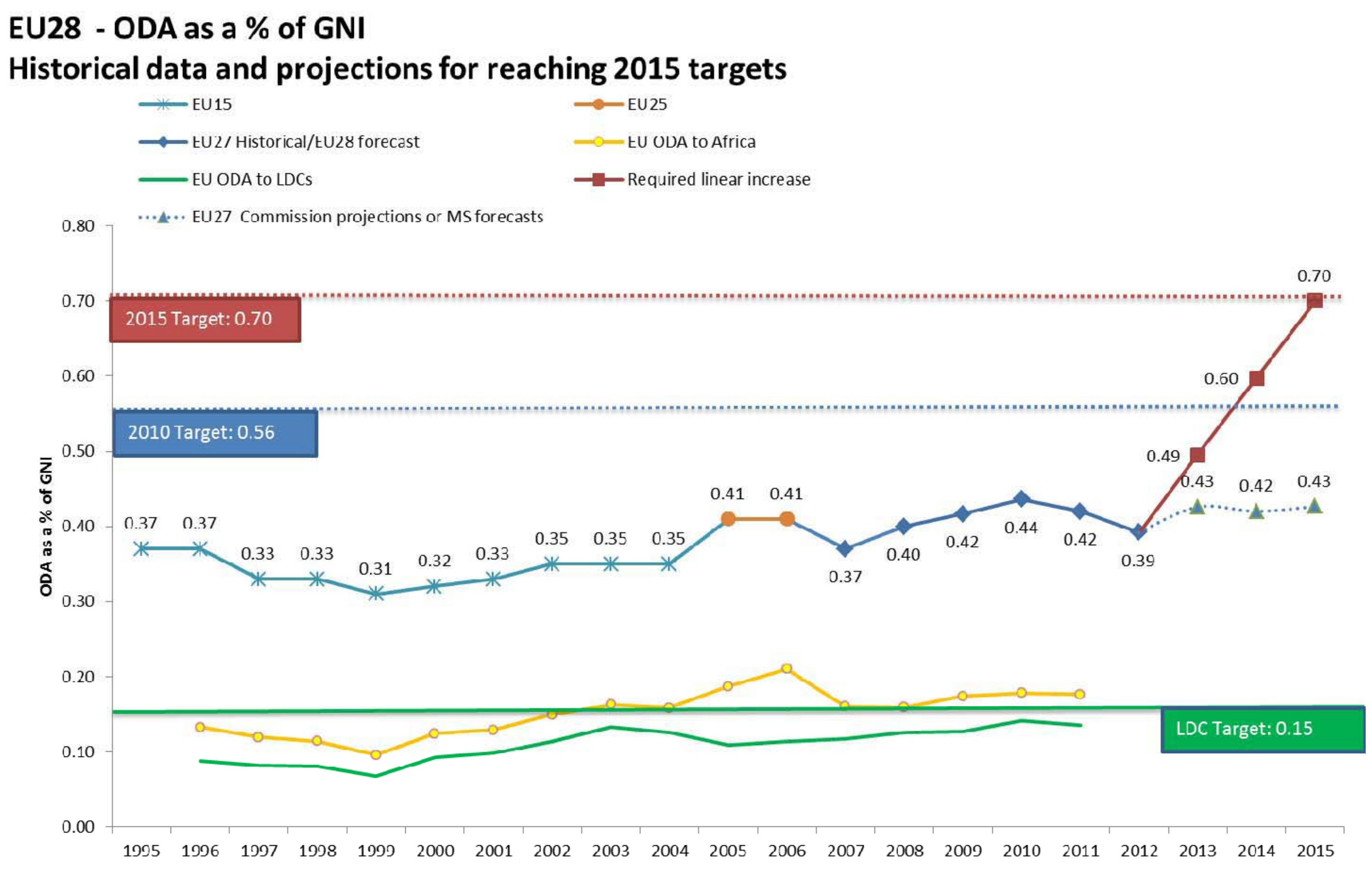
Member State	2011		2012		2013		2014		2015		2015 commitment		2015 financial gap	
	EUR Million	% of GNI	EUR Million	% of GNI	EUR Million	% of GNI	EUR Million	% of GNI	EUR Million	% of GNI	EUR Million	% of GNI	EUR Million	% of GNI
Austria	799	0.27	865	0.28	1,362	0.43	1,359	0.42	1,347	0.40	2,361	0.70	1,014	0.30
Belgium	2,019	0.54	1,792	0.47	1,998	0.51	2,065	0.51	2,920	0.70	2,920	0.70	-	-
Bulgaria	35	0.09	30	0.08	45	0.11	50	0.12	56	0.13	146	0.33	90	0.20
Croatia	15	0.03	15	0.03	41	0.09	65	0.14	69	0.15	217	0.33	148	0.18
Cyprus	28	0.16	20	0.12	28	0.17	29	0.18	29	0.17	55	0.33	26	0.16
Czech Republic	180	0.12	171	0.12	178	0.13	189	0.13	188	0.12	501	0.33	313	0.21
Denmark	2,108	0.85	2,115	0.84	2,151	0.85	2,204	0.84	2,258	0.84	2,685	1.00	427	0.16
Estonia	18	0.11	18	0.11	19	0.11	23	0.12	25	0.13	63	0.33	38	0.20
Finland	1,011	0.53	1,027	0.53	1,118	0.56	1,123	0.55	1,090	0.51	1,485	0.70	395	0.19
France	9,348	0.46	9,419	0.46	9,826	0.47	10,531	0.49	10,916	0.49	15,587	0.70	4,671	0.21
Germany	10,136	0.39	10,198	0.38	10,461	0.38	10,731	0.38	11,008	0.38	20,418	0.70	9,409	0.32
Greece	305	0.15	252	0.13	234	0.13	217	0.12	202	0.11	1,308	0.70	1,106	0.59
Hungary	100	0.11	93	0.10	94	0.10	98	0.10	102	0.10	335	0.33	233	0.23
Ireland	657	0.51	629	0.48	623	0.48	623	0.46	623	0.44	982	0.70	359	0.26
Italy	3,111	0.20	2,053	0.13	2,581	0.16	2,435	0.15	2,978	0.18	11,521	0.70	8,543	0.52
Latvia	14	0.07	16	0.08	16	0.07	17	0.07	19	0.07	84	0.33	66	0.26
Lithuania	38	0.13	40	0.13	41	0.13	43	0.12	44	0.12	119	0.33	76	0.21
Luxembourg	294	0.97	336	1.00	323	0.98	323	0.95	337	0.96	352	1.00	15	0.04
Malta	14	0.25	14	0.23	15	0.22	19	0.28	23	0.33	23	0.33	-	-
The Netherlands	4,563	0.75	4,298	0.71	4,240	0.69	3,816	0.60	3,990	0.61	4,581	0.70	591	0.09
Poland	300	0.08	341	0.09	387	0.10	407	0.10	428	0.10	1,347	0.33	919	0.23
Portugal	509	0.31	441	0.27	464	0.30	488	0.31	513	0.31	1,153	0.70	640	0.39
Romania	118	0.09	113	0.08	126	0.09	134	0.09	142	0.09	515	0.33	373	0.24
Slovak Republic	62	0.09	61	0.09	63	0.09	66	0.09	69	0.09	265	0.33	196	0.24
Slovenia	45	0.13	45	0.13	45	0.13	46	0.13	47	0.13	122	0.33	75	0.20
Spain	3,001	0.29	1,516	0.15	1,955	0.19	1,630	0.15	1,360	0.12	7,630	0.70	6,270	0.58
Sweden	4,030	1.02	4,078	0.99	4,411	1.01	4,599	1.00	4,748	1.00	4,748	1.00	-	-
UK	9,948	0.56	10,627	0.56	13,067	0.70	13,612	0.70	14,117	0.70	14,117	0.70	-	-
EU15 Total	**51,840**	**0.44**	**49,647**	**0.42**	**54,814**	**0.46**	**55,756**	**0.45**	**58,406**	**0.46**	**91,847**	**0.72**	**33,441**	**0.26**
EU13 Total	**966**	**0.10**	**977**	**0.10**	**1,099**	**0.10**	**1,186**	**0.10**	**1,241**	**0.10**	**3,793**	**0.33**	**2,552**	**0.23**
EU28 Total	**52,806**	**0.42**	**50,623**	**0.39**	**55,913**	**0.43**	**56,942**	**0.42**	**59,647**	**0.43**	**95,640**	**0.69**	**35,993**	**0.26**
EU Institutions ODA	12,507		13,669											
of which:														
Imputed to Member States	*9,054*		*9,125*											
Not imputed to Member States	*3,453*	*0.03*	*4,544*	*0.04*	*5,071*	*0.04*	*5,736*	*0.04*	*6,487*	*0.05*				
Collective EU ODA [1]	**56,259**	**0.45**	**55,167**	**0.43**	**60,984**	**0.47**	**62,677**	**0.46**	**66,134**	**0.47**				

(1) Including EU Institutions ODA not imputed to Member States

Gap to collective 2015 target 0.7%	
Target in EUR Million	97,936
Gap in EUR Million	47,313

Shaded cells are Commission estimates

Figure 4.2.3c - EU 15/25/27 ODA/GNI Ratios (1995-2012) and EU 28 Projections (2013-2015)



Source: OECD/DAC and European Commission (EU annual questionnaire on Financing for Development)

The EU scaling-up process has been uneven, with asymmetric efforts among Member States. Those Member States not contributing their fair share to the burden-sharing effort have kept the collective EU performance below the targets, and are also those that would need to make the greatest efforts to reach the 2015 targets.

Table 4.2.3b above shows that a significant amount of EU Institutions' ODA (worth EUR 4.5 billion, equivalent to 0.04% of EU GNI) is not imputed as ODA to EU Member States by the DAC Secretariat. In contrast, the EU ODA projections shown in **Figure 4.2.3c** only refer to ODA imputed to EU Member States, and are therefore conservative. In addition, **Table 4.2.3b** shows the projections and the sometimes drastic increases needed by individual Member States in their budgets of 2013-2015 if they are to meet their targets. For example, to reach the 2015 target Italy would need to sextuple their current ODA volumes over three years; Bulgaria, Croatia[150], Greece, Latvia, Romania, and Spain would need to quintuple theirs; Estonia, Hungary, Poland, and the Slovak Republic would need to quadruple; while Austria, Cyprus, the Czech Republic, Lithuania, Portugal and Slovenia would need to triple their aid allocations.

The projections provided by Member States suggest that many of them do not plan to make such increases under the current tight budget conditions. 23 Member States provided some projections for their ODA in the coming years and 16 have provided projections up to 2015. Excluding the four Member States that are already above 0.7% ODA/GNI, as indicated earlier, only Belgium, Malta and the United Kingdom foresee reaching their 2015 targets. Based on these indications and the Commission's own projections, it is foreseen that thirteen Member States will at least marginally increase their ODA/GNI ratio by 2015, however remaining far from reaching their individual targets.

For 2013, the projections (based on Member Sates' replies or budget data available online) point to a substantial increase in ODA budgets (EUR 5.2 billion), larger than the cumulative cuts of 2011 and 2012. This is due in great part to significant ODA budget increases in the United Kingdom to reach the 0.7% target in 2013 (45% of total net increase), with another third generated by increases by Austria, France, Italy and Spain (ranging between EUR 400 and 500 million each).

The ODA graphs in **Annex 3** show the prospect for each EU Member State to meet its individual ODA targets (of 0.7% and 0.33% of GNI for EU15 and EU12 respectively) in 2015, as well as the size of the gap and how much of it is likely to be filled by 2015.

Based on past ODA performance and future plans, six categories of Member States can be identified:

- **Member States that are leaders in ODA performance (3)**: **Sweden, Luxembourg, and Denmark,** have shown consistent performance over the entire period always remaining above the 2015 targets.
- **Member States that are above the 0.7% target but are planning to decrease (1).** The Dutch government expects its ODA ratio to fall below 0.7%, from 0.71% in 2012, to 0.60% in 2015.
- **Member States on track to achieve their 0.7 or 0.33 target in or before 2015 (3)**. The **United Kingdom** has stated its intention to meet the 0.7 target this year, after growing from 0.36% in 2004 to 0.56% in 2012. **Belgium** also intends to reach its target by 2015. It had reached a peak of 0.64% in 2010, before reducing it to 0.47% in 2012. The Government still plans to achieve the 0.7 target by 2015, after stabilising at 0.51% in 2013 and 2014. **Malta** showed a consistent growth of its ODA/GNI ratio from 0.18% in 2004 to 0.25% in 2011, before declining to 0.23% in 2012. The Government still expects to reach its 0.33% individual target by 2015.

- **Member States that have shown a consistent, visible growth of their aid, but do not expect to achieve their individual targets by 2015 (3)**. Between 2004 and 2009, **Finland** has increased its ODA ratio from 0.37% to 0.54% and has now essentially stabilised at this level, which it expects to maintain through to 2015, thus achieving less than 75% of its 2015 target. **Austria** has increased its ODA/GNI ratio (net of debt relief) at a slow but steady pace from 2004 (0.23%) to 2010 (0.32%), when it started slowly declining, reaching 0.28% by 2012. Austria expects to be able to raise its ODA/GNI ratio to 0.42% by 2015, 40% short of its target. **France** increased its ODA steadily from 0.41% in 2004 to 0.50% in 2010, and has since reduced it to 0.46% in 2012. France expects to regain the lost ground by 2015 (0.49%), but still 30% short of its target.
- **Member States that have gone off track due the economic crisis and are unlikely to catch up any time soon (3).** The significant budget cuts of 2011 and 2012 affected particularly **Spain** that had shown a remarkable upward trend before the crisis, almost doubling its ODA/GNI ratio from 0.24% to 0.46% between 2004 and 2009. Since then, its ratio has fallen to 0.15% in 2012, less than one third of its 2009 level, and the country does not expect to regain any of the lost ground before 2015. **Ireland** had consistently increased its ODA ratios from 0.39% in 2004 to 0.59% in 2008, but has since then started a decline that led to a ratio of 0.48% in 2012 and a forecast of 0.44% by 2015, a little over two thirds of the peak reached in 2008, and almost 40% short of its target. **Cyprus** increased its ODA/GNI ratio from 0.03% in 2004 to 0.23% in 2010, before declining by almost 50% in 2011-2012 to 0.12%. The country expects to raise its ODA slightly over the next three years, remaining well below its 2010 level and almost 50% short of its target.
- **Member States that have never shown a sustained increase in their ODA, and are in some cases cutting their low levels of ODA even further (14)**. **Greece, Italy and Portugal** are among the six Member States[151] whose ODA/GNI ratios were lower in 2012 than in 2004. **Germany** has kept its ODA levels practically steady (between 0.35% and 0.39% of GNI) for the entire period between 2005 and 2012. **Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, and Slovenia** have shown steady ODA ratios over the last four years with fluctuations within a 0.02-0.03 band, and do not project any significant increase towards their ODA target by 2015. Croatia expects to stabilise at a ratio of 0.15% of GNI, following a similar path to the ones of several Member States after their accession.

