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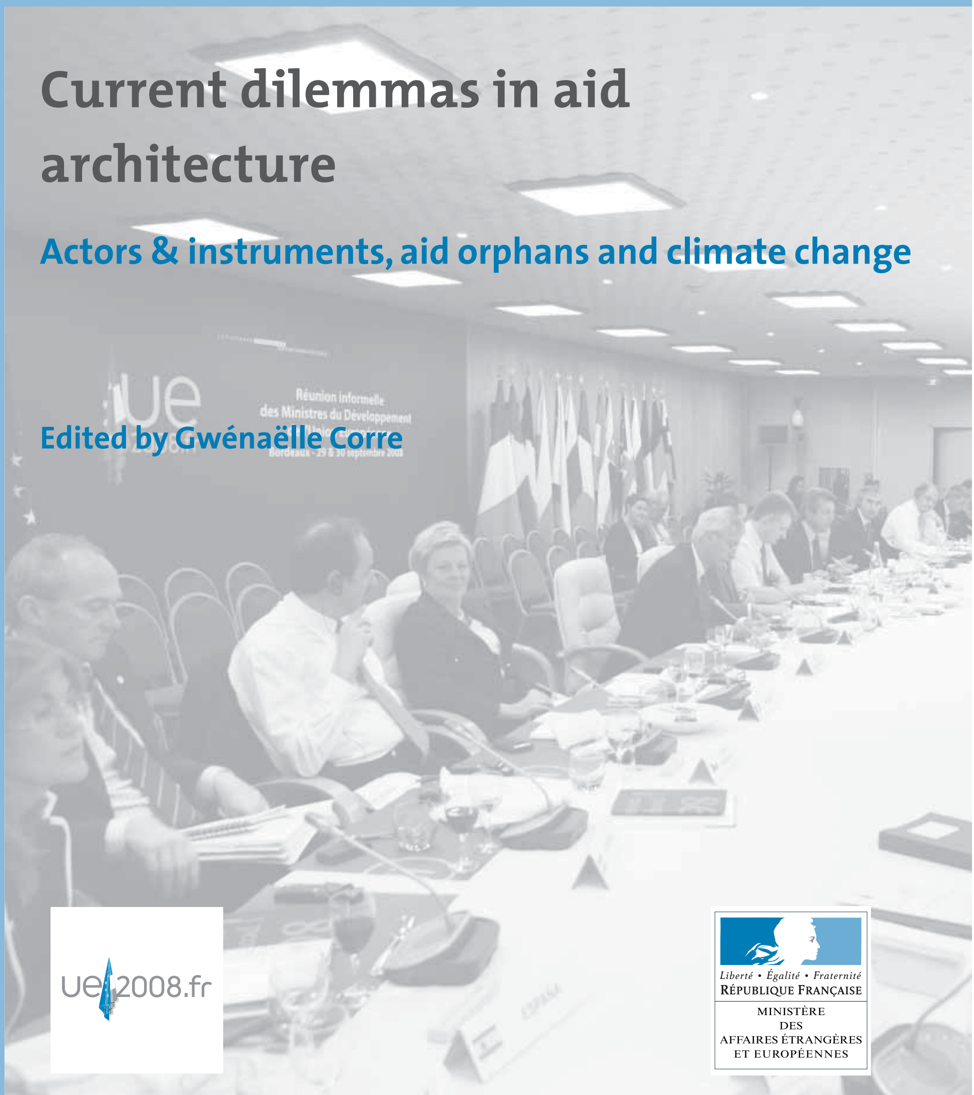
Current dilemmas in aid architecture

Actors & instruments, aid orphans and climate change

Edited by Gwénaëlle Corre



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Foreword

The attention given to questions of effectiveness and financing for development rose sharply this past year with the holding of two major international conferences (Accra in September and then Doha in December) that focussed on donor commitments towards partner countries in these two areas. At the same time concerns grew about the increasing complexity of the international aid architecture with the multiplication of actors and the increasing fragmentation of aid instruments; all this against a backdrop of rising international preoccupation with several emerging global crises. In such a context, the European Union, as the largest donor in the world, is confronted by a number of decisive choices on the future of its international cooperation programme. The reform of the European Community's external assistance, new possibilities for financial cooperation and the agreement on an EU Code of Conduct on Complementarity and Division of Labour are all elements that contribute and testify to Europe's commitment to simplify the Union's aid architecture. At the same time these innovations and their implementation do not yet provide a full operational response to limit the proliferation of instruments or on actual implementation of the division of labour between donors for an effective distribution of aid. Pursuing the debate thus remains crucial.

With this as a backdrop the French Presidency of the EU chose to organise a debate around some of these challenges at an Informal Council of Development Ministers in Bordeaux (29-30 September 2008). The meeting focussed in particular on the issues of European aid architecture, aid orphans and climate change.

The background documents for the meeting were written too early to take account of the global financial crisis that has dominated global affairs since November. Nevertheless the consequences of this crisis for North-South relations and the pressure to guarantee ODA levels that arises from it, as well as the increasingly imperative need to make good use of aid, give additional weight to the issues covered in this report. In such tightening circumstances a good division of labour and a collective approach to global challenges become all the more vital.

Just as 2008 was essentially dedicated to preparing the Accra and Doha conferences, it is now important to implement the new commitments that emerged from them.

In bringing out this publication the French Presidency of the EU and ECDPM, wish to make the background documents prepared for the Informal Council meeting available to a broader audience in the hope that they can contribute to further European debate on these issues.

Mr. Alain Joyandet
Minister for Cooperation and 'Francophonie'

List of acronyms

AAA	Accra Action Agenda
ACP	African, Caribbean and Pacific countries
AF	Adaptation Fund
AFD	French Development Agency (Agence française de développement)
AfDB	African Development Bank
APF	Africa Peace Facility
AU	African Union
CDM	Clean Development Mechanism
CEPS	Centre for European Policy Studies
CER	Certified Emission Reduction
CFSP	Common Foreign and Security Policy
CIF	Climate Investment Funds
ClimDev	African Climate Information for Development
DAC	Development Assistance Committee
DCI	Development Cooperation Instrument
DFID	Department for International Development
DG	Directorate-General
EC	European Commission
ECBI	European Capacity Building Initiative
ECDPM	European Centre for Development Policy Management
EDF	European Development Fund
EIB	European Investment Bank
EIDHR	European Instrument for Democracy and Human Rights
ENP	European Neighbourhood Policy
ENPI	European Neighbourhood and Partnership Instrument
ENRTP	Environment and Natural Resources Thematic Programme
ENRTP	Thematic Programme for Environment and Sustainable Management of Natural Resources
EU	European Union
FCPF	Forest Carbon Partnership Facility
FGEF	French Global Environmental Fund
GA	Global Authorisation Mechanism
GAERC	General Affairs and External Relations Council
GAN-Net	Global Action Network
GCCA	Global Climate Change Alliance
GDP	Gross Domestic Product
GEEREF	Global Energy Efficiency and Renewable Energy Fund

GEF	Global Environment Facility
GHG	Greenhouse gas
HDI	Human Development Index
IPA	Instrument for Pre-Accession Assistance
IPCC	Intergovernmental Panel on Climate Change
KP	Kyoto Protocol
LDC	Least Developed Countries
LDCF	Least Developed Countries Fund
MDG	Millenium Development Goals
MS	Member States
NAPA	National Adaptation Program of Action
NEPAD	New Partnership for Africa's Development
NIP	National Indicative Programme
ODA	Official development aid
OECD	Organisation for Economic Cooperation and Development
OSS	Observatory of Sahara and Sahel
PCD	Policy coherence for development
PRSP	Poverty Reduction Strategy Papers
PSC	Peace and Security Council
RECs	Renewable Energy Certificate
REDD	Reducing Emissions from Deforestation and Forest Degradation
SCCF	Special Climate Change Fund
SIDA	Swedish International Development Cooperation Agency
SME	Small and medium enterprises
SWAps	Sector-wide approaches
UN	United Nations
UNCCD	United Nations Convention on Combating Dessertification
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change

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Summary

The French Presidency of the European Union organized an *Informal Meeting of European Development Ministers* in Bordeaux, France on 29 and 30 September as part of a specific context in relation to international collective reflection on aid effectiveness and development financing. For this event, the French Presidency of the European Union asked the ECDPM to *draw up a framework document on European aid architecture* and on how best to deploy actors and European aid instruments in the face of global challenges. The present document also returns to the issue of 'aid orphans' and how best to respond to their needs, particularly through the implementation of the EU Code of Conduct on Complementarity and Division of Labour in Development Policy. Lastly, a brief case study allows for the concise introduction of several factors relating to climate change.

I How can development stakeholders and European aid instruments be better organized in the face of current global challenges?

Aid architecture, which one can define as all the players, instruments and strategic or political frameworks governing aid development and implementation destined for developing countries, is gradually becoming more and more complex.

It represents a challenge for the European Union in more ways than one: the EU contributes approximately 55% of the official development assistance of all members of the Development Assistance Committee of the Organization for Economic Cooperation and Development and actively participates in multilateral governance institutions. Moreover, faced with crises of an ever widening scope, the EU often seeks to respond using new instruments and even new institutions; the overall observation is thus one of *tremendous complexity in European aid architecture despite the streamlining efforts made over the last few years*.

(1) European actors: a dynamic context

One of the distinctive characteristics of European aid architecture derives from the fact that development policy is a competence shared between the Member States

and the European Commission. In response to specific recommendations submitted on EC aid effectiveness, many reforms intended to streamline Community aid have been made over the last few years. The EC has thus brought about *real improvement in aid management*, and an increased confidence in Community aid effectiveness can be observed, thus heralding an intensified collective European effort. But such measures have not really resulted in the number of actors being reduced. Simultaneously, responsibility for development cooperation in its entirety has not been assigned to a single Commissioner. Lastly, other institutions (e.g. the European Parliament, Council of Ministers, European Investment Bank) play a role in development policy. The *architecture thus remains relatively complex*.

Member States are not immune to the general trend of proliferation in actors. The number of executing or implementing agencies involved in aid is increasing, to say nothing of the large numbers of agencies of multilateral organizations. Moreover, successive ways of EU enlargement has had an effect on development policy. It is thus important that the Member States participate in internal EU harmonization efforts while fully embracing their role as donors. In this respect, *new possibilities for co-financing and delegated management* provide favourable opportunities for preventing the European coordination process from becoming even more complex.

Currently, the proliferation of actors is one of the general trends in aid, and the EU is not immune to it. At the European level, it raises the question of the *EU's collective responsibility with regard to the challenge of aid effectiveness*.

(2) Aid Instruments: A Broader and more complex range

The proliferation of possible aid channels, aid fragmentation and the different options for earmarking funds are all factors that have contributed to the increasing complexity of aid architecture. Each of these actors employs its own instruments, procedures and methodologies. Such complexity increases the *transaction cost* for donors and recipient countries, and actually reduces aid effectiveness.

At the Community level, geographical instruments are supplemented by several horizontal budgetary instruments and some ten thematic budget lines. In addition, there are a certain number of *vertical funds* as part of the EDF. In the light of their recent proliferation, it would be advisable to broaden the debate on their *general effectiveness, on the relevance of the themes and modalities chosen, and on the level of participation of the beneficiary states* at the design and management levels.

New paths have opened up, resulting in greater cohesion between European partners in respect of aid funding. Various options for *financial coordinating mechanisms* between players exist, including

- sector-based facilities,
- delegated management and
- mixing mechanisms.

Depending on their distinctive nature, such practices ensure a more or less significant leverage and the additionality of various contributions, flexible coordination, a synergy between donations and loans, areas for consultation and taking collective decisions between the various European actors and development professionals, greater EU visibility, a reduction in transaction costs, and an effective use of allocations. They thus present obvious advantages. Nonetheless, consideration must be given to their effectiveness and integration – sometimes a delicate matter – within the broader context of Community aid. It would be worth while to systematically analyse their impact on aid and to see in what capacity these options could ensure the emergence of a *model of governance for harmonizing EU aid implementation*. In addition, it is important that sector-based facilities and trust funds should link up with global challenges which would help reinforce the effect of additionality by opening up funding to actors interested in these challenges but who *in principle* would not contribute on a purely sectoral basis of the instrument.

(3) Towards increased aid effectiveness: policy directions and choice of modalities

The institutional framework of relations between the EU and developing countries has undergone major changes. Since the beginning of the new millennium, *coordination, coherence and complementarity* were put at the heart of efforts aiming to make European aid more effective. A new European Consensus on Development was adopted, and on this occasion, the Council also discussed policy coherence for development. A major recent innovation was the adoption of the *Code of Conduct on Complementarity and Division of Labour in Development Policy*, which is giving *new momentum to the harmonization of European aid architecture* by encouraging Member States and the EC to use their respective comparative advantages more effectively.

Above all, it is now clear that *ODA alone will not be enough to support the efforts of developing countries*: besides, it does not represent the biggest flow of money towards these countries and should therefore increasingly be seen as a lever for development rather than its main instrument. Reflection on the *place of aid in development policy* and that of development within the framework of the European policy mix deserves an in-depth discussion.

Yet despite a transformation of strategic frameworks, one must accept that policy is probably evolving more slowly than the instruments are. A certain *geographical inconsistency* persists (e.g. with respect to Africa). The EU should therefore not hesitate to give further thought to this area in order to carry out new fine-tuning measures. Finally, a positive trend is observed, namely *the growing recognition of the value of European joint initiatives* by the actors involved. The EU must continue its process of reflection, however, on the way to organize responses related to its *collective responsibility* and must make headway in implementing its new common strategies and the Code of Conduct.

Similarly, new possibilities for coordinating financial instruments (e.g. via delegated management) represent an important challenge for the synergy between European actors. On the other hand, the temptation to create new instruments to respond to given problems or specific needs is likely to put a strain on aid effectiveness, *even if it ensures higher visibility* for European aid. Indeed, it may at times be easier to create a new mechanism, but its added value should first be carefully considered. In this respect, the EC and the Member States might benefit from agreeing several criteria to facilitate decision making regarding the use or creation of instruments and to submit to a vitally important strengths-and-weaknesses analysis. Additionally, the EU must strengthen its efforts *to question its partners about the impact of the proliferation of instruments and the level of their participation with respect to their implementation, management and evaluation*.

Finally, the EU has a major role to play in the international donor community. It is indeed present at all levels of aid governance: through its Member States, through its support of regional integration and through its influence within international organizations. Nevertheless, the appropriateness of Community contributions to international organizations to which the Member States already contribute bilaterally could certainly be discussed. These contributions reinforce the EU's position in governing multilateral funds, so it is important to employ these effectively in conjunction with those of the Member States. A *common strategy* should be defined *for the purpose of developing more effectively the EU's contribution to multilateral agencies*. Such a strategy could be the starting point of a European vision for better global aid architecture.