Table 4.2.3c - Gap between 2012 ODA levels and 0.7% and 0.33% ODA/ GNI individual targets, by Member State

Member State	ODA 2012		Projected increase in ODA by 2015	Remaining gap to national targets		Total ODA in 2015 to meet national targets	
	EUR Million	*% of GNI*	*EUR Million*	*EUR Million*	*% of gap*	*EUR Million*	*% of GNI*
Austria	865	*0.28*	482	1,014	*2.6*	2,361	*0.70*
Belgium	1,792	*0.47*	1,127	-	-	2,920	*0.70*
Bulgaria	30	*0.08*	26	90	*0.2*	146	*0.33*
Croatia	15	*0.03*	54	148	*0.4*	217	*0.33*
Cyprus	20	*0.12*	9	26	*0.1*	55	*0.33*
Czech Republic	171	*0.12*	17	313	*0.8*	501	*0.33*
Denmark	2,115	*0.84*	144	427	*1.1*	2,685	*1.00*
Estonia	18	*0.11*	7	38	*0.1*	63	*0.33*
Finland	1,027	*0.53*	63	395	*1.0*	1,485	*0.70*
France	9,419	*0.46*	1,497	4,671	*12.2*	15,587	*0.70*
Germany	10,198	*0.38*	810	9,409	*24.6*	20,418	*0.70*
Greece	252	*0.13*	(51)	1,106	*2.9*	1,308	*0.70*
Hungary	93	*0.10*	10	233	*0.6*	335	*0.33*
Ireland	629	*0.48*	(6)	359	*0.9*	982	*0.70*
Italy	2,053	*0.13*	925	8,543	*22.3*	11,521	*0.70*
Latvia	16	*0.08*	2	66	*0.2*	84	*0.33*
Lithuania	40	*0.13*	4	76	*0.2*	119	*0.33*
Luxembourg	336	*1.00*	0	15	*0.0*	352	*1.00*
Malta	14	*0.23*	9	-	-	23	*0.33*
The Netherlands	4,298	*0.71*	(308)	591	*1.5*	4,581	*0.70*
Poland	341	*0.09*	87	919	*2.4*	1,347	*0.33*
Portugal	441	*0.27*	71	640	*1.7*	1,153	*0.70*
Romania	113	*0.08*	29	373	*1.0*	515	*0.33*
Slovak Republic	61	*0.09*	8	196	*0.5*	265	*0.33*
Slovenia	45	*0.13*	2	75	*0.2*	122	*0.33*
Spain	1,516	*0.15*	(156)	6,270	*16.4*	7,630	*0.70*
Sweden	4,078	*0.99*	670	-	-	4,748	*1.00*
UK	10,627	*0.56*	3,490	-	-	14,117	*0.70*
Total EU MS	**50,623**	***0.39***	**9,024**	**35,993**	***94.0***	**95,640**	*0.69*
Unassigned gap to collective target				2,296	*6.0*	2,296	*0.02*
EU28	**50,623**	***0.39***	**9,024**	**38,289**	***100.0***	**97,936**	***0.70***

Source: OECD/DAC and European Commission (EU annual questionnaire on Financing for Development)

Several factors that explain why, under the *status quo,* targets will be missed by a wide margin:

First, the **reduced ambition** of some national plans has had a real impact on collective progress on ODA. Some of the more ambitious Member States have reduced their targets compared to the ones that formed the basis for the 2005 Council Conclusions. Most of the Member States do not plan to reach their individual targets.

Second, the **current fiscal crunch** has led some countries to revise downwards their commitments and targets.

Third, **back-loading the increase in ODA expenditure is often unrealistic**. Experience shows that missing intermediate targets in a significant way leads to missing subsequent targets too. A good example is provided by the Member States that significantly missed the 2006 target of 0.33% GNI: **Greece, Italy and Portugal**. Once the target was missed, statements were made that the 2006 target would be achieved by 2007 or 2008. In reality, the 2006 target has not been met by any of them even by 2012 and these three Member States ended up missing both the 2006 and the 2010 targets.

Fourth, **reaching the EU ODA targets is contingent** not only on the medium-sized donors, but also **on EU countries with large economies** such as France, Germany, Italy and the UK boosting average aid levels. These countries account for almost 70% of the gap to be filled between 2010 and 2015. If the EU as a whole is to meet the collective target of 0.7% ODA/GNI by 2015, it is imperative that all the big players play their full part, whereas only the **United Kingdom** has so far committed to do so.

Table 4.2.3c above shows the funding gap between the current level of ODA from EU Member States and the 0.7% target. It appears clearly that unless decisive action is taken, the 2015 target will be missed by a large margin.

4.2.3.4. Falling Short of EU's Promise on ODA to Africa[152]

Between 2005, when the commitment was made to direct 50% of EU aid increases to Africa (based on 2004 aid levels), and 2012, the combined EU aid to Africa has risen by about EUR 0.8 billion at constant prices. This means that 7% of total EU ODA growth between 2004 and 2012 went to Africa, as shown in **Figure 4.2.3c.** The smaller increase than last year is due to the fact that EU bilateral ODA to Africa declined from EUR 12 billion in 2011 to EUR 10 billion in 2012.

No reference is made in Member States' replies to specific actions towards the target of allocating 50% of the ODA *increase* to Africa. On the other hand, Member States often cite the share of Africa in their overall ODA or geographically programmable ODA for measuring their effort in this respect. Most EU Member States are taking actions to increase ODA targeted to Africa. For some, aid to Africa already accounts for over half of their bilateral ODA (e.g. Belgium, France, Ireland, Italy, and Portugal). A few Member States declare that they will not contribute to that target through their bilateral ODA as they state that their comparative advantage lies in other regions of the world. An important dimension is the imputed multilateral share of EU aid to Africa, which amounted to an estimated EUR 8.3 billion in 2012 and represented the entire EU increase from 2004 to 2012, as purely bilateral ODA declined over the period. Overall, 45% or EUR 21.1 billion of EU ODA was targeted to Africa in 2011.

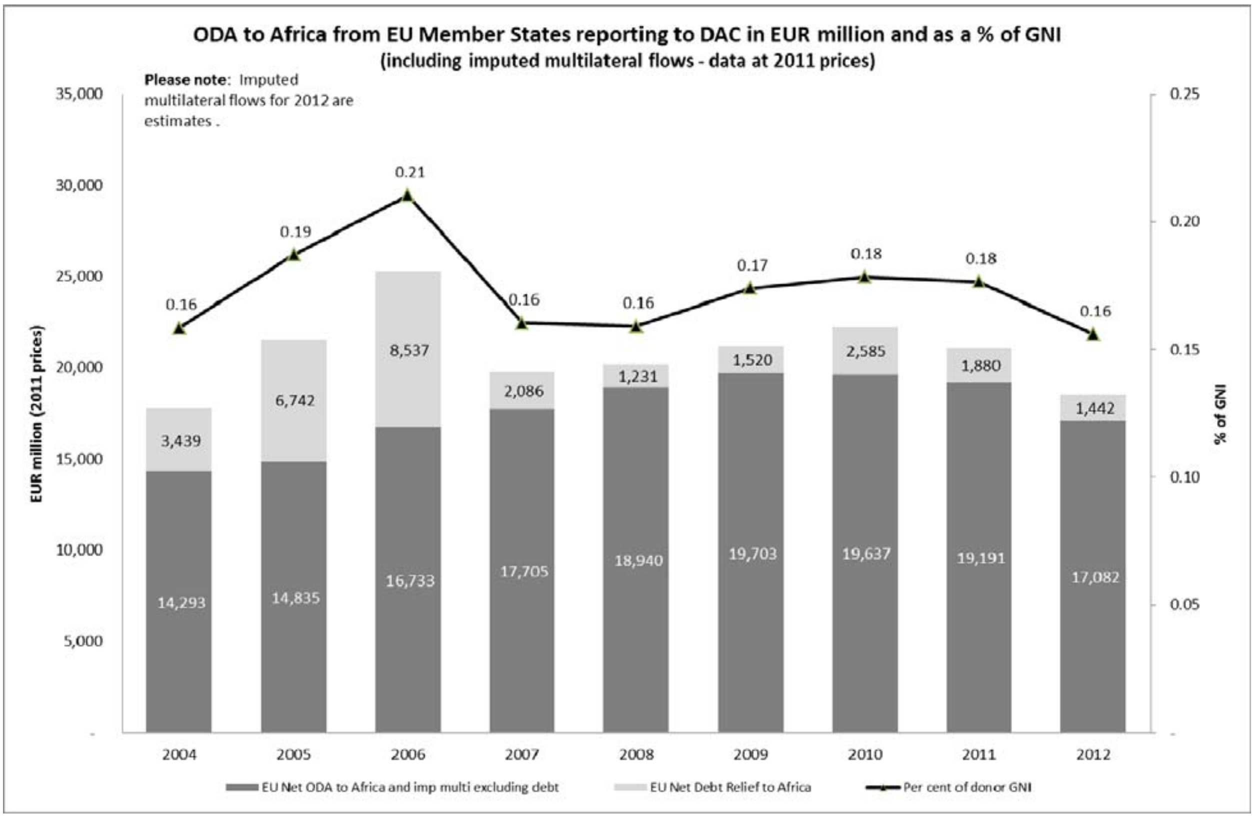
4.2.3.5. How Did EU ODA to Sub-Saharan Africa Increase since 2005?

EU ODA to Sub-Saharan Africa grew by around EUR 1.2 billion in real terms over the period 2004-2012, thus meeting the less demanding target of increasing EU aid to Sub-Saharan Africa. Over 90% of this growth was due to aid through multilateral channels. Only the Netherlands and Portugal significantly decreased their ODA to Sub-Saharan Africa over this period (-32% and -64%, respectively), with Spain showing only a very small decline of two percentage points. Preliminary data for 2012 show a 9% decline in bilateral EU ODA to Sub-Saharan Africa compared to 2011.

4.2.3.6. Honouring the EU Commitment on ODA to Least Developed Countries

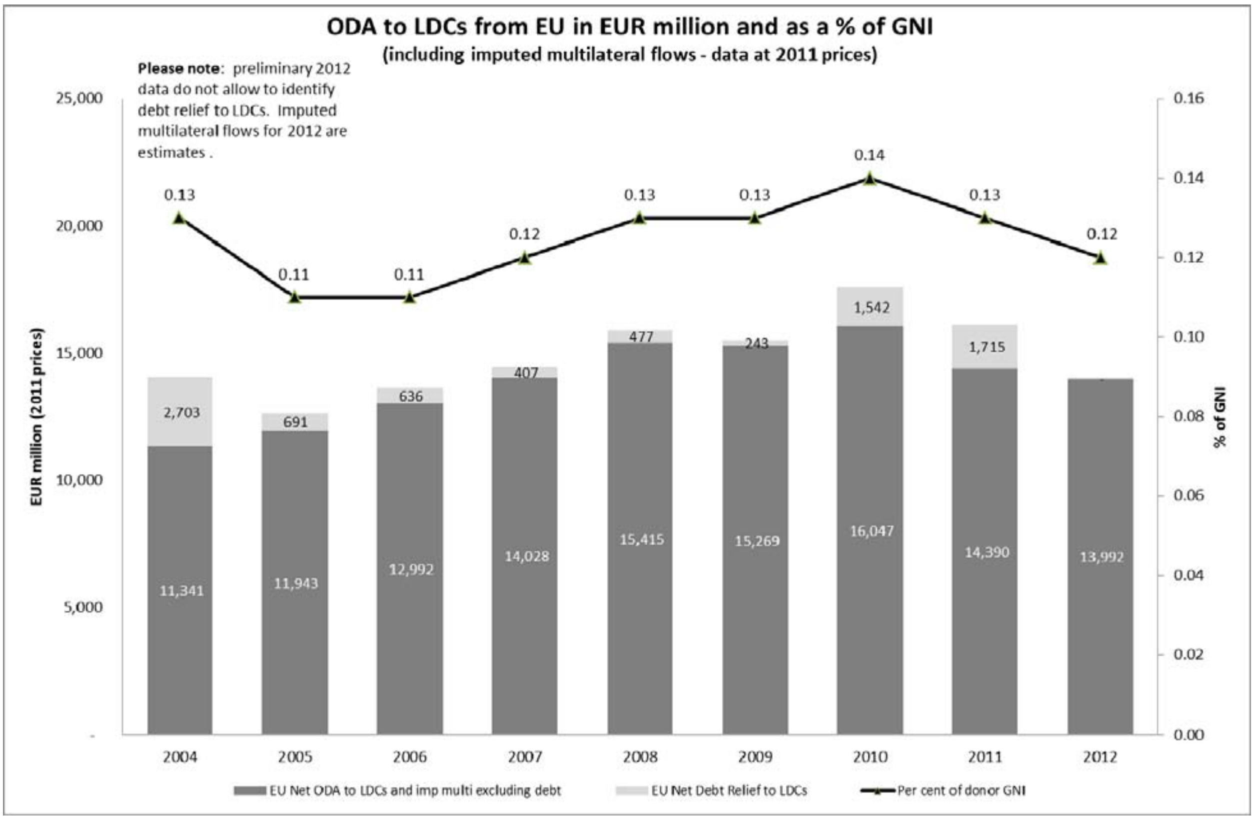
In November 2008, the EU Member States promised, as part of the EU's overall ODA commitments, to provide collectively 0.15% to 0.20% of their GNI to LDCs by 2010, while fully meeting the differentiated commitments set out in the 'Brussels Programme of Action for the LDCs for the decade 2001-2010'.

Figure 4.2.3d – EU ODA to Africa in EUR million and as a% of GNI (including imputed multilateral flows)



Source: OECD/DAC data for 2004 – 2011 and Commission simulation on DAC Advance Questionnaire data for 2012

Figure 4.2.3e - EU ODA to LDCs in EUR million and as a% of GNI including imputed multilateral flows



Source: OECD/DAC data for 2004 – 2011 and Commission simulation on DAC Advance Questionnaire data for 2012

The LDCs' share of EU ODA has increased both in absolute and relative terms since 2004. Last year's report provided estimates, based on preliminary data, which seemed to indicate a volume of EU ODA to LDCs corresponding to 0.15% of EU GNI, thus meeting the target. Final statistics showed that the estimate was too optimistic, and that EU ODA to LDCs actually amounted to EUR 16.1 billion in 2011, representing only 0.13% of EU GNI. EU ODA to LDCs, now estimated using a new methodology (described in Annex 2), declined further in 2012 to less than EUR 14 billion, or 0.12% of EU GNI. The target has therefore been missed both in 2011 and in 2012.

Figure 4.2.3e summarises the evolution of ODA/GNI ratios to LDCs for EU Member States over the period 2004-2012. **Belgium, Denmark, Finland, Ireland, Luxembourg, Netherlands, Sweden and the United Kingdom** remained above the ODA to LDC target in 2012. Eleven Member States[153] do not expect to be able to reach the 0.15% target any time soon. For several EU12 Member States, even allocating all of their ODA to LDCs would not suffice to meet the target, given their actual and projected ODA/GNI targets below 0.15%.

4.2.4. EU Policy

The European Union and its Member States have repeatedly reiterated their commitments to achieve the 0.7% ODA to GNI ratio by 2015, as a concrete time-bound goal. The rationale for a time-bound target was to provide adequate funding to achieve the MDGs. Although EU Heads of State and Government confirmed that ODA remains an important element of the EU support to developing countries, the Council has not agreed any concrete measures to ensure the national steps necessary for fulfilling this commitment.