(4) Conclusions and recommendations

Aid fragmentation and the proliferation of instruments have potentially negative effects on aid effectiveness. In this context, *the European aid scene is becoming increasingly complex while all the opportunities of complementarity and financial coordination have not yet been fully put into practice*. In view of this challenge, one of the important issues for the EU now lies in implementing the Code of Conduct on Complementarity and Division of Labour in Development Policy. *Improving the division of labour* is all the more delicate because, in the end, it is an undertaking of an essentially political nature. Four factors can ensure a more consistent implementation of this principle:

- Concretely identifying the *next stage of the practical application* of the division of labour (e.g. finalizing the self-assessments and dialogue on their results);
- *Strengthening partner countries' capacities* so that they can play a key role in this process;
- *Defining a system* to monitor and regularly evaluate the progress made;
- Setting up independent mechanisms *to carry out comparative evaluations* and to improve the provision of aid statistics in order to help guide partner countries in their choices and to encourage donors to improve their performance.

In addition, European actors have a wide choice when it comes to channelling their ODA thanks to a range of instruments organized on three levels: global, European and bilateral. ODA structuring at these various levels is essential for the improved coordination and harmonization of European aid. It thus makes sense to reflect more systematically on the relevance of the use of ODA at the bilateral level and to reflect on the most successful ways of strengthening the collective effort at the European level, both inside the EU and in respect of EU initiatives globally.

It is therefore necessary to make optimum use of the instruments already in existence, ensure that they do not proliferate, encourage coordination, and keep transaction costs as low as possible. Depending on the distinctive nature of the needs identified, the complexity of the response system already in place, and the way in which these needs are or are not covered, it would be advisable to provide financial support at the level ensuring maximum impact.

II How can the issue of orphan countries be taken into account more effectively within European aid architecture?

According to the EU Code of Conduct on Complementarity and Division of Labour in Development Policy, 'aid orphans' have been abandoned by the international aid community. These are *countries with a real aid need in which a limited number of donors are active and which have a low ODA level per capita*. The eighth guiding principle of the Code clearly underlines the ever-widening gap between 'aid darlings' and 'aid orphans', as well as the specific role the EU must play in this context. One year on, reflection on this 'geographical complementarity' does not seem to have progressed much – implementation even less.

Few documents give a precise definition of the concept of 'aid orphans'. In the literature, an 'aid orphan' is often associated with the concept of a 'fragile state', but these concepts are not synonymous. If one bases one's judgement on the *real needs of countries, absorption capacities and the balance between the different donors*, it is possible to draw up an indicative list of about half a dozen countries that fall below the level determined for the selected criteria. This list also shows that no country is truly an 'aid orphan' but rather in a *more or less precarious situation with regard to its ODA level and therefore more or less 'marginalized' within the framework of international cooperation*.

(1) Possible causes of marginalization

In the majority of cases, six factors contribute to the marginalization of any one country in the area of international cooperation:

- *a lack of geostrategic interest;*
- *the decline of the state apparatus;*
- *a refusal to cooperate;*
- *absorption capacity*;
- *the level of performance; and*
- *territorial isolation and other characteristics posing difficulties*.

These factors are often interconnected and rarely explain each situation on their own. The lack of geostrategic interest in a country is certainly one factor that could best be discussed in the regional and international fora within the framework of coordinating donor agencies, as these involve 'marginalized aid' countries in the strict sense. Yet an increase in the ODA that these marginalized countries receive is insufficient on its own. The international community must adopt a more complex and sophisticated approach for supporting them in their development efforts. It is thus advisable to *develop specific responses on the part of donor agencies* and to define these *on an individual basis*.

(2) Division of labour and marginalized countries

In the Code of Conduct, the EU has recognized its responsibility to deal proactively with the problems of 'marginalized' countries because of its size (number of donors, amount of ODA), its global presence (in nearly every developing country) and the major role it can play in this field. However, the *incentives* on which to base this dynamic in order to encourage the Member States and the EC to act in this matter are yet to be defined.

Radically speaking, a division of labour between countries could theoretically involve a thorough review of the list of partner countries of the EU Member States and redeployments in favour of 'marginalized' countries. Less radically, the EU could take as example, cases in which it was decided to organize a donor conference during which the government of the country in question and the donors already involved act in concert for the purpose of persuading others to join them. Such a conference would aim to ensure that an increase in aid to these countries is possible and desirable, that it corresponds to specific needs, and that it can be delivered in accordance with modalities having the strongest positive impact and as little negative impact as possible in terms of transaction costs. An idea might therefore be to *make use of sector-based specialities and the added value of each Member State* (*cross-sector division of labour)* in order to better respond to the needs of these 'marginalized' countries.

But how can aid be increased without *imposing an additional burden* on the recipient state? At the European level, various solutions seem viable without calling into question the aid structure within a country because of too great or too sudden an increase in the ODA flow:

- the *secondment* of an 'outside' donor's *specialized staff* to a donor with an established presence would facilitate a diversification of the expertise it can offer;
- *credit allotments* would give an established donor access to additional financial resources to meet defined needs; and
- *the practice of 'European houses'*, which provide accommodation to various cooperation services in the same building, thus allowing them to take advantage of economies of scale and, most importantly, any synergetic effects between donors.

(3) Conclusions and recommendations

As the world's largest donor with *a presence in nearly every developing country*, the EU can become a leading organization in international cooperation for aid to 'marginalized' countries given adequate coordinating mechanisms. The May 2007 Code of Conduct provides the policy basis for this.

To identify which marginalized countries should be helped, it would be desirable to proceed from bottom upwards, in so far as possible, leaving it to partner governments to attract the EU's attention (via the EC and the Member States with a presence in their country) with regard to their marginalized status and to express their specific needs while taking into account their own absorption capacities. The European donors on the ground should then inform the other European donors of such a request.

Two trends emerge with respect to the choice of the modalities of support:

- a centralized system with a 'clearing house' structure or central processing unit;
- or, more informally, exchanges between the networks of managers per country/region at the ministries of each European capital and the EC (which could also play the role of network focal point if need be) to formulate proposals.

Partner countries that feel marginalized from the international development cooperation system could thus *invite European donors to take part in a dialogue about their offer of ODA* and determine with them the possible inputs necessary for improving that offer. For their part, the European donors in each country considered marginalized could analyse the offer of European ODA in relation to the country's needs and draw conclusions on the possible need for an *increase in, diversification of or specialization of that aid*. A dialogue with the government in question for sharing this analysis could then be organized. Once an agreement has been made as to the additional inputs to be provided, European donors should then devise *flexible solutions and at low transaction costs* to organize this deployment.

III Climate change and the consideration of the needs of developing countries

Since the Rio conference and the adoption of the United Nations Framework Convention on Climate Change, followed by the Kyoto Protocol, the set of themes involving climate change has continually *gained ground* with an increase in the number of declarations and the creation of instruments to the point of having become a major challenge.

(1) Aid and the growing importance of climate protection

The *complexity of its consequences* and the *magnitude of its ramifications* make climate change a particular challenge requiring *negotiations* that are often very *difficult and technical*. Despite the global consensus on the '*principle of common but differentiated responsibilities and respective capabilities*', how this matter is handled always involves negotiations between industrialized and developing countries. Especially vulnerable to climate change, the latter particularly fear a possible conflict between climate protection and economic development.

The modalities of a second commitment period of the Kyoto Protocol (post-2012) are currently being negotiated. The EU has confirmed its policy of consolidating its commitments and has won the confidence of developing countries in this regard. If it wants to continue to play a *pioneering role in climate protection*, it must now evaluate possible international coalitions that can be deployed to meet the desired objectives.

(2) EU initiatives in this area

The main focus is the *increase of funds dedicated to fighting climate change at the bilateral, regional and multilateral levels*. Such an increase leads one to expect possible aid fragmentation. Current sources of financing are varied: the private sector; budgetary contributions to bilateral or multilateral initiatives (including ODA); and inputs from carbon markets and innovative funding. One of the characteristics of aid in this area, however, is the difficulty of precisely defining the number and extent of initiatives, defining the means dedicated to it and *establishing a link to poverty reduction*.

At the global level, the main actors are the United Nations Framework Convention on Climate Change (UNFCCC) and the World Bank. They accommodate, in particular, a series of *special funds* and have considerable experience with respect to the thematic issues and their link to development issues. A majority of EU Member States have joined these funds, and the EU as a whole can play a major role in this regard. Many other programmes exist, and in addition to the direct contribution of Member States, the EC participates financially in various initiatives. The *added* *value and impact of these contributions* are, however, *difficult to evaluate*.

Nevertheless, an analysis of certain mechanisms reveals several general factors:

- the instruments are characterized by their *variety*, both in terms of purpose and as regards their approach or operating mode;
- the agenda for action often seems to be limited to the period covered by the first commitment period (2008–12) as outlined in the Kyoto Protocol, thus leaving open the *matter of post-2012 monitoring and architecture*; and
- during the design phase of the instruments, a solid link with developing countries is not always established, which seems to be *at odds with the principle of ownership* (Paris Declaration on Aid Effectiveness).

At the strictly European level, in addition to various specific funds, support of climate protection for developing countries mainly comes from the *Thematic Programme for Environment and Sustainable Management of Natural Resources Including Energy* (ENRTP), rooted in the Financing Instrument for Development Cooperation (DCI), and from regional and national budgets. In 2007, the EC also proposed the *Global Climate Change Alliance* (GCCA), the aim of which is to build a *platform for dialogue between the EU and developing countries*. In addition, at the methodological level, the EC is currently developing a *reporting* instrument, which will allow the sums allocated to climate protection in the area of development cooperation to be identified more effectively. Other players like the EIB with its lending activity and carbon funds, and the Member States through specific funds and budgets allocated to the environment, complete the *European mechanism* for climate protection.

(3) Strengths and weaknesses

Although the problem is a common one and shared by all the countries in the world, industrialized and developing countries have different points of view and different ways of understanding it. The link between development assistance and climate protection is consent-based, but how to track these efforts in terms of ODA and the role of development agencies remain to be defined. *Distinguishing more clearly what falls under climate change from what falls under development* while retaining the principle of additionality would probably greatly facilitate the resolution of the negotiations under way. Moreover, although funding needs for climate protection are enormous, their estimates present such broad *margins of uncertainty* that an investigation into a more precise quantification of these needs is essential. The climate change 'industry' is indeed complex, and the definition of *formal coordination between the various initiatives* has proved absolutely necessary.

The Member States and the EC have recognized the importance of dialogue with developing countries: indeed, as long as they resist the idea of *incorporating climate protection into their development policies*, it will be difficult to reach a consensus which is acceptable and which benefits all parties. For example, the Joint Africa-EU Strategy provides a favourable framework via the partnership on climate change for such a dialogue.

Priorities in terms of initiatives can be structured around four separate points (WWF–Henrich Böll Foundation, 2008): *increasing the financial outlay*, technology transfer and the exchange of best practice; *ensuring the coherence of policies* that have consequences for climate change; setting up *independent coordination*; and reaching a *North/South agreement on a common approach*. With regard to these four points, the EU seems to bring added value to the table. It is the largest aid donor in the world, and it intends to give the lead in this area. Within the framework of the Code of Conduct on Complementarity and Division of Labour in Development Policy, the EU can play a pioneering role with respect to task division. Indeed, it has gained experience with respect to Policy Coherence for Development (PCD). By its very nature, it can *push for coordination at an international level*, and its role in exerting soft power would appear particularly suited in this context. Lastly, the EU has established various communication channels with developing countries.

(4) Conclusions and recommendations

Many instruments for climate protection already exist at all aid levels, and it would be advisable to maximize their respective advantages while ensuring that coherence and complementarity between them is maintained. Also, before discussing international aid architecture in the area of climate protection, the various actors should *reach an agreement on a strategy for responding jointly* to this global challenge in the short, medium and long term.

The other main question in this area relates to the most effective initiative framework. Indeed, leaving the national supervision of climate protection to developing countries would appear difficult in the light of their current concerns, and donors' and beneficiaries' differing points of view on this subject. Systematic cooperation is thus necessary (participatory approach, political dialogue and a long-term capacity-building strategy), but it is advisable to determine at which level (bilateral, regional or multilateral) it will be most effective. The EU seems well placed to act as a leader in this area. It would, however, be worth while to *agree general rules and several specific criteria for creating frameworks for dialogue and the most effective initiatives* to be determined according to the distinctive nature of the relevant needs. The *priorities* related to climate change must still be *integrated into the EU's internal and external policies impacting on partner countries*. It is also important to reconcile development strategies in the short, medium and long term with climate protection, particularly by better integrating it into *existing planning tools* like the PRSPs and sector-wide approaches.

There is also a *'governance' aspect* to climate protection: using political dialogue, the EU could emphasize the responsibility that recipient countries have for recognizing the challenge of climate change as one of their concerns. Lastly, although climate protection has gradually secured a place for itself on the international agenda and the EU has demonstrated its determination to act, donor behaviour must also evolve: for quite some time, agriculture and the environment were not seen as priorities in development programmes, and it would be advisable, given the food crisis and climate change, to increase their importance.

Chapter 1: The European aid architecture

How can donors and aid instruments respond better to global challenges?

The French Presidency of the European Union organised an informal meeting of European Development Ministers in Bordeaux on 29 and 30 September, with the specific aim of promoting international discussion on aid effectiveness and development funding. For this event, the Presidency has asked the ECDPM to prepare an outline document on the European aid architecture and the question of how to improve coordination among the donors and aid instruments in order to respond better to global challenges.

Introduction: The European agenda in its international context

The aid architecture, which we can define as the totality of donors, instruments and strategic or political frameworks covering the specification and implementation of aid to developing countries is becoming more and more complex. This context of increasing numbers of donors and instruments, and increasing fragmentation among them, has also led to increased discussion on aid effectiveness.

This is a challenge for the European Union (EU) in more ways than one: the EU accounts for around 55% of the official development aid (ODA) recorded for all the members of the Development Aid Committee of the Organisation for Economic Cooperation and Development (OECD DAC), and plays an active role in the governance of multilateral institutions. It has to confront new global challenges, such as climate change and food security, and needs to adjust its approach to managing global public goods. Faced with more and more large-scale crises, the donor community generally responds with new instruments, or even new institutions. The EU is not immune to this temptation, and the general impression is still one of immense complexity in the European aid architecture, despite the rationalisation efforts of the last few years.