The Commission has, in the last five annual reports, proposed three ways to step up efforts: (a) drawing up realistic and verifiable national ODA action plans outlining how Member States aim to scale up and strive to achieve the 2015 ODA targets; (b) introducing a peer review mechanism whereby the European Council would assess the progress of each Member State and give guidance for further joint EU progress for attaining the agreed ODA targets; and (c) enacting national legislation ring-fencing ODA. Under current trajectories, the EU as a whole is set to miss its 2015 collective target by a wide margin, and a lack of readiness to act would therefore affect its credibility.

The discussion on new FfD aggregates to monitor after 2015 should in no way affect the efforts towards meeting longstanding commitments that have been reiterated on numerous occasions.

4.3. Funding for Tackling Climate Change

EU Commitments

- *Under the December 2009 Copenhagen Accord, developed countries made important pledges for fast start as well as for long-term climate financing. The collective commitment by developed countries was to provide new and additional resources approaching US$ 30 billion for the period 2010-2012 with balanced allocation between adaptation and mitigation. Funding for adaptation would be prioritised for the most vulnerable developing countries, such as the Least Developed Countries and Small Island Developing States. In the context of meaningful mitigation actions and transparency on implementation, developed countries committed to a goal of mobilising jointly US$ 100 billion per year by 2020 to address the needs of developing countries. This funding should come from a variety of sources, public and private, bilateral and multilateral, including alternative sources of finance.*
- *The EU has frequently confirmed the importance of supporting developing countries moving towards sustainable economic growth and adapting to climate change (e.g.* ***European Council Conclusions of 19-20 June 2008****, §28). It has also underlined that climate financing should not undermine or jeopardise the fight against poverty and continued progress towards the Millennium Development Goals (§23 European Council Presidency Conclusions 30 October 2009).*
- ***European Council meeting of 10-11 December 2009****. In the run-up to the Copenhagen Conference, the EU and its Member States committed to contributing EUR 2.4 billion annually over the period 2010-2012 to the fast start climate funding (§37).*

The ***Council Conclusions of 15 May 2012, 13 November 2012 and 14 May 2013****:*
- *reaffirmed the EU and its Member States' commitment to provide EUR 7.2 billion cumulatively over the period 2010 – 2012 to fast start finance;*
- *reaffirmed the importance of continuing to provide support by developed countries beyond 2012 for policies, programmes and initiatives that will deliver substantial results and value for money in the context of meaningful mitigation actions and transparency in implementation, and in helping to increase climate resilience; and*
- *reiterated that, in this respect, the EU and other developed countries should work in a constructive manner towards the identification of pathways for scaling up climate finance from 2013 to 2020 from a wide variety of sources, public finance and private sector finance, bilateral and multilateral, including alternative sources of finance, as needed to reach the international long term committed goal of mobilising jointly US$100 billion per year by 2020 in the context of meaningful mitigation actions and transparency on implementation.*

4.3.1. Introduction

Development and climate change are closely interconnected. If not contained, climate change risks undermining years of progress in reducing poverty in the context of sustainable development and meeting the MDGs. Conversely, development and the associated increased use of fossil fuels and other resources is the main driver of climate change.

Investing in a low-carbon growth path in the context of an inclusive green economy early in the development process is likely to be cheaper and more efficient that polluting first and cleaning up afterwards. The integration of climate change concerns in development offers real win-win opportunities.

Climate change will, however, also be a significant additional burden and challenge for many developing countries that will add costs and complexity to poverty reduction efforts.

The world has agreed to limit the global annual average temperature increase to 2º C above pre-industrial levels by 2050. Reaching this target would require substantially increased global efforts. As a matter of fact, even if all countries lived up to their most ambitious current commitments and pledges, some estimates are now closer to a global average increase of 4°C. A recent World Bank report[154] has tried to illustrate what consequences such a 4°C increase would have on the world. The latter would be devastating: inundated coastal cities, food and water shortages, heat waves and droughts. All countries would be affected, but for the most vulnerable populations living in the poorest countries - consequences would be disastrous. The report thus acts as a wake-up call to significantly step up efforts to reduce greenhouse gas emissions in all countries, and to support the most vulnerable in adapting to its consequences. Least Developed Countries and Small Island Developing States (SIDS) need special consideration due to their extreme vulnerability.

Economic development is the best hope for adaptation to climate change, but it cannot be development as usual. Activities needed to adapt to climate change are in practice difficult to distinguish from 'normal' development activities. Most often 'adaptation' is a question of integrating and mainstreaming climate change concerns into the general development planning process, and to support 'climate-smart' projects and programmes.

In 2010, the World Bank[155] had estimated that the cost of adapting to a 2°C warmer world by 2050 will be in the range of EUR 54 billion to EUR 78 billion a year, or EUR 2.2 to EUR 3.1 trillion for the entire period. There is however no guarantee that adaptation to a 4°C world would even be possible, and this is why it is paramount that early, cooperative, international actions are taken to avoid such a scenario.

A major difficulty in this endeavour is that there is no precise internationally agreed definition of climate finance at present. The term broadly refers to resources that catalyse low-carbon and climate-resilient development. It covers actions required to mitigate climate change by reducing greenhouse gas emissions as well as actions to adapt to climate change by addressing the impacts. It includes support to an enabling environment, capacity for adaptation and mitigation, R&D and the deployment of new technologies. Climate finance will have to be mobilised through a range of instruments from a wide variety of sources, international and domestic, public and private, multilateral and bilateral, and including new and innovative sources of financing. To date, most of the public climate financing from developed to developing countries reported to UNFCCC has been ODA that originated from development assistance budgets.

4.3.2. Implementation Table

The table below summarises progress made in 2012 in implementing the EU commitments on climate finance. Further details are discussed in the main text.

EU Commitment	Target Date	Status[156]	Comment
Contribute EUR 2.4 billion annually in 2010-12 to 'fast start' climate funding	End 2012		The EU and MS contributed EUR7.3 billion in 2010-12 to 'fast start' climate funding.
Work towards pathways for scaling up climate finance from 2013 to 2020 from a wide variety of sources to reach the international long-term joint goal of mobilising US$ 100 billion a year by 2020	2013-20		Not applicable yet. Work has started.

4.3.3. Recent Trends

Monitoring ODA which is related to climate change and other environmental issues has long been a difficult task due to the complexity of the issues and their multidimensional character. The OECD/DAC CRS reporting system has included policy markers for environment and climate change mitigation for a number of years. Since 2010, reporting also includes a climate change adaptation marker. Data prepared using both climate markers were released for the first time in January 2012, and now cover ODA disbursed during 2010 and 2011.

These data are the best available proxy on climate-related ODA, but have not been set-up to track financial flows, and should thus be analysed carefully to avoid double counting. At present, different approaches are used by different donor countries to convert the Rio-marked OECD/DAC from quality to quantified climate finance flows. The method followed by the European Commission is to report the budget of programmes marked with Rio marker 2 (principal objective) as 100% climate relevant while only 40% of the budget of programmes and projects marked with Rio marker 1 (significant objective) is reported. Some EU MS follow the same approach, while others have been using slightly different systems. There are no guidelines on the application of such conversion factor internationally or at EU level - a gap that should be filled. There is currently on-going work within OECD/DAC to develop a common methodology for improving the tracking of climate-related development financing.

In November 2012, the EU presented a joint consolidated report[157] to UNFCCC tracking on the Fast Start Finance pledge for 2010 – 2012. Fast Start Financing is a sub-set of the overall climate finance flows from the EU and the Member States to developing countries. The 2012 FSF Report shows that the EU and its Member States committed EUR 7.3 billion for fast-start finance for tackling climate change over the period 2010-2012, thus exceeding the goal of EUR 7.2 billion, despite a difficult economic situation and budgetary constraints.

Several Member States[158] have been channelling their fast start finance through the GEF managed Least Developed Countries Fund (LDCF) or the Adaptation Fund, while others are channelling it directly to SIDS and LDCs. Three quarters of the pledges received by the LDCF, and almost 95% of the donor contributions received by the Adaptation Fund were made by EU Member States. The 2011 Accountability Report suggested a methodology for assessing 'additionality' of Fast Start Financing based on a baseline average ODA level in 2007-2009. According to the figures available for 2012, this criterion seems to have been met in 2010 and 2011, but may not have been met for 2012[159].

Table 4.3.3 below presents the overall ODA committed by EU donors in 2010 and 2011 for climate change adaptation and mitigation relevant activities. It combines two sources: (a) the CRS data that determines how much ODA was spent on adaptation and mitigation in 2010 and 2011; and (b) data from the 2011 and 2012 EU annual questionnaires on Financing for Development to determine the share of fast start climate finance (often provided only as commitments). Unfortunately, detailed ODA data are released over a year after the close of the calendar year they refer to, and 2012 data will only be available in January 2014, too late to be included in this report.

Table 4.3.3 – EU ODA for Climate Change Adaptation and Mitigation in 2010-2011

(Commitments, EUR million at constant 2011 prices)[160]

Type	2010	2011
Adaptation	**2,343**	**1,912**
of which: *Principal*	*373*	*336*
Significant	*1,969*	*1,577*
Mitigation	**5,214**	**3,277**
of which: *Principal*	*3,527*	*1,811*
Significant	*1,687*	*1,466*
Adaptation and Mitigation	**1,928**	**1,736**
of which: *Both Principal*	*923*	*235*
Both Significant	*1,005*	*1,501*
Total Climate Change	**9,484**	**6,925**
of which: *Fast-start finance*	*2,307*	*2,340*
Non Fast-start finance	*7,177*	*4,585*

Sources: DAC CRS

The **EU has been by far the largest contributor to both mitigation-related and adaptation-related ODA in 2010 and 2011, with a share of 50.3% over the period, even though there was a significant reduction in real terms between 2010 and 2011**. This decline seems to have been partially reversed in 2012 based on preliminary data provided by some Member States through the 2013 questionnaire.

It is difficult to get an overview of total climate related financial flows from EU to developing countries as there is neither an agreed methodology nor a comprehensive system put in place to track private flows. According to OECD[161], in the 2009-2010, the global aggregate flows for mitigation and adaptation were in the range of EUR 53 to 90 billion annually. Public bilateral sources are estimated between EUR 11-17 billion, mostly for mitigation, while multilateral development finance (including concessional and non-concessional sources) is estimated to provide another EUR 11-13 billion, 97% of which for mitigation purposes. Private climate finance far outweighs public sources, as FDI and other private finance flows are estimated to have ranged between EUR 28 and 54 billion annually over the same period. Carbon market flows represent only a small fraction of total private flows (about EUR 1.5 billion), while less than EUR 0.8 billion of export credits were considered to be supporting low-carbon projects.

4.3.4. EU Policies and Programmes

Discussions on the appropriate funding to enable and support developing countries to implement their mitigation commitments and address adaptation challenges will remain a central element of the climate change negotiations under UNFCCC, and will be an important element of the new 2015 International Climate Change Agreement.

While no specific intermediary targets have been established for the midterm period 2013-2020, the Doha climate change conference ‘encouraged’ developed countries to provide at least US$ 10 billion per year between 2013-2015 (similar to the amount provided as ‘fast-start’ financing). Further, there is no agreed key for determining the specific commitment of the individual developed countries towards the US$100 billion per year target. A Commission Staff Working Document[162] in 2011 advised that the EU’s share should represent one third of this amount (if equal consideration were given to greenhouse gas emission and ability to pay). The EU made a submission to UNFCCC in 2013 on envisaged strategies to contribute to mobilising additional climate financing of US$ 100 billion per year by 2020. A mix of public finance, carbon market finance and private finance (including sources leveraged by development banks) will be required to deliver on this commitment.

There are many common challenges between the need to scale up climate finance and the discussion in the broader Financing for Development debate. The similarities include both the range of potential sources for mobilising international financing (domestic and international, public and private, bilateral and multilateral, new and innovative sources) and the principles that should guide their use (focus on results, impact, transparency, mutual accountability, etc.). It therefore seems important that the EU defines a coherent approach to these issues across the different international processes and negotiation tracks where financing and means of implementation are being discussed. Improving the system to measure, report and verify (MRV) financial support is a priority. In this context, the current work within the OECD aimed at improving the tracking of climate finance, including by devising methodologies for tracking private flows, is very important.

In November 2011, the Commission issued a *Regulation on a mechanism for monitoring and reporting greenhouse gas emissions and for reporting other information at national and Union level relevant to climate change*[163]. The latter entered into force in mid-2013 and requests Member States to report annually to the Commission information of financial and technological support to developing countries, in accordance with the UNFCCC provisions. The new mechanism for monitoring and reporting will eventually replace the data gathering exercise on climate finance which had been carried out so far by the present annual EU Accountability Report. While the proposed regulation provides common definitions for climate change adaptation-related and mitigation-related aid, a few Member States feel that there may still be a need to agree on one single EU methodology to measure international public climate finance, thus improving the transparency and comparability of EU actions.

The climate change negotiations under the UNFCCC have also added new elements to the global financing architecture, and will continue to do so in the coming years. A number of funds and instruments have been established under the convention, such as the Adaptation Fund, the Least Developed Country Fund, and the Special Climate Change Fund. The Green Climate Fund is in the process of being made fully operational, and is expected to play an important role in mobilising and channelling climate finance in the future. Likewise, climate funds have been established under other UN agencies and within the multilateral and regional development banks, for example the Climate Investment Funds implemented by a group of MDB with more than USD seven billion in pledges.

Within the EU, a number of new instruments or initiatives were launched or further developed in 2012. They include:

- The Global Climate Change Alliance (GCCA) was launched in 2007 by the European Commission to strengthen dialogue and cooperation on climate change between the EU and developing countries most vulnerable to climate change, in particular LDCs and SIDS. From 2008 to 2012, the GCCA committed EUR 285 million from the EU budget and through contributions from several EU Member States (e.g. Ireland, Sweden, Estonia, Cyprus and the Czech Republic). To date, the GCCA has been supporting programmes that address climate change in 35 countries and four regions – and work is under way to formulate an additional nine programmes.

- The Global Energy Efficiency and Renewable Energy Fund (GEEREF) and the EU Regional Investment Facilities, discussed in Chapter 5, support investments in sustainable energy in developing countries.

- In 2011, the UK Government established the International Climate Fund (ICF) to help reduce poverty and tackle climate change in developing countries. The ICF aims to help the poorest people adapt to the effects of climate change on their lives and livelihoods and to support developing countries to reduce harmful greenhouse gas emissions. The ICF provides EUR 3.6 billion for international climate finance as part of the rising UK aid commitment for the period 2011–12 to 2014–15. The ICF scales up UK climate finance for two years beyond the Fast Start period.

Policy coherence between policies in both developed and developing countries is an important element. For example, a crucial but politically difficult task is to reduce fossil fuel consumption subsidies. According to OECD and IEA statistics, these subsidies amounted to a yearly average of EUR 34-57 billion in OECD countries in 2005-10[164], and to an estimated EUR 309 billion in 37 developing and emerging economies in 2010. EU policies pertaining to the various Means of Implementation will be assessed in the forthcoming biennial EU Report on Policy Coherence for Development to be published in 2013.

4.4. Funding for Addressing Biodiversity Challenges

EU Commitments

- *In the **Council Conclusions of 14 October 2010** 'Preparation of the tenth meeting of the Conference of the Parties (COP 10) to the Convention on Biological Diversity (CBD)', the Council asked the Commission to 'continue reporting on the amount of funds related to biodiversity conservation and sustainable use'. Previously, such monitoring was done via reporting on the Biodiversity Action Plan which ended in 2010.*
- *At the 10th meeting of the Conference of the Parties to the Convention on Biological Diversity in Nagoya, Parties, including the EU, made a commitment to mobilise financial resources for effectively implementing the Strategic Plan 2011-2020 and to substantially increase resources from all sources, including innovative financial mechanisms, against an established baseline.*
- *Within the EU, **Council Conclusions of 21 June 2011** endorsed the EU Biodiversity Strategy to 2020[165]. Action 18 of the Strategy: 'Mobilise additional resources for global biodiversity conservation' requests the Commission and Member States to 'contribute their fair share to international efforts to significantly increase resources for global biodiversity as part of the international process aimed at estimating biodiversity funding needs and adopting resource mobilisation targets for biodiversity at CBD CoP11 in 2012. The Strategy also stresses that 'discussions on funding targets during CoP11 should recognise the need for increases in public funding, but also the potential of innovative financing mechanisms'.*
- *The **Council Conclusions of 11 June 2012** on the preparation of 11th meeting of the Conference of the Parties to the Convention on Biological Diversity (CBD COP 11) recognised the need to further improve the effectiveness of existing funding and mobilise new types of funding sources, including the private sector and other stakeholders, whilst emphasising the importance of innovative financing mechanisms as an essential and necessary funding source, in addition to traditional financing mechanisms, and as a tool for mainstreaming.*
- *At CBD COP11 in Hyderabad, the Parties decided on an overall substantial increase of total biodiversity-related funding, from a variety of sources, and resolved to achieve a number of preliminary targets including to 'double total biodiversity-related international financial resource flows to developing countries, in particular Least Developed Countries and Small Island Developing States, as well as countries with economies in transition, by 2015 and at least maintain this level until 2020, in accordance with Article 20 of the Convention, to contribute to achieving the Convention's three objectives, including through a country-driven prioritisation of biodiversity within development plans in recipient countries', using the preliminary baseline of annual biodiversity funding for the years 2006-2010. Parties also agreed complementary targets on making appropriate domestic financial provisions, reporting, and developing national financial plans. They also decided to use a preliminary reporting framework[166] as a flexible and preliminary framework to report on and monitor the resources mobilised for biodiversity at a national and global level. Progress will be reviewed at COP12 with the aim of adopting the final target for resource mobilisation.*

4.4.1. Introduction

As noted in the EU Biodiversity Strategy to 2020[167], biodiversity — defined as the extraordinary variety of ecosystems, species and genes that surround us — is humanity's natural capital, delivering ecosystem services that underpin the world's economy. Its deterioration and loss jeopardises the provision of these services. In addition, biodiversity and climate change are inextricably linked as the former contributes positively to climate change mitigation and adaptation[168], while achieving the 'two degrees' target coupled with adequate adaptation measures to reduce the impact of unavoidable effects of climate change are also essential to avert biodiversity loss. Both are essential in the efforts to move towards sustainable development.

4.4.2. Implementation Table

The table below summarises progress made in 2012 in implementing the EU commitments on biodiversity-related finance. Further details are discussed in the main text.

EU Commitment	Target Date	Status[169]	Comment
Hyderabad commitment to double total biodiversity-related international financial resource flows to developing countries (in particular LDCs, SIDs and countries with economies in transition), as compared with 2006-10, by 2015 and at least maintain this level until 2020	2015 and 2020		Not applicable yet.

4.4.3. Recent Trends

In previous editions of the EU Accountability Report on FFD, EU support to biodiversity was measured using the specific Biodiversity Rio Marker of the OECD/DAC CRS. However, in July 2012, the CBD invited the EU and its Member States to report biodiversity-related financial flows, including but not limited to ODA, through the Common Reporting Framework (CRF). Thus, for the first time, data on biodiversity-related finance included in the present Report have been collected in CRF format.

As part of this process, the EU and Member States have developed specific methodologies to capture biodiversity related ODA, applying specific coefficients to better capture the real biodiversity component of projects. Such methodologies are not uniform. The European Commission, for example, reported only 40% of the allocated budget of projects with a Biodiversity Rio Marker of significant (1) and 100% of projects marked as principal (2); Germany reported 100% of the specific components marked as significant rather than the budget of the entire project, and 100% of those marked as principal; Finland determined a ‘biodiversity relevance percentage for each biodiversity related project’ that was then applied to all projects marked as significant or principal.

Table 4.4.3 Official and Private Financial Flows Directly or Indirectly Related to Biodiversity
(Commitments, EUR million at current prices)

	2006			2007			2008			2009			2010			2011			2012		
Country or Institution	**Direct**	**Indirect**	**Total**	**Direct**	**Indirect**	**Total**	**Direct**	**Indirect**	**Total**	**Direct**	**Indirect**	**Total**	**Direct**	**Indirect**	**Total**	**Direct**	**Indirect**	**Total**	**Direct**	**Indirect**	**Total**
Austria	10	-	10	10	-	10	14	-	14	16	-	16	20	-	20	16	-	16	-	-	-
Belgium	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bulgaria	-	-	-	-	-	-	0	-	0	0	-	0	0	-	0	0	-	0	0	-	0
Croatia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cyprus	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Czech Republic	1	3	4	1	3	4	1	4	5	1	3	4	0	3	4	1	2	4	1	5	6
Denmark	3	90	93	3	90	94	3	90	94	3	90	94	3	90	94	3	90	94	3	90	94
EU Institutions	120	25	145	73	62	135	97	66	163	64	201	265	98	163	261	45	129	174	-	-	-
Estonia	-	-	-	0	-	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Finland	1	10	11	1	8	9	1	11	12	1	10	11	2	10	12	5	16	20	2	17	20
France	59	45	103	23	29	51	27	105	132	24	74	99	24	79	103	56	87	143	81	45	126
Germany	75	-	75	125	-	125	219	-	219	250	-	250	300	-	300	499	-	499	549	-	549
Greece	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Hungary	0	-	0	0	-	0	0	-	0	0	-	0	0	-	0	0	-	0	0	-	0
Ireland	-	-	-	20	-	20	14	-	14	75	-	75	25	-	25	25	-	25	22	-	22
Italy	-	-	-	11	77	88	17	42	59	5	41	46	1	3	4	2	3	5	4	2	6
Latvia	0	-	0	0	-	0	0	-	0	0	-	0	0	-	0	0	-	0	0	-	0
Lithuania	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Luxembourg	-	-	-	-	-	-	-	-	-	-	-	-	1	1	3	0	-	0	-	-	-
Malta	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Netherlands	159	-	159	97	-	97	93	-	93	95	-	95	87	-	87	82	-	82	76	-	76
Poland	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Portugal	1	0	1	1	3	4	1	3	4	1	4	5	0	3	3	0	3	3	0	0	1
Romania	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	0	0	1	0	1
Slovak Republic	-	-	-	-	0	0	-	0	0	-	0	0	-	0	0	-	0	0	-	0	0
Slovenia	-	-	-	-	-	-	-	-	-	-	-	-	0	-	0	0	-	0	0	-	0
Spain	6	-	6	10	-	10	19	-	19	15	-	15	11	-	11	7	-	7	-	-	-
Sweden	9	26	35	15	39	54	18	54	72	17	92	109	21	108	129	20	131	151	55	156	211
United Kingdom	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**443**	**199**	**643**	**390**	**311**	**701**	**524**	**377**	**900**	**567**	**516**	**1,084**	**596**	**460**	**1,057**	**763**	**462**	**1,225**	**795**	**316**	**1,111**

Source: 2013 EU Financing for Development Questionnaire

Because of the adjustments applied by each Member State, the amounts calculated under the Common Reporting Framework may be lower than those reported previously to OECD/DAC. They are also incomplete, as some Member States are still working on their processes for reporting biodiversity-related financial flows. Finally, no Member State provided information on support for biodiversity from private sources, while no alternative data source is available at this stage. As mentioned in previous CBD decisions, further work is needed to improve methodological guidance on reporting biodiversity-related finance.

Data summarised in **Table 4.4.3** should therefore be considered as work in progress and likely to be updated in future editions of the EU Accountability Report. Based on such data, biodiversity-related finance almost doubled in nominal terms between 2006 and 2012. In 2012, the EU and Member States who reported data committed EUR 1,111 million[170]per year in biodiversity-related finance, including ODA.

4.4.4. EU Policies and Programmes

In June 2011 and December 2011, the Council adopted Conclusions on the implementation of the Europe 2020 Biodiversity Strategy. The new strategy has six main targets, with twenty actions to help the EU address biodiversity challenges. Internationally, the EU contribution to averting global biodiversity loss is to be stepped up, through a reduction of indirect drivers of biodiversity loss (e.g. changing consumption patterns, reducing harmful subsidies, and including biodiversity issues in trade negotiations) and mobilisation of additional resources for global biodiversity conservation. Council Conclusions were also adopted in preparation for CBD COP meetings.

Delivering on the Hyderabad targets, as explained above, will require the mainstreaming of biodiversity in the main development sectors. This is in line with the 2011 EU 'Agenda for Change' and more generally, with the 2011 Communication on 'A budget for Europe' which indicated that in the area of development cooperation, climate and environment, notably biodiversity, would be mainstreamed in all relevant programmes.

It is also clear that biodiversity financing will need to come from a variety of sources, both public and private, including from innovative financing mechanisms. Adequate reporting on progress towards meeting these commitments will also require improved mechanisms for tracking financing flows at both EU and national level.

4.5. Science, Technology and Innovation (STI), including Technology Development and Transfer

EU Commitments

- ***Council Conclusions of 9 March 2012 on Rio+20***, *§33: Underlines the important role played by cooperation on technology, research and innovation, education and training programmes and emphasises the need to improve mechanisms for international research cooperation and for the development of information and communications technology on major sustainable development challenges.*
- ***Council Conclusions of 25 October 2012 on follow-up to Rio+20***,*§36: Reaffirms its commitment to the promotion of clean and environmentally sound technologies as a means to facilitate a transition to green economy for all countries regardless of their development status as well as its commitment to support cooperation and capacity building for developing countries, and recalls that the EU research framework programmes are open to third countries and that the EU will further cooperate with developing countries through its new programme for research and innovation 'Horizon 2020' to promote sustainable development.*
- ***Council Conclusions of May 30 2013 on EU international cooperation in research and innovation***: *Recognises the added value of deepening the cooperation with developing countries (§10); recommends further exploring how to strengthen the innovation dimension in the cooperation with developing countries (§9).*

4.5.1. Introduction

The role of STI in support of sustainable development has been recognised since the Rio Summit in 1992. Subsequently, through the Johannesburg Plan of Implementation on Sustainable Development[171], the international community committed to actions in this area, notably in relation to the development and transfer of Environmentally Sound Technologies (ESTs)[172]. At the Rio+20 Conference of 2012, Heads of State and Government further emphasised the role of these technologies in support of sustainable development.

The debate around STI in developing countries has shifted over the past decades. While the focus has mostly been put in the past on building local R&D capabilities, often in pre-competitive stage, increased attention is now being paid to strengthening capabilities in innovation and technology closer to market deployment. This is partly due to the lessons learnt from the success of emerging economies in deploying their own innovation and technology capabilities thanks to government policies and incentives, often aimed at supporting specific sectors. At the Rio+20 Summit, agreement was reached on the need to foster the development and transfer of environmentally sound technologies aimed at allowing developing countries to meet their objectives related to environment, climate change, energy and other environmentally sensitive sectors.

Currently, there is no internationally-agreed definition of the term 'technology transfer'. The concept is subject to varying interpretations, which ultimately depend on the policy objectives of the different stakeholders. The debate is still open as to what type of actions in the R&D and innovation area constitutes 'technology transfer'. For instance, Germany considers that almost all its investments related to Climate Change constitute 'technology transfer'. Belgium indicates that at least 25 per cent of its programmes aimed at research institutions are dedicated to technology transfer and building capabilities.

EU Member States have called for broadening the definition of technology transfer and, accordingly, the policy objectives in this area. The UK considers that it would be appropriate to speak about 'technology cooperation' or 'technology support', which would better reflect the cooperation amongst and between countries in sharing knowledge and experience, and would also cover the participation of the private sector. Finland maintains that the terms 'technology transfer' gives the idea that technology is developed in advanced economies and then transferred to developing countries, an approach which would not be sustainable. It would be more effective to foster local technological development while at the same time aim at increasing the capacities of developing countries to adapt and use new and existing technologies, as a prerequisite for a sustainable innovation process that responds to local needs and culture.

4.5.2. Implementation Table

The table below summarises progress made in 2012 in implementing the EU commitments on Science, Technology and Innovation. Further details are discussed in the main text.

EU Commitment	Target Date	Status[173]	Comment
Improve mechanisms for international STI cooperation and for the development of ICT on major sustainable development challenges	No date specified		The EU Research Framework Programme and EU ODA increasingly support cooperation with partner countries in a range of sectors. Several EU-funded research projects have specifically targeted the use of ICT to share experience and knowledge across countries[174].
Promote clean and environmentally sound technologies as a means to facilitate a transition to a green economy for all countries, regardless of their development status	2014-20		The EU and 15 MS support STI and technology transfer activities relating to the green economy.
Support STI research cooperation and capacity building to enhance sustainable development in developing countries, including through the new Horizon 2020 research and innovation programme''	2014-20		'Horizon 2020 will put increased emphasis on STI partnerships with developing countries, in particular through bi-regional partnerships. Several MS implement programmes in this field.

4.5.3. EU Policies and Programmes

The EU and its Member States are longstanding supporters of research and development in developing countries, including in the area of clean technologies, with a focus on exchange programmes, twinning arrangements and direct support to research institutions in developing countries.

Several Member States have developed specific strategies, or included technology as part of their overall development cooperation strategy. In 2008, the United Kingdom redefined its Research Strategy for the period 2008–2013, with an overall budget of EUR 1.2 billion, in which health and agriculture were identified as the focal sectors[175].

The EU and 17 Member States[176] have been actively supporting technology development and transfer for developing countries. In the case of the EU, most of the support is funded through its aid budget as well as through the international cooperation activities of its Research Framework Programme. The initiatives that are related to development aid are mostly aimed at strengthening local or regional STI capabilities in particular in health, energy, agriculture and environment. The EU is also fostering South-South STI cooperation, for example through a EUR 45 million funding line for research mobility aiming at fostering cooperation on topics such as energy, agriculture, engineering and health, among universities and research centres of ACP countries. Also, the EU is supporting the African Union in managing R&D and Innovation actions with the aim of developing collaboration capabilities closer to the beneficiary countries.

As regards the Seventh Research Framework Programme (FP7, 2007-13), international cooperation activities were open to the participation of all third countries. They included a specific budget line dedicated '*to addressing specific problems that third countries face or that have a global character'* 177. The FP7 also targets specific regions and countries addressing certain needs and issues primarily related to global challenges such as health, agriculture, energy and environment – as well as strengthening the research capacity of developing countries. So far, FP7 has contributed over EUR 450 million to common research projects with partners from emerging economies and developing countries.

The Strategic Forum for International Science and Technology Cooperation (SFIC) aims to further develop, implement and monitor the international dimension of the European Research Area. A key issue is to coordinate international research activities of Member States and the EU with and vis-à-vis key strategic partner countries outside Europe. An example of this type of joint cooperation is the building up of the Indo-European Research and Innovation Partnership.