Although it is impossible to put forward a general and systematic way of simplifying this at the various levels (donors, instruments, conditions of aid), some paths do seem especially promising. The European Code of Conduct on Complementarity and Division of Labour in Development Policy,[1] for example, is an opportunity for coordination among European donors. The establishment of new arrangements (particularly financial) also enables increased coordination among these donors. Moreover, growing confidence felt by Member States in the actions of the Community in aid matters should help to reinforce collective European action. This is fundamental because the influence of the EU on the international system of aid is all the more significant the more it acts as a single bloc. Although this sort of position may reduce the individual visibility of the Member States, it increases

1 Referred to below simply as 'the Code of Conduct' or 'the Code'.

that of European aid, and its impact. It is now important to make the best use of these new elements.

In this context, how can donors and aid instruments better respond to global challenges?

1.1 The European players: a dynamic context

One of the characteristics of the European aid architecture arises from the fact that development policy is a competence shared between the Member States and the European Commission. There are therefore bilateral policies and a Community policy, each with their own players, agencies, administrations and institutions.

At Community level

At the Community level, the Commission plays several roles, with the responsibility for initiating, executing and coordinating policies conferred upon it by the Treaty on European Union. It is also a completely separate donor whose added value arises chiefly from its global presence. These characteristics give it a certain advantage when it comes to adopting truly European positions on the major aid issues.

In response to specific recommendations on aid effectiveness from the Commission (e.g. in the peer review by the OECD DAC in 2002) many reforms aimed at rationalising Community aid have taken place over the last few years. These include the process of decentralisation to delegations launched in 2000; the drastic reduction in the number of budget streams designed to simplify and clarify Community aid; and the consolidation of ODA instruments in the financial projections for 2007-2013, reducing them from 35 to 10 to better reflect the geographical coverage of the developing countries and European priorities. The European Development Fund (EDF) has also been provided with simplified procedures. The Commission has thus made a real improvement in the management of aid, and we now see a growth in confidence in the management capabilities of the Commission and the effectiveness of Community aid which augurs well for an enhancement of collective European action.[2] But these arrangements have not really helped to reduce the number of donors involved.

At the same time, there is still a geographical separation in the way aid to developing countries is handled, which is reflected at the institutional level in the exist-

2 See for example the conclusions of the latest peer review of the Commission published in 2007 by the Development Aid Committee of the Organisation for Economic Cooperation and Development (OECD DAC), particularly compared to the findings of the report published in 2002 (Annex A).

ence of two distinct Directorates-General (DGs): DG Development, responsible for relations with the African, Caribbean and Pacific (ACP) countries, and DG External Relations, which directs aid to the other developing countries.

Moreover, programme management is kept separate from the implementation of aid, which is handled by the EuropeAid cooperation office alone, apart from aid routed to EU pre-accession countries. In parallel with this, various reorganisations have led to a functional segregation of competences (between external political relations, external economic and commercial relations, development cooperation – in this case, financial and technical cooperation – and humanitarian aid). There has been no consolidation of responsibility for development cooperation under a single Commissioner.

Other institutions, such as the European Parliament and the Council of Ministers, play a major role in aid matters, because they decide on development policy and vote through the ODA budget, with the Parliament monitoring its execution. Finally, the European Investment Bank (EIB) forms part of the European aid architecture by virtue of its direct role in a number of instruments.[3]

At Member State level

The Member States are no exception to the global tendency towards a proliferation of donors. The DAC states that its members have an average of 6 to 7 managing and implementing agencies, not counting the multitude of agencies that may be hidden within the ODA from the Members States and the Commission channelled through multilateral bodies (*'non-core funding'*).

The successive enlargements of the EU and the frequency with which they have taken place have also had an impact on development policy. They have undoubtedly helped Europe to open up its cooperation policy at the geographical level, and in a substantial way. They have also brought extra impetus by way of experience of bilateral policies, specific geographical knowledge and/or strong motivation in relation to development cooperation. The great opening up of the EU to the East, as well as to Cyprus and Malta, has brought in countries that were previously

3 Particularly the so-called 'mixed' instruments such as trust funds.

'recipients of external aid' and have now become 'aid donors' since their accession. They have been contributing to the funding of Community ODA via the EU budget and the EDF since the entry into force of the 10th EDF. The self-assessment exercise to be carried out by the Member States and the Commission in accordance with the Code of Conduct is an opportunity for them to emphasise their added value and their own interests. While continuing to operate as separate donors, they also need to participate in the EU's efforts towards internal harmonisation in order to exploit the effects of synergy in their chosen domains and geographical areas. The new options for co-financing and delegated management offer promising possibilities in this area to avoid making the process of European coordination even more complex.

Within the enlarged EU, we can also observe a tendency for some Member States to form alliances to position themselves on the basis of common affinities, such as the 'Nordic Plus' group[4] and the Member States that joined the EU most recently. These generally informal groups are also players in the architecture of aid in a general sense, because they can position themselves to address one issue or another.[5]

The proliferation of players is currently a global trend, and the EU is no exception to it. At the European level, it helps to complicate the architecture of aid and raises the issue of collective responsibility in assuring aid effectiveness.

4 The 'Nordic Plus' group is made up of Sweden, Denmark, Finland, Norway, the Netherlands, the United Kingdom and Ireland.

5 As for example in the 'Potomac Statement' on aid effectiveness, issued jointly by the 'Nordic Plus' group and the USA in October 2007

1.2 The instruments of aid: a vast and complex canvas

The proliferation of possible channels for aid, the fragmentation of ODA and the different ways of assigning a given sum to a given objective ('earmarking') are all elements that have contributed to making the architecture of aid at the global level more complex. By way of example, the average number of donors per developing country rose from around three in the 1960s to thirty in 2006.[6] Each of these donors operates its own instruments, procedures and methodologies. Such complexity increases transaction costs to donors and beneficiary countries, and actually reduces aid effectiveness.

Overview of Community instruments

Community aid is currently distributed by way of several geographical instruments for pre-accession countries, the European Neighbourhood Policy, the Cotonou Treaties and development cooperation policy. These are supplemented by a number of horizontal budgetary instruments and less than ten functional budget streams (see Figure 1, in Annex 1). Within the EDF, specific new financial instruments have been created (sometimes with the support of the EIB) with the aim of completing geographical coverage while also enhancing the visibility of particular priorities (cf. Figure 2, which shows the main partnerships, facilities and initiatives established since the 9th EDF). Given their recent proliferation, it is still worth progressing the debate on their general effectiveness,[7] the relevance of the topics and conditions chosen, and the degree of participation by the beneficiary countries in their definition and management. This debate will be all the more interesting if it can take account of the new ways of coordinating Community and bilateral contributions that have appeared lately (including delegated management, for example).

6 Whither EC aid? Briefing note: The Code of Conduct on Complementarity and Division of Labour, p.1. http://weca.files.wordpress.com/2008/05/code-of-conduct-12may1.pdf

7 In particular: do they actually generate the leverage originally intended?

Figure 2: Main partnerships, facilities and initiatives established under the EDF

	9th EDF	10th EDF (EC estimates)[8]
Africa Peace Facility	€ 300 million	€ 600 million[9]
ACP-EU Energy Facility	€ 220 million	€ 200 million
ACP-EU Water Facility	€ 500 million	€ 200 million
EU-Africa Partnership on Infrastructure	€ 60 million	€ 300 million
ACP Good Governance Initiative	n.a.	€ 2700 million
ACP-EU Natural Disaster Facility	€ 12 million	€ 180 million
ACP-EU Migration Facility	€ 25 million	€ 40 million
Total	**€ 1117 million**	**€ 4220 million**

New options for a collective approach to the management of aid

The financial regulation of the Community budget (financial perspectives 2007-2013) and the financial regulation of the 10th EDF have opened up a number of ways to bring the European partners closer together on questions of aid funding. It is important to consider the validity of these conditions in terms of their added value towards effective European aid. If we focus on the official donors in the field of European aid, there are different possible financial mechanisms for coordination among the donors, of which three are particularly worth looking at:

- *Sectoral facilities:* put in place by the Commission, these entail isolating centrally managed resources to fund a specific action, most often sectoral, decided by the Commission and the Member States. The Commission is responsible for management and for the process of implementing the funds acceding to its own rules.
- *Delegated management* between European donors (according to Guiding Principle 4 of the Code of Conduct on Division of Labour): transferring funds from one European donor to another will enable a policy or a one-off action to be implemented. The donor to whom the management of the aid is delegated is chosen on a case-by-case basis according to comparative advantages. A practice already established among Member States, it became possible with the EC from the end of 2007, subject to 'euro-accounting'. It thus offers a new legal option at the European level.

8 For the 9th EDF, the budget allocated for the Facility was directly mentioned but in the 10th EDF, the amounts are allocated per sector within the intra-ACP envelope (where the Facilities belong).

9 Including 300 million in reserve

- *Mixed mechanisms* (mixing loans from European financial institutions such as bilateral donors or the EIB and donations from the Community budget, such as the EU-Africa Infrastructure Trust Fund) have been put in place. The resources and donations are provided by the Commission and other players, particularly the Member States, and used by the development banks, including European bilateral or international banks, generally in the form of ad hoc trust funds. These instruments can be used to fund various actions[10] in conjunction with those provided by European financial institutions.[11]

The practices of co-financing, mixed mechanisms and delegated cooperation are therefore developing progressively among the various European donors, and new rules allow the ODA contributed by the latter to be better combined while also facilitating the delegation of management by the Commission. Their advantages are quite clear. Based on their specific characteristics, they provide in particular: a more or less significant lever effect and an accumulation of different contributions; more flexible coordination; synergies between grants and loans; common consultation and decision-making points between different European players and development professionals; enhanced visibility of the EU; reduced transaction costs; effective use of grants, etc.

It is also important to consider the effectiveness of these mechanisms, ways of integrating them into the overall scheme of Community aid (which can be a delicate matter), the resulting risk of complicating the European architecture, and the heavy negotiations that this may involve and which ultimately result in a collective waste of time. Some procedures are indeed relatively new (such as delegated management of Community funds), and trying them out will reveal their limitations and real added value on the ground. It would be interesting to be able to perform a systematic analysis of their impact on aid and to see to what extent these options might allow a governance model to emerge to harmonise the implementation of EU aid. It is also important that sectoral facilities and trust funds should form the link to the global challenges. This would help to reinforce the cumulative effect by opening funding up to the donors who are interested

10 E.g. feasibility studies, technical assistance, preferential loan interest, direct investment, risk capital, etc.

11 Alongside the debate at Development Minister level, the French Presidency of the EU has initiated a technical discussion in the group of Financial Counsellors in Brussels on instruments mixing loans and grants. The results of this technical work can provide an initial basis for deeper joint discussions on these instruments.

in these challenges but would not normally contribute to an instrument with a purely sectoral basis. Section *'**How can we manage a new range of options**'* returns to this question and presents a series of criteria to help to assess the opportunities and risks associated with these various arrangements for European financial coordination.

Key Questions

Sectoral facilities:

- What guiding principles should be applied to assure a simple form of governance of instruments funded jointly by the Commission and the Member States?

Delegated management:

- How can we speed up the implementation of delegated loans?
- How can we provide real visibility to the donor that delegates its aid?

1.3 Towards more effective aid: political approaches and choice of conditions

The institutional framework for relations between the EU and the developing countries

European development policy has also seen sweeping changes. Since the beginning of the 21st century, coordination, coherence and complementarity, more commonly called the 3 Cs, have been placed at the heart of efforts to make European aid more effective. This is the basis on which the EU adopted a new declaration on development policy at the end of 2005, the European Consensus. At that time, the Council also debated 'policy coherence for development' (PCD). This is defined as coherence between the various policies with direct or indirect repercussions on the developing countries, and takes in some global challenges such as climate change. Finally, one of the major innovations can be seen in the adoption of the Code of Conduct on Complementarity and Division of Labour: this code is one of the methods offered to donors giving a new impetus to harmonising the European aid architecture by urging the Member States and the Commission to make better use of their respective comparative advantages.

More generally, discussion of the position of aid within development policy, and that of development within the European 'policy mix' merit a more in-depth debate. ODA alone is not enough to support the efforts of the developing countries: it does not constitute the most significant flow of funding towards these countries and should therefore be considered more and more as a lever for development rather than its principal tool. It also seems essential, in the light of the new challenges encountered at the global level, to draw up a list of clear priorities to enable the EU's partners to 'read' its foreign policy more accurately.

We are therefore seeing a real transformation in the strategic frameworks of aid, but it has to be admitted that policies are certainly evolving less quickly than instruments. Africa is a case in point: on the one hand, declarations and strategic frameworks stress the importance of a pan-African approach (as in the adoption of the Joint Africa-EU Strategy, the institutional support to the African Union, and the injunction to 'Treat Africa as one') but there is no single geographical instrument to consolidate ODA destined for Africa, which is split into two regions along the borders of the Sahara. This abiding geographical inconsistency, despite an administrative reform enabling a substantial simplification of the instruments of Commission aid, is a factor in complicating its architecture. The EU should not hesitate to pursue this discussion and make adjustments to address what many players see as a worrisome incoherence.

Finally, we can see a positive trend in the sense of a growing recognition by the players concerned of the value of European joint actions.[12] Since the preparations made by the EU for the Monterrey conference in 2002 in particular, there has been a noticeable movement towards acceptance of the simple idea that the EU can accomplish more and better things in the field of aid if it acts as a bloc and plays the collective card, especially by positioning itself as a leader on a number of global problems. This sort of trend augurs well for harmonisation and improved coordination. The EU should continue its discussions on the best way to organise responses linked to its collective responsibility, and should progress the implementation of these new joint strategies and of the Code of Conduct.

How can we manage a new range of options?

The new ways of coordinating the financial instruments (e.g. on the principle of delegated management) are a significant factor in realising synergies between European players (the Commission, the Member States, bilateral players and European institutions, including financial bodies). To avoid the risk of these additional opportunities actually making the system more complex, it is important that the European players should make well-informed choices.

12 See for example the position of the DFID as presented in its recent report *Europe for Development – Working with the European Union*, July 2008: 'The Commission has made considerable efforts to improve the efficiency and effectiveness of Community development assistance. Since 2000, the internal organisation of development policy within the Commission has undergone radical reform. The reforms have improved the effectiveness of EC aid.'

The creation of an instrument to respond to a given problem or to some specific need has its advantages, and the new arrangements for financial coordination among the European players have helped such instruments to proliferate. A new instrument does increase the visibility of European aid and often that of the players involved. It is also often simpler to create a new mechanism than to adapt an existing instrument or institution (risk of lengthy, heavy or difficult negotiations tending to make the business of aid more complex). It allows a decision on new rules to be reached by a process of consensus with the interested parties. It also seems entirely appropriate to address a niche that is not yet occupied (i.e. identified needs not covered by the existing instruments and/or institutions).

These elements, among others, explain the temptation to resort to creating new instruments or institutions. The Africa Peace Facility is an interesting instance of the creation of a new European instrument. The results of its mid-term evaluation provide some indication of its added value (see Annex 3). The long-term problem is a proliferation of such initiatives, ultimately compromising aid effectiveness by making the system still more complex.