Europe is also one of the world's leading players in the advancement of Earth Observation technologies and related environmental applications. European Earth Observation covers remote-sensing satellite, ground-based, air-based and ocean-based monitoring devices. They enable the collection of high quality observation data for different purposes such as urban planning, adaptation to climate change, disaster reduction, disease control and humanitarian relief.

A number of FP projects contributed directly to building capacity in developing countries in environmental and environmentally related monitoring, assessment and information, based on modern technology in a number of fields such as earth and ocean observation systems and monitoring methods for sustainable development and a contribution to international observation systems.

The implementation of the next FP, 'Horizon 2020', will start in 2014, maintaining its openness to partnerships with developing countries, in particular bi-regional partnerships[178]. It will also contribute to addressing global challenges and specific areas of technology development, including green economy, climate action, health and agriculture[179].

Examples of other noteworthy initiatives by the EU and its Member States include projects that promote STI cooperation and/or enhance ICT implementation to address global challenges:

- **The Global Earth Observation System of Systems (GEOSS):** GEOSS is an international initiative. The Commission is one of the five co-chairs of the Group on Earth of Observation (GEO) and supported the first implementation phase of the Global Earth Observation System of Systems (GEOSS). GEOSS is a unique example of how research cooperation has already substantially progressed towards meeting the needs for long-term global information as a basis for decision making. The first implementation phase (2005-2015) focuses on nine societal benefit areas: disasters, health, energy, climate, water, weather, ecosystems, agriculture, and biodiversity. A second phase is currently under preparation.
- The **African Network for Drugs and Diagnostics Innovation** (ANDI) was established to promote and sustain African-led health research and development (R&D) and innovation by building capacity, developing infrastructure, promoting collaborative efforts and delivering affordable new tools including natural products and traditional medicines. The Commission provided funding of EUR 5 million for the 2009-2013 period. ANDI has the overarching goal of linking health innovation to development by sustaining local R&D and market access to diagnostics, drugs, vaccines and other health products in Africa. ANDI has a memorandum of understanding with WIPO on the management of intellectual property and technology transfer activities.

- In the context of establishing the patent landscape, the **European Patent Organisation** (EPO) developed and launched a new classification scheme for patents in climate change mitigation technologies, starting with CETs, which is now available on the EPO's public patent information service esp@cenet. The new scheme will provide continuous, accurate and user-friendly patent information and thus help to improve the transparency of the patent system in this critical technology sector.
- The **European and Developing Countries Clinical Trials Partnership** (EDCTP) was established in 2003 in response to the global health crisis caused by the three main poverty-related diseases (PRD) - HIV/AIDS, malaria and tuberculosis - and as a means to achieve the health-related MDGs. The EDCTP's core objective is to accelerate the development of new clinical interventions (drugs, vaccines, and micro biocides) to fight the three major PRD in sub-Saharan Africa, and to improve the quality of research in relation to these diseases, including the ethical review capacities and regulatory environment. Secondly, the EDCTP aims to step up cooperation and the networking of European national programmes for clinical trials in sub-Saharan Africa, thereby achieving a most cost-efficient and coordinated European effort in this area. Currently, there are 14 Member States, two Associated Countries and 29 sub-Saharan countries engaged in the EDCTP programme. The renewal of the EU's mandate and funding for an EDCTP 2 programme is envisaged under the auspices of Horizon 2020 (2014-2020).

There are also examples of projects supported by the EU Member States that specifically promote the green economy:

- **The Renewable Energy and Adapting to Climate Technologies** (REACT). The REACT programme is a window of the Africa Enterprise Challenge Fund which aims to stimulate private sector investment in developing and delivering low cost clean energy and climate adaptation technologies, such as solar power, biogas, irrigation, and water efficiency measures. Provisional estimates (currently under review) are that by 2015, the REACT programme will have helped to deliver access to cheaper, cleaner energy technologies to 200,000 households and 50,000 SMEs. The United Kingdom is contributing EUR 14 million to the REACT programme between 2010 and 2016.
- Between 2009 and 2013 Austria granted EUR 1.8 million in support of the **ECOWAS Regional Centre for Renewable Energy and Energy Efficiency** (ECREEE) which was established to lead and coordinate regional projects and programmes that seek to establish and operationalize markets for renewable energy and energy efficiency technologies and services in ECOWAS.

Reporting on Technology Development and Transfer should be enhanced: in particular, work needs to be done in improving the quality and coordination of the various reports. There are currently three reporting mechanisms on technology transfer activities: report to the WTO under Article 66.2 of the TRIPS Agreement, the EU Accountability Report on FFD and, starting from 2014, the EU biennial report for the UNFCCC[180]. The European Commission plans to initiate a stocktaking exercise on its own funding for R&D.

4.6. Future of Development Finance Reporting

An international consensus is emerging around the need for better measures of progress and development efficiency to tackle global challenges. The proposals for defining new aggregates that would enhance accountability fall into three broad categories, described in a recent ECDPM study[181]: (a) changing *how* we measure ODA efforts (notably by revising the ODA concept)[182]; (b) changing *what* we measure (including by complementing/replacing ODA with a broader aggregate such as 'total net resource flows for development'[183]); or (c) changing *where* we measure ODA/GNI ratios (at the recipient level rather than at the donor's level)[184].

The on-going international processes leading to the formulation of a post-2015 overarching framework and Sustainable Development Goals, as described in Chapter 1, are likely to lead to several exercises aimed at estimating the financial needs linked to the new goals, and a more comprehensive monitoring of development finance.

In that context, the OECD Working Party on Development Finance Statistics (WP-STAT) has started work in view of extending the coverage and categorisation of non-ODA flows in DAC statistics. The current cash-based flow measurement system used by DAC may need to be revised to better reflect development-related expenditures in donor countries which indeed represent a budgetary effort but do not generate cross-border flows, or place greater emphasis on gross instead of net transfers[185].

OECD/DAC members have agreed not to revise the ODA definition before 2015, in order to avoid moving goalposts before a full analysis is made of whether donors delivered on their commitments. However, the DAC has also been tasked to elaborate a proposal for a new measure of total official support for development, and to investigate whether any resulting new measures of external development finance (including any new approaches to measurement of donor effort) suggest the need to modernise the ODA concept. A first report on this topic is expected in 2013.
In addition, a loan qualifies as ODA depending on its concessional character, a concept not defined in quantitative terms and on which countries' views diverge. DAC members agreed in 2012 to establish, as soon as possible, and at the latest by 2015, a clear, quantitative definition of 'concessional in character'.

5. COMBINING PUBLIC AND PRIVATE FINANCE FOR DEVELOPMENT

EU Commitments

- *The **Council Conclusions of 15 June 2010** committed to seriously consider 'proposals for innovative financing mechanisms with significant revenue generation potential, with a view to ensuring predictable financing for sustainable development, especially towards the poorest and most vulnerable countries' (§31). The EU also committed to use these resources in line with the international Aid Effectiveness principles (§32).*
- *The **Council Conclusions of 14 May 2012** (on Agenda for Change), §17: In order to leverage further resources and increase the EU's impact on poverty reduction, new financial tools will be promoted, including blending grants and loans and other risk-sharing instruments.*
- *The **Council Conclusions of 15 October 2012** made a distinction, as in this year's report, between the funding side (innovative financing sources) and the expenditure side (innovative financial instruments), §1: The Council stresses the importance of increasing use of innovative financial instruments to promote stronger private sector engagement in inclusive and sustainable development, especially at the local level. The EU agrees to use grants more strategically and effectively for leveraging public and private sector resources, including in the context of blending grants and loans and innovative risk-sharing and joint financing mechanisms. The Council supports the setting up of the 'EU Platform for External Cooperation and Development' to provide guidance to existing blending mechanisms. The EU also stresses the central role of enabling domestic business environments and promoting corporate social responsibility principles, at local and global level. Use of innovative financing mechanisms will take account of debt sustainability and accountability and will avoid market disturbances as well as budgetary risks.*

5.1. Introduction

There is no universally accepted definition of Innovative Financing Mechanisms (IFM)[186]. While the term initially referred to new **sources** of development financing that could complement traditional ODA[187] in a stable and predictable way[188], it has progressively been expanded to include innovative financial **instruments** aiming at enhancing the impact, effectiveness and efficiency of development finance.

The main characteristic of these mechanisms is not intrinsic financial novelty, but the fact that they differ from traditional approaches to mobilising and/or delivering development finance[189]. Traditional sources of funding ODA typically include budget outlays from established sovereign donors, or bonds issued by multilateral and national development banks, while traditional approaches to delivering development finance include grants and loans to beneficiaries, directly or through a variety of implementing agencies. Innovative financing sources and mechanisms are essentially a way to fill the financing gap between what is needed to address developmental challenges and what donors can provide, often addressing a specific externality or market failure.

IFM are thus mechanisms that (i) support fund-raising by tapping new sources and engaging investors beyond the financial dimension of transactions, as partners and stakeholders in development; and/or (ii) deliver development finance in new ways, enhancing its impact on development problems on the ground. They can therefore be considered 'innovative' either because of the nature of sources or the way they are collected, implemented and used to catalyse additional financing.

Broadly speaking, **IFM can be divided into innovations in fund-raising and innovative financial instruments for development:**

(1) Mechanisms that generate additional Financing for Development by tapping into new and **innovative finance (or funding) sources** (non-traditional or non-conventional ODA resources, emerging donors and the private sector). For example, global solidarity levies

(such as the airline ticket tax or the Adaptation Fund) or national lotteries, or front loading mechanisms like the International Finance Facility for Immunisation (IFFIm), or co-payment schemes such as the Advance Market Commitment (AMC) mechanism.

(2) Mechanisms that offer **innovative financial instruments** in the way existing aid resources are pooled, blended and delivered. For example, the EU regional blending facilities, structured investment funds like GEEREF, Special Purpose Funds like TCX, or Guarantee Mechanisms like GIIF.

This chapter tries to quantify innovative financing sources (Section 5.3) and instruments (Section 5.4), and shows where the EU stands on its commitment to support the use of innovative ways to finance development.

5.2. Implementation Table

The table below summarises progress made in 2012 in implementing the EU commitments on innovative financing sources and instruments. Further details are discussed in the main text.

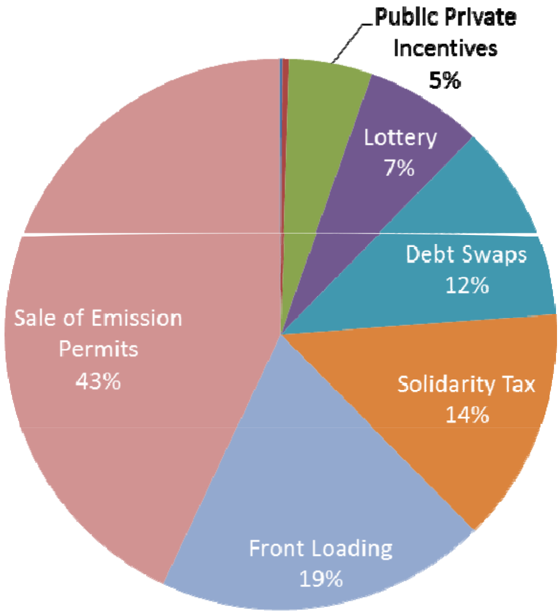
EU Commitment	Target Date	Status[190]	Comment
Consider proposals for innovative financing mechanisms with significant revenue generation potential, with a view to ensuring predictable financing for sustainable development, especially for the poorest and most vulnerable countries	No date specified		Several MS are using innovative sources of development funding, although they accounted for only 2% of ODA in 2010-12. It is unclear whether revenue generation for development from existing and new taxes (e.g. FTT) will be significant.
Promote new financial tools, including blending grants and loans and other risk-sharing instruments	No date specified		Several blending instruments have been introduced and further developed over 2012, now covering all regions of EU external cooperation. The EU Platform for Blending in External Cooperation was established in December 2012.
Use innovative financing mechanisms taking into account debt sustainability and accountability and avoiding market disturbances and budgetary risks.	No date specified		MS and Commission funds for innovative financial instruments increased from EUR 600 million a year in 2010-11 to over EUR 2 billion in 2012.

5.3. Recent Trends

5.3.1. Innovative Financing Sources

Innovative financing sources accounted for about 2% of EU ODA over the period 2010-2012, as shown in Table 5.3.1 below, with an average of EUR 1.2 billion per year. Only one third of innovative financing sources were reported as ODA by EU Member States in 2011. The revenues generated by such sources were highly concentrated in five countries accounting for 98% of the total: Germany (43%), France (37%), Belgium (7%), United Kingdom (6%), and Italy (5%).

Figure 5.3.1 - Distribution of Innovative Sources of Financing for Development (%, 2010-2012)



Source – 2013 EU Financing for Development Questionnaire

As shown in Figure 5.3.1, a relative majority of innovative finance for development was raised through auctioning of emission permits. Government guarantees are used by IFFIm to raise funds on international markets. The solidarity tax on air travel is currently implemented only by France and represents a sizeable share of the total. Lottery proceeds are directed to aid activities in Belgium and the United Kingdom, although the contributions from the latter have not been quantified.

Table 5.3.1 - Revenues Generated by Innovative Financing Sources as reported by Member States (2010-2012, EUR million)

Member State	Innovative Financing Sources	Total revenues			Reported as ODA in 2011	Mechanism to ensure that this financing is used in accordance with the aid effectiveness principles
		2010	2011	2012		
Belgium	Contribution Belgian Lottery	88.0	88.0	88.0	88.0	The budget provided through the National lottery is not used through a parallel mechanism, but is integrated in the normal programming of Belgium's bilateral cooperation. Alignment of the projects and programmes with local policies
Cyprus	UNITAID	0.4	0.4	0.4	0.4	Existing initiative in the field of health which has shown its ability to provide stable and predictable resources in a coordinated manner.
France	International Solidarity Levy (tax on airline tickets)	163.7	175.1	185.3	172.5	These resources are used to fund IFFIm, GAVI and UNITAID. France contributed US$1.1 billion to UNITAID between 2006 and 2012. This contribution helped developing medicines adapted to HIV/ AIDS infected children (less than 10,000 children were under anti-retroviral treatment in 2010 but today they are more than 560,000); to drastically reduce the prices of second-line anti-retroviral medicines and of multi-drugs resistant tuberculosis treatments; or to generalise the use of more adapted anti-malaria treatments.
France	International Financing Facility for Immunisation (IFFIm)	230.2	147.1	99.3	27.7	IFFIm is based on the 'front loading 'principle. IFFIm/GAVI estimated that IFFIm had a leverage of 1.98 in 2012. France ensures that the funds are used in line with development effectiveness principles through its participation in the Board of Directors of GAVI.
France	Debt Reduction-Development Contracts (C2Ds)	137.0	135.5	143.1		Debt Reduction-Development Contracts (C2Ds) are a mechanism within the French foreign aid tool-set. The mechanism aims to alleviate debt that has been contracted by a developing country within the framework of Official Development Assistance (ODA), e.g. French foreign aid. C2Ds allow French ODA debts to be refinanced through grants. With the C2D mechanism, a country continues to honour its debt to France; when a repayment is made, France makes a grant to the country in an equivalent amount. The grant money is then allocated to poverty reduction programmes that have been selected by joint agreement between France and the receiving country
Germany	Special Energy and Climate Fund (previously: emission allowances sales	591.0	562.0	482.7	27.0	All programmes are aligned with country priorities. The Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) coordinates its activities with BMZ. BMZ's programmes are fully integrated with existing German development cooperation and as such adhere to the principles of aid effectiveness.