The choice of this or that financing mechanism should therefore include an analysis of the strengths and weaknesses of the different instruments in addressing a given situation or a given set of needs. The Commission and the Member States could benefit from defining a strategy or defining certain criteria to facilitate decision-making on the use or creation of such instruments. This strategy and these criteria should be established in complementarity with the sectoral policies and strategic priorities of the beneficiary countries. Finally the EU should question these partners more extensively on the impact of a proliferation of instruments, and their degree of participation in the implementation, management and evaluation of these new funds or facilities.

The following aspects might help in drawing up a checklist, for example, or a tool to enable the various players to evaluate the extent to which the instruments that they choose to use or create actually help to enhance the effectiveness of European aid:

1. Degree of complexity of the architecture of aid in relation to the problem concerned
2. Possibility of covering the identified needs by other means
3. Specific nature of the required response
4. Degree of integration and harmonisation compared to other approaches
5. Possibility of co-financing and systematic synergies between the European donors, including financial institutions (particularly between donations and co-financing)
6. Leverage effect[13] of the instrument (or the additionality that it allows among European donors in the first instance, or with other donors or private players)
7. Costs of managing the mechanism
8. Flexibility of the means of governance of the system
9. Flexibility of implementation of the instrument
10. Participation of the beneficiaries of the aid (whether just to validate the application or to assist directly in managing it)
11. Reduction in transaction costs for the beneficiaries
12. Visibility of European action
13. Diversification of actions[14]
14. Diversity of eligible contributors
15. Aid effectiveness and its impact on development

Summarised within a matrix as the basis for a rating or assessment system,[15] these criteria would form a relatively simple tool to help to harmonise the choice made by the players on questions of financing and to harmonise the European aid architecture. This sort of approach could facilitate the optimum use of the various possibilities for financial coordination at the European level.

13 i.e. the ratio of the total volume of projects financed to the amount of resources provided that have a catalytic effect on other resources.
14 e.g. by mixing donations and loans, centralising management at the level of a banking institution, etc.
15 The assessment could allow each criterion to be evaluated on a scale from 'poor' to 'good', scored on a scale from 1 to 10, for example.

Key questions:

- Can we establish criteria for creating vertical funds at (a) European and (b) international level?
- How could the Member States and the Commission agree on guiding principles or indicative criteria to direct their decision to co-finance a specific instrument or to create a new one?
- In what ways can the EU more systematically integrate the views of its partners into its discussions on the architecture of European and international aid?

The question of the Community contribution to multilateral funds

The EU has a major role to play within the international donor community. It is basically present at all the levels of aid governance, via its Member States, its support for regional integration and its influence within the international bodies. The European Commission currently spends around 7% of its ODA at the multilateral level[16] which is not a negligible figure. In 2006, for example, it contributed more than 1 billion euros to the United Nations organisations and 0.5 billion euros to the World Bank group. More precisely, in the period from 2003 to 2006, the Commission made various grants to about thirty trust funds managed by the group.[17] In this area, a debate could be initiated on the appropriateness of Community contributions to international organisations to which Member States are already contributing on a bilateral basis. These contributions reinforce the position of the EU in the governance of multilateral funds, so it is important to coordinate them properly with those of the Member States. In this regard, a joint strategy could be defined in order to improve the EU contribution to multilateral agencies, particularly to vertical funds. Such a strategy could be the starting point for a European vision of a better architecture for global aid.

Key question:

Do we need to establish criteria for Community contributions to multilateral funds?

16 According to the peer review by the OECD DAC, see DFID (2008b), p.21.

17 European Commission, EuropeAid (2007), pp.121-2

1.4 Recommendations and conclusion

Implement the Code of Conduct on the Division of Labour

The European aid scene is becoming more and more complex as new instruments are created, while all the opportunities for complementarity and financial coordination have not yet been put into practice. The fragmentation of aid and the proliferation of instruments have a potentially negative impact on aid effectiveness. They particularly complicate the possibilities for harmonisation, along with the ability of the players to incorporate their actions into a holistic approach to development.

Of course there is a risk of duplication between projects under different instruments, and also of increased competition between these instruments. The European players who contribute to them risk finding themselves in a kind of contest to identify the best project to finance, which is not conducive to increased harmonisation. Finally, the EU has a collective responsibility in relation to the commitments entered into under the Accra Action Agenda (AAA), officially adopted on 4 September, where the EU undertook to promote the Code of Conduct outside the ranks of its members.

The current priority for the EU is to implement the Code of Conduct on Complementarity and Division of Labour. This is a matter of assuring a better global distribution of European aid with the aim of making that aid more effective.[18] At the present time, there are several implementation initiatives in this area,[19] but still not enough, and some tools such as delegated management remain under-used. However, this is not just one more text but a new and innovative stage towards making European aid more effective.

In fact, a number of difficulties are already apparent. We have to accept that improving the division of labour is ultimately an essentially political undertaking. Even in those cases where a technical decision is actually taken to withdraw from a sector or a country, this may be difficult to do because of political realities (such as

18 See also chapter 2 on the marginalised countries, or 'aid orphans'.
19 Refer for example to the European Commission and OECD DAC (2008).

the importance of maintaining an influence in the country or the complexity of the organisational changes to be made in order to withdraw from a particular sector, for example). Bearing in mind that division of labour is a means and not an end in itself, efforts therefore need to be made to quantify more accurately, in terms of development, the advantages of an increased division of labour, or the loss of impact resulting from the preservation of the status quo. One could for example envisage regular updates to the *'Compendium of good practices on division of labour'*. Besides, there is still no consensus within the EU on the comparative advantages of each Member State and virtually no limit to the sectors in which the Commission might operate (see European Consensus): it is therefore important to continue the self-assessment exercise and to reach a shared understanding of the respective comparative advantages of the different European players.

One of the Guiding Principles of the Code is to place the partner governments at the centre of this initiative. However, their acceptance of this process is still limited and this opportunity is still an additional demand to be added to an already crowded agenda for the developing countries on aid effectiveness.

It is therefore important for the EU to invest more than it does now in helping to enhance the capacity of the partner countries to enable them to play a driving role in this process of division of labour among the European players.

- Create conditions favourable to a more consistent implementation of the principles of the Code, to speed up the practical application of division of labour.

- Identify the next stage (e.g. agreeing on the Guiding principles and on a timetable for completing self-assessments and discussing the results).

- Define a monitoring system enabling the progress made in implementing the Code of Conduct to be tracked and assessed on a regular basis.

- Establish independent mechanisms to perform comparative evaluations and improve the provision of statistics on aid, in order to educate the partner countries in their choices and induce donors to improve their performance.

Improve the allocation of European aid

The European players have a vast choice of ways to channel their ODA, thanks to a range of instruments organised around three levels: global, European and bilateral. The organisation of ODA at these different levels is fundamental to improved coordination and harmonisation of European aid.

The choice of the bilateral level is based mainly on an analysis of a geo-strategic nature, but also taking in political and economic factors. It is up to the country concerned to decide upon bilateral action based on this analysis.

In view of the upsurge in global challenges and international commitments with regard to efficiency, it is logical to question more systematically the suitability of ODA at the bilateral level. Moreover, the development of the instruments, the emergence of opportunities for financial coordination and the implementation of common strategic frameworks at the European level are all elements addressing certain doubts on the part of the Member States as to the ability of the Commission to be a strong partner in establishing a more effective European policy.