Member State	Innovative Financing Sources	Total revenues			Reported as ODA in 2011	Mechanism to ensure that this financing is used in accordance with the aid effectiveness principles
		2010	2011	2012		
	revenues)					
Germany	Debt2Health	20.0	3.3			Implementing Agency: KfW Entwicklungsbank; type of grant support: debt swap; health focus.
Hungary	European Emission Trading Scheme			5.0		
Italy	International Financing Facility for Immunisation (IFFIm)	25.0	26.7	26.7	26.7	
Italy	Advance Market Commitments (AMCs)	38.0	38.0	38.0	38.0	
Luxembourg	Contribution to Unitaid	0.5	0.5	0.5	0.5	Unitaid is committed to improving aid effectiveness and respecting the principles of the Paris Declaration.
Luxembourg	Fonds de lutte contre certaines formes de criminalité	3.8	0.6		0.8	Funds are channelled through existing mechanisms (UNODC, NGOs, and Lux Dev), how aid effectiveness principles are respected is indicated in the project documentation.
Netherlands	International Financing Facility for Immunisation (IFFIm)					
Spain	IFFIm	9.5	9.5	8.7		
Spain	UNITAID	8.0	5.0			
United Kingdom	International Financing Facility for Immunisation (IFFIm)	40.2	50.7	66.0		
United Kingdom	Advance Market Commitments (AMCs)	17.5	40.3	14.8		The AMC is an innovative 'pull mechanism' which is being piloted to encourage manufacturers to invest in and scale-up the production of pneumococcal vaccine for developing countries.
Total		**1,372.9**	**1,282.7**	**1,092.5**	**381.5**	

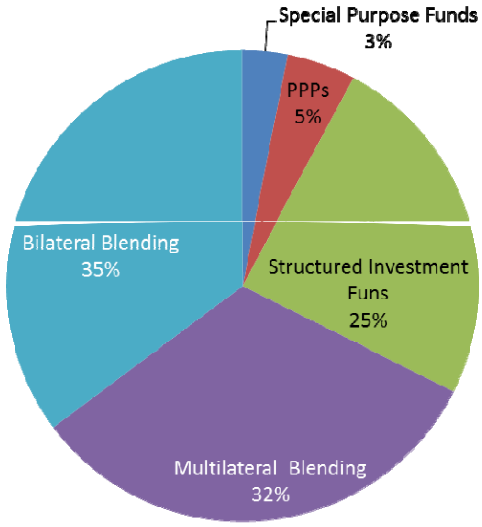
Member State	**Innovative Financing Sources**	**Total revenues**			**Reported as ODA in 2011**	**Mechanism to ensure that this financing is used in accordance with the aid effectiveness principles**
		2010	**2011**	**2012**		
% of EU ODA		**2.6%**	**2.4%**			

On the basis of the definitions of Innovative Financing for Development (IFD) used by OECD/DAC[191], 64% of EU IFD concerned new public revenue streams (i.e. emission allowances, taxes and lotteries), 31% debt-based instruments and frontloading, and 5% public private incentives like the Advance Market Commitments (AMCs). Debt-based instruments are usually reported as ODA as they fall due, and it is therefore not surprising they are not fully included in ODA reporting by Member States.

5.3.2. Innovative Financing Instruments

Seven Member States are currently using, or are planning to use, one or more of the existing innovative financing mechanisms to raise funds for development[192]. Overall, funds allocated for innovative financial instruments by EU Member States and the Commission have increased from EUR 600 million per year in 2010-2011 to over EUR 2 billion in 2012.

Figure 5.3.2 - Distribution of EU Innovative Financing Instruments for Development (%, 2010-2012)



Source – 2013 EU Financing for Development Questionnaire

As shown in Figure 5.3.2, over two thirds of innovative financial instruments involve blending, while structured investment funds account for one quarter.

5.4. EU Policies and Programmes

5.4.1. Innovative Financing Sources

Innovative tax sources earmark revenues for development cooperation. As a general principle, revenues from specific taxes should not be earmarked to specific public expenditure but used to finance general government spending. Governments usually follow this principle and use earmarking only in special cases. In some countries, earmarking is even forbidden by the budget law since it can lead to budgetary inflexibility by restricting the decision-making powers of the current and future governments. Moreover, the revenue generated from a particular source or sources may be greater than – or less than – the desired or appropriate level of spending on a particular development goal. Nor can earmarking ensure that revenues from a new source are additional spending, as the new revenues may simply replace spending previously financed from other public revenues.

At the EU level, two innovative sources of financing are worth underlining.

First, the **Financial Transaction Tax** which eleven Member States (France, Germany, Spain, Italy, Belgium, Estonia, Greece, Austria, Portugal, Slovenia and Slovak Republic) have already decided to apply under 'enhanced co-operation' rules, as approved by the EU Council of Ministers in January 2013. These countries will impose a 0.1% tax on trades in stocks and bonds, and a 0.01% tax on derivative transactions. The tax is expected to generate about EUR 30-35 billion per year when applied by the eleven Member States. A few EU Member States use FTT to finance UNITAID. France has committed to use at least 10% of the tax's revenues for development. If a similar commitment were made by the other ten Member States, the tax could raise an additional EUR 3-3.5 billion in IFD, in effect quadrupling the current innovative funding level.

Second, **the extension of the EU Emissions Trading System (EU ETS)** – used to fund development co-operation in Germany - **to aviation transport,** the scheme for greenhouse gas emission allowance trading within the Community. As foreseen in the Directive 2008/101/EC of the European Parliament and of the Council decision of 19 November 2008 amending Directive 2003/87/EC, aviation activities are, since January 2012, included in the emissions from all domestic and international flights that arrive at or depart from an EU airport[193].

5.4.2. Innovative Financing Instruments

Innovative financial instruments usually tackle two inter-related issues of cost and access. The type of funding and the repayment terms are both key determinants on the cost side. Blending of grants with market-based financing is thus a way to reduce costs, especially for investment with long gestation period and with economic and social rates of return well above the financial rate of return. While other measures such as guarantees help address both issues, other mechanisms discussed below help improving access.

A few recent initiatives that have not yet generated substantial flows are described in **Box 5.4.2**. Each instrument reports substantial leveraging of private funds, from 1:1 to 1:30.
The European Commission is strengthening its blending mechanisms; combining grants with additional flows (such as loans and risk capital) to gain financial and qualitative leverage, and increase the impact of EU development policy. The strategic use of a grant element can make projects and initiatives by public or commercial investors financially viable, thereby exerting a leveraged policy impact. The grant element may take various forms such as: direct investment grants (41% of the grant element provided so far by the seven EU regional blending facilities managed by DEVCO); interest rate subsidies (19%); technical assistance (32%), risk capital (4%), and risk sharing mechanisms such as guarantees (3%). Beyond unlocking additional project financing, the EU grant element also reduces the price of the project for the beneficiary and contributes to complying with debt sustainability criteria.

Since 2007, the EU, together with several Member States, has set up eight regional blending facilities[194], now covering all regions of EU external cooperation, after the launch of three new facilities for Asia, the Caribbean and the Pacific in 2012. EUR 1.5 billion grants from the EU budget, the European Development Fund (EDF) and Member States have financed more than 320 operations of EU blending mechanisms. The EU grant contributions to individual projects have leveraged more than EUR 20 billion of loans by eligible finance institutions, unlocking project financing of at least EUR 45 billion, in line with EU policy objectives. To date, the seven EU regional blending facilities managed by DEVCO have covered similar broadly defined sectors: transport (26% of the grant element provided by the eight regional blending facilities so far), energy (35%), social (5%), water/wastewater (20%), ICT (3%), and access to finance for MSMEs (11%).

Box 5.4.2 - Examples of Innovative Financial Mechanisms Supported by Member States

Germany - Support for social entrepreneurs and foundations in development
The objective is to mobilise additional private resources for developmental activities in developing countries. This initiative is in technical preparation and will be piloted in 2013.

Netherlands - Private Sector Revolving Fund
The Netherlands is currently setting up a EUR 750 million revolving fund to bridge the gap between commercial challenges in developing countries and the strengths of the business community.

Sweden - Business for Development (B4D) Programme
B4D is an innovative programme, where Sweden engages in new ways with the private sector in order to achieve more development impact. An important feature of the programme is that it is open to private sector actors from all over the world and it is the development results that are in focus. Cost-sharing, risk-sharing, additionality, catalytic support and leverage effect are other guiding principles. The main instruments for collaboration are: Public-Private Development Partnerships, Challenge Funds, Drivers of Change, Innovative Finance (please see below) and Dialogue. Innovations Against Poverty is one example of a tool (a challenge fund) which is used for collaborating with the business sector to stimulate companies to come up with new innovative solutions for addressing poverty and contributing to sustainable development. Through this challenge facility successful bidders are able to receive support; from planning grants through guarantees, to develop and expand their business, as needed. A similar setup is in place for companies working with the African Enterprise Challenge Fund, with a particular focus on post-conflict countries.

United Kingdom - Impact Programme for Sub-Saharan Africa and South Asia
The programme, launched in December 2012, will provide up to EUR 138 million over 13 years to foster the development of the market for impact investment into Sub Saharan Africa and South Asia by:

- Demonstrating the development impact and financial viability of this emerging class of investment through a new DFID Impact Fund (up to EUR 92 million) that will be managed by CDC. The Fund will provide capital and specialist advice on a competitive basis to enable impact investment managers to raise more capital and invest it more effectively into high impact enterprises
- Partnering with USAID, Omidyar Network, Rockefeller Foundation to provide support (EUR 13 million) to the Global Impact Investing Network (GIIN) to improve the way that social impact is measured and information about it is shared

Expected results of the Programme are:

- Over five million poor women and men using or benefiting from access to affordable goods and services such as health, agricultural services, energy, housing, education, and safe water or accessing new opportunities as employees or producers.
- Investments in over 100 enterprises in Sub Saharan Africa and South Asia
- Additional private capital catalysed by the DFID-CDC Impact Fund.
- Over 300 locally based Fund Management staff trained in impact measurement and investment skills.

In addition to achieving more with less by leveraging ODA grants, blending facilities provide funding with a financial discipline that can be more effective in boosting ‘ownership’ that traditional ODA. Moreover, they bring together a variety of partners, improving coordination among donors, international financial institutions and investors both in terms of funding and policy dialogue. These facilities have also built a wealth of expertise in environmental assessments, engineering, and project management, and this expertise is used the overall quality of the projects they support.

Some civil society organisations have however raised concerns regarding the increased use of blending for five reasons: (1) insufficient access to information about blending operations; (2) unclear monitoring and evaluation methods; (3) opportunity costs; (4) risk of financial incentives outweighing development principles; and (5) debt risks for developing countries.

To address these concerns amongst other things, the European Commission launched a new ‘EU Platform for Blending in External Cooperation’ at the end of 2012, a major forum to build on the successful experience so far in this area and look at how to improve the quality and efficiency of blending mechanisms. Representatives from Member States, the European

Parliament, the European External Action Service and the European Commission agreed on a work plan for 2013 that includes a review of the existing blending mechanisms and the development of a common results based framework to measure impact. Technical groups have started their work with the participation of all relevant finance institutions active in EU regional blending. In connection with the work of the technical groups, consultations are held with civil society organisations.

The EU regional blending facilities currently mainly support public investments. Only 10% of the grant contributions made so far went to projects that involve the private sector. This support predominantly took the form of support to MSMEs. However, the European Commission is looking into ways of increasing the role of blending as a catalyser of private investment for development. The main idea is not to provide grants to the private sector, but rather to use the grant to enable additional private Financing for Development. The motivation for increasing the role of the private sector in development is to make a contribution to poverty eradication and the achievement of sustainable development; not to help private firms make a profit. The grant shall serve to crowd-in foreign and local financing, assuring the additionally of the EU grant contribution, that seems strong given the average 34:1 leverage between ODA grants and project financing achieved so far through blending. The leverage varies by sector from 50:1 for urban transport projects to 4:1 for projects in the social sectors.

Debt sustainability is another important consideration when assessing projects in the blending facilities. In fact, the grant contribution can be used precisely to reduce the borrowing cost for the beneficiary with a view to easing its exposure to external debt. To ensure that debt sustainability is taken into account, the approval process of the facilities has a built-in check for concessionality requirements, based on IMF regulations. This aspect is already flagged in the identification phase of the project by the lead finance institution. The Commission, in close collaboration with the EU Delegations, verifies the social, environmental and debt sustainability of projects supported through the blending facilities. This also means that blending cannot be used in each and every country, sector or project.

Blending mechanisms are also used bilaterally. Over the period 2010-2012, over half of blending was bilateral, and Germany accounted for 92% of the total, with the balance coming from Sweden. Implemented by KfW Entwicklungsbank, German blending mechanisms involve a combination of interest rate subsidies and Federal guarantees. They are used globally and focus on more profitable sectors and partner countries with adequate debt sustainability. Sweden uses blending in specific countries (e.g. Kenya, Sri Lanka, Mozambique) in water and sanitation and hydro power generation, or through international development banks (e.g. EBRD, IFC).

Structured Investment Funds provide risk capital to private initiatives in developing countries. Denmark supports the Arab Investment Fund (AIF), and the Climate Investment Fund (DCIF). DCIF invests in commercially viable private sector projects within energy production and energy efficiency with a positive climate impact. Germany is financing several structured investment funds with a geographical focus. The Netherlands is a shareholder of the Health Insurance Fund (HIF), Investment Fund for Health in Africa (IFHA), and Medical Credit Fund. These are funding mechanisms for developing health insurance for people with low income or in the informal sector, and improving and expanding healthcare capacity. Their objective is to use public funds to leverage private sector investments. The first round of IFHA raised EUR 50 million from Goldman Sachs, Pfizer, FMO, IFC, Shell, Unilever, Aegon, Achmea, SNS Reaal, Heineken and other companies. The Global Energy Efficiency and Renewable Energy Fund (GEEREF) is an innovative Fund-of-Funds, providing global risk capital through private investment for energy efficiency and renewable energy projects in developing countries and economies in transition. Launched in 2004, GEEREF aims to accelerate the transfer, development, use and enforcement of environmentally sound technologies for the world's poorer regions, helping to bring secure, clean and affordable energy to local people. GEEREF is sponsored by the European Union, Germany and Norway.

A **Public-Private Partnership (PPP)** is a partnership between the public and the private sector for the purpose of delivering a project or a service traditionally provided by the public sector. **The Private Infrastructure Development Group** (PIDG) is a multi-donor organisation[195], including Austria, Germany, Ireland, Netherlands, Sweden and UK. It was established in 2002 to promote private participation in infrastructure in developing countries with a strong focus on Africa. It provides long-term capital and local currency guarantees, and TA. **The Public-Private Infrastructure Advisory Facility** (PPIAF)[196] is a multi-donor technical assistance facility, set up in 1999 and financed by 17 multilateral and bilateral donors including Austria, France, Germany, Italy, Netherlands, Sweden, and United Kingdom. It is a complementary scheme to deliver technical assistance to developing country governments.
In terms of bilateral initiatives, the Netherlands supports the PPP Facility for Food Security and Sustainable Development, the PPP for renewable energy, and PDP, a PPP for product development, managed by an independent scientific secretariat that coordinates the development of new medicines, vaccines and diagnostic kits.

Special purpose funds leverage public long term capital to provide solutions to market failures. The Netherlands is supporting, though a convertible subordinated loan that is not ODAble, **the Currency Exchange Fund (TCX)**. TCX is a special purpose fund that hedges the currency and interest rate mismatch that is created in cross-border investments between international investors and local market participants in frontier and less liquid emerging markets. In some blending operations (e.g. the NIF with EBRD), the EBRD is making use of TCX in order to make finance available to SMEs in their own currencies in Eastern Europe and Central Asia. This is an important innovation for borrowers whose revenues are in local currency – the foreign exchange risk to borrowers might have otherwise offset any concessionality or grant component, The Netherlands also supports **enterprise challenge funds** for renewable energy (e.g. the Daey Ouwens Fund, the Sustainable Biomass Fund). The United Kingdom supports the **GAVI Matching Fund** designed to raise EUR 196 million for immunisation by the end of 2015. Under the initiative, the UK Department for International Development (DFID) and the Bill & Melinda Gates Foundation have pledged about EUR 98 million combined to match contributions from corporations, foundations and other organisations, as well as from their customers, members, employees and business partners.

Guarantee mechanisms can reduce risk and enhance access to finance. Sweden has launched a EUR 76 million guarantee programme to support micro-finance. The European Commission with EUR 24.5 million and the Netherlands with EUR 0.4 million are providing 90% of the funding for IFC's Global Index Insurance Facility (GIIF). The GIIF addresses the scarcity of affordable insurance protection against weather and natural disasters in developing countries and is currently supporting 28 developing countries with capacity building and premium subsidies. Since its establishment in 2009, GIIF partners have issued more than 125,000 contracts. The total number to be reached by the end of 2013 exceeds 200,000, benefiting around one million households.

Issues affecting the use of IFMs. As noted by some Member States, a number of issues need to be taken into account when using innovative financial instruments: 1) instruments should not impede the proper functioning of market mechanisms, 2) conditionality and earmarking of instruments can reduce ownership of developing countries, 3) instruments can have pro-cyclical effects which can make the availability of means unpredictable, 4) ownership and coordination of instruments are crucial to reduce transaction costs, 5) the creation of new instruments implies higher financial-economic risks which need to be taken into account from the beginning of the design process and 6) a good ex-ante assessment framework for the instruments is crucial.

6. USING DEVELOPMENT FINANCE EFFECTIVELY

EU Commitments

- *The **Council Conclusions of 17 November 2009**[197] on an Operational Framework on Aid Effectiveness, with additions made in June 2010 (cross country division of labour) and December 2010 (accountability and transparency)*[198] *contains measures in three areas: (1) Division of Labour (selected measures to further implement the EU Code of Conduct on the Complementarity and Division of Labour in Development Policy); (2) Use of Country Systems, and (3) Technical Cooperation for Enhanced Capacity Development. EU Member States and the Commission were asked to start implementing them immediately (both individually and jointly).*
- ***Council Conclusions of 14 November 2011 on the EU Common Position for the Fourth High Level Forum on Aid Effectiveness** specified the importance of joint programming, cross-country division of labour, use of country systems, mutual accountability, results, and transparency. It also endorsed application of the aid effectiveness principles to climate change finance.*
- ***Council Conclusions of 15 October 2012 (on Financing for Development)**: The EU will implement the European Transparency Guarantee and the commitments related to the common open standard for publication of information on development resources including publishing the respective implementation schedules by December 2012, with the aim of full implementation by December 2015, as set out in the Busan Outcome Document. The EU is also committed to reducing aid fragmentation in line with the Busan Outcome Document, notably through promoting joint programming, as defined in the Council Conclusions on the EU Common Position for the Fourth High Level Forum on Aid Effectiveness, and increasing coordination in order to develop a common EU joint analysis of and response to partner country's national development strategy.*

6.1. Introduction

Quality of development expenditure is at least as important as its funding. Such quality has several dimensions. Development effectiveness of the financial flows analysed in the previous chapters, both public and private, is of paramount importance, and has been subject to a series of agreements initially on aid effectiveness at the OECD/DAC High Level Forums (HLF) of Rome, Paris and Accra, and then on development effectiveness at the Busan HLF. The latter resulted in the launch of the Global Partnership for Effective Development Cooperation, a new inclusive forum bringing together a wide range of countries and organisations that are committed to ensuring that development cooperation is effective and supports the achievement of results.

As explained in Chapter 1, the debates on Financing for Development (FFD) and on the Means of Implementation (MOI) for the Rio+20 Conference are converging. The principles for Effective Development Cooperation, agreed in Busan in December 2011, discussed in this chapter, refer clearly to both FFD and MOI, from both public and private sources. The Declaration itself stated that 'as we partner to increase and reinforce development results, we will take action to facilitate, leverage and strengthen the impact of diverse sources of finance to support sustainable and inclusive development, including taxation and domestic resource mobilisation, private investment, aid for trade, philanthropy, non-concessional public funding and climate change finance. At the same time, new financial instruments, investment options, technology and knowledge sharing, and public-private partnerships are called for'. More specifically, 'global climate change finance is expected to increase substantially in the medium term. Recognising that this resource flow brings with it new opportunities and challenges, we will endeavour to promote coherence, transparency and predictability across

our approaches for effective climate finance and broader development co--operation'.

Effective development funding must work towards complementarity of objectives, for example by ensuring that funding always supports the objectives of protecting biodiversity, valuing ecosystem services as well as climate change mitigation and adaptation. In this respect, the impact of private investments must be particularly monitored.

The Busan principles for Effective Development Cooperation therefore apply to all Financing for Development discussed in this report, including Means of Implementation into financing of Global Public Goals/ sustainable development goals, as well as all actors involved as both civil society organisations and the private sector are part of the post-Busan Global Partnership for Effective Development Cooperation.
The EU and its Member States played an active and constructive role in the Busan Fourth High-Level Forum on Aid Effectiveness as well as during its preparation. The Busan outcome document was in line with the priorities of the EU and Member States: it is inclusive, it focuses and deepens aid effectiveness commitments while expanding to development effectiveness and, finally, it emphasises country level implementation while scaling down global governance structures.

As stated in the EU Common Position for Busan, **the priority after Busan is to focus on the country level implementation of aid and development effectiveness commitments. The main EU deliverables are on joint programming and transparency**. There is also an EU commitment to support country-level results and accountability frameworks and division of labour arrangements.

A first progress report on progress made after Busan will be presented in the second half of 2013, and could therefore not be considered for the preparation of this report. Final decisions on the mandate and the governance structure of the Global Partnership as well as monitoring framework set in the Busan outcome document were made by the Working Party on Aid Effectiveness in June 2012. The main function of the Global Partnership is to ensure continued accountability at the political level based on the evidence arising from country level implementation. Global monitoring arrangements, in turn, will build on country level monitoring processes based on a global set of core indicators on Busan priority themes. The decisions of the Working Party were based on the proposals negotiated by **the Post-Busan Interim Group.** The European Commission (representing the EU), the United Kingdom, Germany and Sweden were all members of the group and played an active role in it.

The Global Partnership Steering Committee has met twice so far, in December 2012 and March 2013. Regional and constituency consultations are currently on-going and a first progress review of progress on the ten indicators agreed in Busan will be prepared after mid-2013. The Global Partnership is also seeking linkages with the UN post-2015 process and with the Open Working Group on Sustainable Development Goals, to ensure consistency between these parallel efforts. The process is ambitious and potentially far reaching with simultaneous attempts at redefining the overall targets of development cooperation, its scope and financing tools, the types of actors involved from the official sector and civil society, and the focus of effectiveness from aid to development.

6.2. Implementation Table

The table below summarises progress made in 2012 in implementing the EU commitments on aid transparency, joint programming, and mutual accountability. Further details are discussed in the main text.

EU Commitment	Target Date	Status[199]	Comment
Implement the European Transparency Guarantee and commitments relating to the common open standard for the publication of information on development resources, e.g. by publishing implementation schedules by December 2012, with the aim of full implementation by December 2015	December 2012 (schedules) and December 2015 (implementation)		By December 2012, the Commission and 20 MS, including all nine that are signatories to IATI, had published schedules to implement the common standard. In their schedules, the Commission and 13 MS set out plans for implementation by 2015. A majority of the schedules (11 out of 21) were rated 'unambitious' by Publish What You Fund (PWYF). 19 MS had a rating of 'poor' in PWYF's 2012 Transparency Index, four MS and the Commission were rated as 'fair' and four MS as 'moderate'.
Promote joint programming and increase coordination in order to develop a EU joint analysis of, and response to, partner countries' national development strategies	No date specified		Joint programming was taken forward in six partner countries in 2012 and is expected to be in place at the start of the next programming period (2014) in at least eight. The opportunities for joint programming were assessed on the ground in a total of 55 countries and preparations for joint programming will go ahead in almost all of these. Nine MS have issued guidelines on joint multi-annual programming.
Implement the results and mutual accountability agenda	No date specified		Currently, the EU and 24 MS participate in mutual accountability arrangements in over 10% of their priority countries, and 13 MS and the EU do so in 50% or more. The EU and 21 MS participate in country-level results frameworks and platforms in over 10% of their priority countries, and 12 MS and the EU do so in 50% or more.

6.3. EU Policies and Programmes

6.3.1. Joint Programming

The EU has achieved substantial progress on joint programming. EU Joint Programming occurs when the EU and its Member States agree to adopt a common multiannual programming document for their support to a partner country or region, or when they take steps in this direction. In accordance with the Council Conclusions of November 2011[200], Joint Programming calls for a joint analysis of and a joint response to the partner country's/region's development plan. It should also include the identification of the sectors of intervention, in-country division of labour and indicative financial allocations.

In January 2012, the EU and its Member States jointly asked that the feasibility of Joint Programming be assessed by their delegations and embassies in eleven candidate partner countries. Joint Programming was taken forward in six of these countries (Ethiopia, Ghana, Guatemala, Laos, Mali and Rwanda), while it had already begun in Haiti and South Sudan. Following the experiences in these first eight countries (discussed in **Box 6.3.1** below), the feasibility of Joint Programming in an additional forty-two countries was canvassed. The overwhelming majority of responses received so far have been positive, with most expecting to undertake Joint Programming by 2016. The EU and nine Member States have issued guidelines on joint multi-annual programming, while four Member States will issue them in 2013[201]. The European Commission and the EEAS have issued programming instructions for the period 2014-20 noting the priority given to Joint Programming where it is relevant to the country situation, and setting out guidance on how to deal with it in the programming exercise. Further guidance on joint programming is available from dedicated units within the EEAS and EuropeAid.

Member States that have issued or are planning to issue Joint Programming guidelines cover almost equally all elements of joint programming: joint analysis, joint response, in-country division of labour, indicative sector allocation, and synchronisation with planning cycles of partner countries.

Box 6.3.1 – On-going Joint Programming Exercises and Lessons Learnt

In **Guatemala** and **Laos,** draft Joint Programming documents were received in December 2012, including a joint analysis of and response to national development plans, steps towards division of labour and indicative financial allocations. Further discussions are taking place with Member States with a view to fine tuning these documents.

In **Ghana**, the Joint Programming process is built on the Busan-inspired Compact already agreed by the government and most donors. It includes an analysis of the strategic direction of the development of the country and ways to implement the aid relationship. In addition, the EU and Member States will discuss a Joint Framework Document which encompasses the wider EU-Ghana relationship.

In **Ethiopia**, an EU Joint Cooperation Strategy was signed in January 2012 by 21 EU donors as well as Norway. For **Rwanda,** an advanced Joint Programming document, which will be fully synchronised with the new national development cycle of the government, is expected by June 2013. It will build on the existing and quite well advanced division of labour process led by the Rwandan government itself. In **Mali,** Joint Programming will be reviewed in order to take account of the current political situation. In **Haiti,** the prospects are good for Joint Programming to start in the short term, building on the experience of 2010. Further identification is taking place on the ground with regard to the scope and timelines. In **South Sudan,** the Joint Programming agreed in 2011 is currently being implemented and a revised Joint Programming document is foreseen for 2014.

Some of the main lessons learnt from the first Joint Programming countries are: 1) Joint Programming processes are most effective when driven at partner country level, having led to local solutions adapted to the specific circumstances; 2) Ownership by partner countries, and where possible their leadership as in Rwanda, is important; 3) In some countries, non-EU actors are taking part as well, and it is important to remain open to other committed non EU actors; 4) Above all, experience confirms that synchronisation with partner countries' planning cycles is crucial. Programming instructions for all EU cooperation for the period 2014-20 provide for flexibility to synchronise with partner countries' planning cycles, and to use their development plans as the basis for all EU programming.

6.3.2. Transparency of Development Finance

Making Development Finance more transparent is also essential. All EU non-DAC donors now also report their ODA to the OECD/DAC. The Commission continues to provide support to the EU's non-DAC donors to enhance their statistical reporting capacity. The EU15 countries have all adhered to the new DAC CRS++ reporting formats.

The International Aid Transparency Initiative (IATI) was launched in 2008 to develop consistent and coherent international standards so that donors report more timely information on past and future aid spending. The European Commission and nine Member States[202] are signatories to IATI, and are implementing or are preparing to implement its standards. The Czech Republic is designing a new ODA internal reporting system in full compliance with IATI standards, and Estonia is exploring the possibility of making its ODA statistics compatible with IATI standards.

Nineteen Member States have developed and use national aid transparency tools, usually through their development cooperation's websites, and annual reports. Denmark is preparing a new law on International Development Assistance that will require increased transparency both at partner country level, and domestically. The EU adopted the EU Transparency Guarantee in November 2011, while both Sweden and the United Kingdom launched national Aid Transparency Guarantees in 2010 (see **Box 6.3.2**).

Important dimensions of aid transparency include: 1) the way funds are provided (within or outside national budget and public finance management systems), 2) how predictable their disbursement is (a key element in enabling proper planning and resource management), and 3) the extent to which information on the use of such funds is made public.
Aid predictability is essential in that regard. For example, while overall international public finance has been stable, the picture is different for individual developing countries. The analysis on the basis of DAC's Forward Spending Surveys shows that volatility of bilateral donors' Country Programmable Aid (CPA) is on average close to 10% (slightly higher with multilateral institutions). Studies have found aid to be pro-cyclical and more volatile than exports for example, and put a cost of this volatility at about EUR 12bn[203].
At the Busan HLF for Effective Development Cooperation in December 2011, donors committed to providing indicative 3-5-year forward expenditure and/or implementation plans to all of their partner countries. The implementation of annual predictability as well as medium-term (three years) aid predictability will be monitored through the Busan indicators. Forward spending data is also part of the agreed IATI standard, so should improve with the progressive implementation of IATI in the near future.

Table 6.3.2 – EU Member States that are signatories to IATI and/or have published their IATI Implementation Schedule[204]

Signatory	Month/Year signed up to IATI	Date of most recent schedule
Austria		December 2012
Belgium	November 2012	December 2012
Czech Republic		December 2012
Denmark	September 2008	December 2012
EC	September 2008	December 2012
Finland	September 2008	December 2012
France		December 2012
Germany	September 2008	December 2012
Greece		December 2012
Ireland	September 2008	December 2012
Italy		December 2012
Latvia		December 2012
Luxembourg		December 2012
Netherlands	September 2008	December 2012
Poland		December 2012
Portugal		December 2012
Slovak Republic		December 2012
Slovenia		December 2012
Spain	November 2008	December 2012
Sweden	September 2008	December 2012
United Kingdom	September 2008	December 2012

The EU performance on aid transparency is mixed. Nineteen Member States had a rating of 'poor' in the 2012 Transparency Index prepared by Publish What You Fund (PWYF), the global campaign for aid transparency. Four Member States[205] and the Commission were rated as 'fair' and four Member States[206] as 'moderate'. By December 2012, the European Commission and twenty Member States, including all nine that are signatories to IATI, have published schedules to implement the common standard for transparency for development cooperation resources as required in the Busan Partnership for Effective Development Cooperation, as shown in **Table 6.3.2 above**.

In particular, all EU IATI signatories have committed to start publishing in the IATI Registry by end of 2013. The Czech Republic, Luxembourg, Poland and the Slovak Republic have committed to begin by 2015. A majority of published scheduled (11 out of 21) were rated as unambitious by PWYF.

Publish What You Fund rated the implementation plans along three dimensions[207]: (a) intention to publish (current, comparable data) by 2015; b) publication approach (frequency and open data licence); and (c) proportion of data fields to be delivered by end of 2015. The implementation plans of Belgium, Denmark, the European Commission, the Netherlands, Sweden and the United Kingdom (DfID) were rated as ambitious, while the plans of the Czech Republic, Finland, Ireland and Spain were considered as moderately ambitious. The remaining plans were either incomplete or rated as unambitious.

Civil society organisations have also committed to make their aid more transparent as part of the Busan process. Private grants are presently difficult to monitor and lack a common reporting standard. Given the relative importance of private charity in low income countries, it is essential that CSO become at least as transparent as official donors on their funding and ensure proper reporting of their support to developing countries, even though some confidentiality may still be needed in sensitive areas like human rights.

Box 6.3.2 – Aid Transparency Guarantees

- In November 2011, EU Foreign Affairs Ministers agreed on **the EU Transparency Guarantee**, ensuring that EU Member states will publicly disclose all information on aid programmes so that it can be more easily accessed, shared and published. It will also make available to all stakeholders indicative forward-looking information on development expenditure at country level on an annual basis. It will finally make information available on all aid to partner countries, to enable them to report them in their national budget documents and help increase transparency towards parliaments, civil society and citizens.
- In 2010 **Sweden** introduced a transparency guarantee into its development cooperation. The guarantee means that all public documents and public information will be made available online. The information shall explain when, to whom and why money has been made available, and what results have been achieved. Sweden's flagship website - www.openaid.se - was launched in 2011. Openaid.se is a democratic initiative, facilitating accountability towards Swedish tax payers as well as towards people in Sweden's partner countries, by opening up development cooperation to the public. It is a data-hub providing Swedish aid information on disbursements in an open format. This means that the format allows for citizens, CSOs and entrepreneurs to use, refine, and develop the data provided. The aid information is provided on a global scale, at country level, per sector or by implementing agency. It covers a time period of four decades. The Swedish Government is committed to continuing its implementation of the transparency guarantee and supports initiatives such as the Open Government Partnership, the Open Aid Partnership, and the EU Transparency Guarantee (see below).
- The **UK** Aid Transparency Guarantee was launched in June 2010. It commits the United Kingdom to publishing detailed information about new DfID projects and policies in a way that is comprehensive, accessible, comparable, accurate and timely. In November 2012, DfID launched the Open Aid Information Platform, to improve access to its aid data and open up the chain of aid delivery, from DfID right through to the end beneficiary.

The European Commission, in cooperation with the Joint Research Centre, is developing an EU aid transparency tool called TR AID (Transparent Aid) to support the sharing of aid information within the EU and across major international donors, with the aim of using aid funds more effectively. Sharing of aid data with the public and among donors has always been a challenge, due to a large number of data formats in use, and because data is available in different repositories.

6.3.3. Mutual Accountability Frameworks

Mutual accountability is a fundamental principle for EU development policies and strategies. It refers to the process through which two or more partners hold each other accountable for their performance against the commitments they have voluntarily made to each other.

Although managing for development results and mutual accountability lie at the heart of the Paris principles, they figure among the least advanced of the five Paris Declaration principles[208]. The UN DCF surveys in 2010/2011 on mutual accountability in development cooperation in 105 countries showed limited progress in this area[209]. The results and accountability agenda was thus strongly reaffirmed in the Busan Global Partnership focusing on key principles of transparent, country-led and country level results frameworks. The so-called 'Results and mutual accountability Building Block' is formed by a coalition of donors and developing countries who on a voluntary basis are promoting action on the Busan Partnership in this area.

One of the key objectives of the building block is to promote **Country Results and Accountability Agreements**. Such Agreements should be defined and led by developing countries, based on a two pillars approach: a developing country pillar (definition of a results framework based on national development strategies with a limited number of results indicators) and a development cooperation provider pillar (accountability framework based on aid policies and other strategies for aid effectiveness agreed at country level). These agreements can also be used as an umbrella for other related initiatives aimed at delivering sustainable development results.

In 2012, a number of initiatives have been taken in order to promote the Results and Mutual accountability agenda and to identify ways in which it can be implemented.

In September and November 2012, two regional workshops were organised in Africa (Lusaka, in September 2012, and Cotonou in November 2012 for Francophone Africa) with the support and participation of the EU and several Member States[210]. The main purpose of these workshops was to share lessons learnt from country experiences on results and accountability frameworks, including on how to build on existing mechanisms/initiatives and further strengthen them. The objective was to identify concrete successes and challenges in setting satisfactory results and mutual accountability systems and ways of making further progress.

The EU is currently working with partner countries and other donors on comprehensive approaches to **domestic and mutual accountability and transparency**. At this stage, the EU and 24 Member States participate in **mutual accountability arrangements** in more than 10% of their priority countries, and thirteen Member States and the Commission do so in 50% or more of their priority countries. These mutual accountability arrangements can have different forms: joint performance assessment frameworks, policy dialogue groups, consultative groups, or joint review panels.

In 2011, the 'Agenda for Change' underlined the need for an **EU common framework for Results;** and an EU experts group on Results was set up in order to share experiences and approaches to measuring results and to reflect on how best to harmonise project results among different donors, both at sector and country level. The EU and 21 Member States participate in **country-level results frameworks and platforms** in more than 10% of their priority countries, and twelve Member States and the Commission do so in 50% or more of their priority countries.

The Commission is working towards the adoption of a harmonised way to monitor performance at the country level for its own operations. To this end, EuropeAid has started working towards the design of an overall results framework that will allow for increased accountability for the projects and programmes portfolio it manages. It also initiated a review of its ex-ante evaluation process as well as of its projects and programmes monitoring, reporting and evaluation system. In parallel, it stepped up its work on developing a new operational information management system allowing the Commission to have appropriate information on the performance of individual projects and programmes, as well as on the results they achieve.

The EU and seventeen Member States support partner countries' statistical capacities for monitoring progress and evaluating impact. Several Member States have indicated that this kind of support is often integrated in programme design, and hence difficult to tabulate. Most activities focus on technical assistance and capacity building for national statistics institutes (data collection, harmonisation and compliance criteria, decentralisation, etc.), including in the form of trainings, scholarships and transfer of knowledge.

6.3.4. Domestic Accountability and Good Public Financial Management

As a critical element for domestic accountability systems and development policies, effective Public Financial Management (PFM) lies at the heart of countries' governance systems. PFM not only includes technical systems and processes, also but wider issues of institutions and incentives. The ultimate objective of PFM reforms is to achieve more transparent, more effective and more efficient management of government revenues, expenditure, assets and liabilities. Well-functioning PFM systems are vital to implement policies effectively and efficiently.

The EU strongly supports PFM, mainly through its Budget Support operations. Strengthening public finance management systems and capacities continues to be a key area of EU cooperation. More than 80 new projects were implemented in 2012 in that area, in close cooperation with other key partners.

The new Guidelines on Budget Support notably reinforce the importance of PFM through two new features. The first is the highlight of the existence and structured monitoring of a relevant and credible government PFM reform programme. The second is the reinforcement of budget transparency and oversight of the budget that has become an eligibility criterion on its own.

The Commission uses the PEFA-PFM Performance Measurement Framework as the preferred tool to assess the quality of the PFM system in a country. The promotion of its use has continued in 2012 as the Commission conducted 22 assessments. The European Commission, France and the United Kingdom are working very closely with the other four PEFA partners on the revision of the framework to continuously enhance the PEFA tool.

In early 2013, following a request from the OECD/DAC, the IMF and the Commission published a **Good Practice Note** to assist donors when sequencing PFM reforms[211]. This note reviews lessons learnt on the sequencing of PFM reforms and offers guidance to assist reforms in countries with different PFM backgrounds.

ANNEXES

Annex 1 – Bibliography

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Annex 2 – Methodology

All figures not expressed in Euro have been converted into Euro using OECD/DAC average exchange rates for the relevant year. Data in Table 1.2.2 were calculated from a variety of sources as shown below, and refer to the year 2010.

Flow	Methodology and Source
Public Domestic Finance	
Tax revenue	Tax revenues were calculated by applying IMF tax to GDP ratios by income group[212] to GDP data by income group (source WB WDI)[213]
Public or Publicly Guaranteed (PPG) External Debt	WB International Debt Statistics 2013[214], PPG external debt from non-official creditors. Short term debt not included. Official creditors covered under 'Public international Finance'.
Total Reserves	WB International Debt Statistics 2013, pages 56-59
Public International Finance	
ODA Grants	OECD DAC Geo Book[215] -Net Disbursement
(of which EU)	OECD DAC Geo Book - Net Disbursement. EU data do not include imputed multilateral aid and therefore underestimate the real contribution of the EU and its Member States.
Concessional Loans	OECD DAC Geo Book -Net Disbursement
(of which EU)	OECD DAC Geo Book -Net Disbursement
Other official finance	OECD DAC Geo Book -Net Disbursement
(of which EU)	OECD DAC Geo Book -Net Disbursement
International security operations	United Nations Peace Keeping Operations[216]
(of which EU)	United Nations Peace Keeping Operations
Private Finance – domestic and international	
Domestic Private Investment	(Private) Gross Capital Formation (Domestic Private Investment) is calculated on the basis of private and total Gross Fixed Capital Formation (source WB WDI). First, the ratio between Private Fixed Capital Formation and Public Fixed Capital Formation is applied Gross Capital Formation to find a proxy for Private Gross Capital Formation. Second, FDI and Private non-guaranteed external debt (source: World Bank IDS) are deducted from the private GCF, which gives the estimate for Domestic Private Gross Capital Formation.
External private finance (debt, FDI, portfolio investment, remittances)	
Private non-guaranteed External Debt	WB International Debt Statistics 2013, Short term debt not included.
FDI	WB WDI.
Foreign Portfolio Investment	WB WDI.
Remittances	Year 2011. WB Database on Remittances[217]. In 2010, remittances accounted to 462bn
(of which EU)	Year 2011. WB Database on Remittances, and Balance of Payment data, using the EU share of total remittances to calculate EU remittances to developing countries.
Private charity	Hudson Institute[218]
Total volume of developing countries' exports of goods and services	WB WDI.

Figures on Official Development Assistance (ODA) are in current prices and taken from:

- The OECD Development Assistance Committee (DAC) for those Member States for which DAC reports.
- Member States' replies for those Member States whose ODA data are not available through DAC.
- From 2013 onwards, ODA figures are taken, as far as available, from Member States' replies.
- Where a Member State presents only the ODA/GNI ratio, ODA will be calculated by multiplying it with the Commission's GNI figure. Where a Member State gives both the ODA figure and the ODA/GNI ratio, we will give preference to using the ODA figure as this gives a better indication of where the achievement of ODA/GNI targets is sensitive to differing assumptions on GNI.
- When information on both ODA and ODA/GNI ratio for 2013 and/or beyond is missing, the trend for the missing years is established on the basis of Compound Annual Growth Rate of 2007-2012, except if indicated differently.
- Imputed multilateral aid for LDCs and Africa in 2012 was calculated differently this year. For the previous editions, we used the bilateral ODA for each income group/region reported to DAC by Member States and assumed that the proportion between bilateral and imputed multilateral aid would remain the same as in the previous year. This assumption did not allow accurate projections. This year, we used the actual amounts disbursed by EU Institutions to Africa and LDCs and imputed them to Member States based on their share of total contributions, used the actual disbursements of the Wold Bank Group in FY12 (which does not correspond to the calendar year but is the best proxy available) and imputed them based on funding shares derived from table DAC1a for 2012, and did the same for other multilaterals assuming zero nominal growth compared to 2011.
- Data on ODA to LDCs are not provided by Germany. As for previous editions, we assumed zero nominal growth compared to 2011.

Exchange rates used for conversion into EUR are:

- the annual DAC exchange rate in the case of the OECD/DAC data,
- for Members States national currencies, the Commission's annual average exchange rates from Ameco database (extracted on 19 February 2013) up to 2015.

Figures for Gross National Income (GNI) are taken in current prices from:

- the OECD/DAC statistics when available to ensure consistency of the ODA/GNI data.
- the AMECO database as of 19 February 2013, for other Member States and for the years not covered by the DAC, as well as for projections up to 2014. Projections for 2015 are not available and we assumed a nominal growth rate identical to the one used for the 2012 EU Accountability Report.

There is often reference to OECD, and DAC membership of EU Member States. All EU OECD members report to DAC, while only EU DAC Members report to DAC in great detail. The list of non DAC Members reporting to DAC is available online at http://www.oecd.org/document/2/0,3746,en_2649_34447_41513218_1_1_1_1,00.html .

The table below summarises the OECD and DAC membership of EU Member States.

EU MEMBER STATES	OECD MEMBERS	DAC MEMBERS	REPORTING TO DAC
AT	Y	Y	Y
BE	Y	Y	Y
BG			Y
CY			Y
CZ	Y		Y
DK	Y	Y	Y
EE	Y		Y
FI	Y	Y	Y
FR	Y	Y	Y
DE	Y	Y	Y
EL	Y	Y	Y
HR			Y
HU	Y		Y
IE	Y	Y	Y
IT	Y	Y	Y
LV			Y
LT			Y
LU	Y	Y	Y
MT			Y
NL	Y	Y	Y
PL	Y		Y
PT	Y	Y	Y
RO			Y
SK	Y		Y
SI	Y		Y
ES	Y	Y	Y
SE	Y	Y	Y
UK	Y	Y	Y
	21	**15**	**28**

There is often reference to EU 28, EU 27, EU 15 and EU 12. The table below gives the list of Member States in each category:

EU MEMBER STATES	EU 28	EU 27	EU 15	EU 12
AT	Y	Y	Y	
BE	Y	Y	Y	
BG	Y	Y		Y
CY	Y	Y		Y
CZ	Y	Y		Y
DK	Y	Y	Y	
EE	Y	Y		Y
FI	Y	Y	Y	
FR	Y	Y	Y	
DE	Y	Y	Y	
EL	Y	Y	Y	
HR	Y			
HU	Y	Y		Y
IE	Y	Y	Y	
IT	Y	Y	Y	
LV	Y	Y		Y
LT	Y	Y		Y
LU	Y	Y	Y	
MT	Y	Y		Y
NL	Y	Y	Y	
PL	Y	Y		Y
PT	Y	Y	Y	
RO	Y	Y		Y
SK	Y	Y		Y
SI	Y	Y		Y
ES	Y	Y	Y	
SE	Y	Y	Y	
UK	Y	Y	Y	