It seems appropriate therefore to back this development, and to see to what extent we can capitalise on this positive trend to reinforce our collective action at the European level. The scope of the debate, generally focussed on the performance of the European Commission and of Community aid, could be expanded to take in a discussion of the relevance of European aid as a whole. Based on details from the annual reports published by EuropeAid on Community aid and the Atlas of Donors, such a debate would foster informed discussion of the collective approach. The EU has a responsibility at the international level in aid matters (because of the importance of ODA, and its global presence) and ought therefore to act collectively to increase the effectiveness of its aid.[20]

At the same time, a number of challenges that the international community has to face, such as climate change, food security and increases in energy prices, necessitate an approach on a global scale.

20 Undertaking entered into as part of the European Consensus, the Paris Declaration, and the 'Triple A'.

In view of these increasing pressures, we need to make the best possible use of the instruments that already exist, avoid creating many more, encourage coordination and keep transaction costs to a minimum. This principle is applicable within the EU, and also to the actions of the EU at the global level. The systematic consideration of certain guiding criteria could govern the choice to allocate ODA at one level rather than another. By way of example, here are some elements that ought to be considered:

1. The possibility of monitoring where ODA goes (transparency over the involvement of the funds, essential to accountability)
2. The level of confidence in the approach felt by the other members: certainty of agreement with the other donors helping to finance the instrument
3. The possibility of influencing the decision (and the degree of participation in the system of governance for the instrument)
4. The possibility of minimising management and administration costs
5. The appropriateness of the chosen system to the partner country[21]

When all is said and done, it is desirable that the European players should make a choice that reflects an institutional logic, based on the results of a mapping of initiatives, organisations and instruments tackling the same problem – whether sectoral or thematic. Based on the specific nature of the needs identified, the complexity of the system of responses already in place, and the way in which these needs are or are not covered, financial support could be provided to make the maximum impact, while investing in monitoring and evaluation mechanisms to capitalise on the implementation experience gained.

- Reinforce this commitment by the Member States to take more systematic account of the collective input at the European level where this can make a greater impact in terms of aid.
- Define guiding European principles to assure the effectiveness of EU contributions to multilateral instruments.

21 e.g. a global framework of the UN variety may be too large, and a European approach with a beneficiary region may be more effective. This sort of model can be broken down into several possible configurations. The EU-Africa strategy undoubtedly offers such an opportunity.

Chapter 2: How can European aid architecture better respond to the issue of 'aid orphans'?

The EU French Presidency organised an informal meeting of European Development Ministers in Bordeaux on 29 and 30 September, as part of the international discussion on aid effectiveness and development funding.[22] For this event, the Presidency has asked the ECDPM to prepare an outline document on the European aid architecture and the question of how to take better account of the issue of 'aid orphans', particularly by implementing the European Code of Conduct on Complementarity and Division of Labour in Development Policy.[23]

22 International conferences in Accra and Doha.
23 Adopted by the General Affairs and External Relations Council (GAERC) on 15 May 2007; full text available at: http://register.consilium.europa.eu/pdf/en/07/st09/st09558.en07.pdf

Introduction: Responding better to the needs of ‘aid orphans‘

At the meeting of the General Affairs and External Relations Council (GAERC) in May 2007, the European Union established a European Code of Conduct on Complementarity and Division of Labour in Development Policy. This Code explicitly highlights the growing chasm between the ‘aid darlings‘ and ‘aid orphans‘ (or ‘forgotten countries‘), and the particular role that the EU can play in this context. The eighth Guiding Principle is in fact entirely devoted to this.

One year on, the discussion on geographical complementarity does not appear to have advanced very far, and implementation even less so. In fact, the ‘*Compendium of good practices on division of labour*‘,[24] prepared for the third high-level forum on aid effectiveness held in Accra in September 2008, gives several examples of ‘*in-country division of labour*‘, but very few of ‘*cross-country division of labour*‘, the dimension which is important in terms of ‘aid orphans‘.

In the Code of Conduct, ‘aid orphans‘ are those defined as countries ‘forgotten‘ by international aid, the countries characterised by real need, in which a limited number of donors are active and where the level of ODA per capita is low. Nevertheless, there are few documents precisely defining the concept or the notion of ‘aid orphans‘. In the literature, the term ‘aid orphan‘ is also often linked to conditions of fragility, but the two ideas are not synonymous. For example, the Development Aid Committee of the Organisation for Economic Cooperation and Development addressed this problem in a study published in 2005 of the ‘forgotten states‘ that appear on the list of difficult partners, then in December 2007, in a study of aid to fragile states. These studies show that there is no intrinsic link between ‘fragile‘ countries and ‘aid orphans‘.

It is therefore difficult to establish a formal list of ‘aid orphans‘. If, however, we take into account the real needs of these countries, their absorption capacity and the balance between the different donors (based on the available information), we can

24 European Commission and OECD DAC (2008).

draw up an indicative list of half a dozen countries[25] that fall below the threshold defined for each of the three chosen criteria. This list also shows that no country is really an ‘aid orphan‘, but rather in a more or less precarious situation with regard to its level of ODA and hence more or less ‘marginalised‘ in terms of international cooperation. In this paper, we will therefore use the term ‘marginalised countries‘ rather than ‘aid orphans‘.

25 See table in Annex 4; Annex 5 then provides more detail on EU ODA for some of these countries for which information was readily available without a more detailed study. For each country, apart from the Central African Republic, we observe half a dozen Member States among the major donors, along with a selection of medium-sized donors. The EC is also present everywhere. In principle therefore, it is not a lack of donors that poses a problem in these countries, and if they are ‘aid orphans’, this is down to a shortage of funding or the fact that some sectors are not adequately covered. For most Member States, we can also see that their aid seems to be rather concentrated. However, in the absence of in depth studies of the countries, it is hard to draw more telling conclusions.

2.1 Possible explanations for marginalisation

In the vast majority of cases, it is possible to determine why a country is marginalised in terms of international cooperation:

- *Lack of geo-strategic interest:* it seems that some countries have been simply 'forgotten' for various reasons that may be linked to the donors' political agenda, or to a lack of visibility internationally;

- *Failure of governmental apparatus:* to varying degrees according to the country, donors have reduced or stopped their activities because they lost faith in the performance of their partner and hence of the impact of their ODA. An ongoing conflict situation may also be at the root of such decisions. This category also includes a number of fragile states;

- *Refusal to cooperate:* donors have sometimes taken the decision to suspend their aid[26] to avoid any association between themselves and a poorly governing regime. Conversely, some beneficiaries have refused any aid, considering it more important for their development to build up their own capacity, or finding the conditions imposed by the donors unacceptable. In some cases, this may not rule out seeking donor support at a later stage;

- *Absorption capacity:* some countries cannot absorb any more aid or manage relationships with any more donors based on their current capacity;
- *Inadequate performance:* donors concerned with results and the need for transparency towards their electorates are less willing to cooperate with countries where they feel that aid does not deliver results;

- *Territorial isolation and other difficult features:* less accessible countries, or those presenting difficult conditions (e.g. an extreme climate, a specific language, a lack of basic infrastructure, etc.) are sometimes ignored or less favoured by donors. This is a well-known problem, and some international agreements take

26 Passing directly via the governmental players, even if other channels can be used for ODA, such as civil society.

these difficulties into account, such as the Cotonou Treaty which specifically recognises the difficulties of island states or those without access to the sea.

These elements are often linked, and are rarely the sole explanation for each situation: for example, a failure of the governmental apparatus may reduce the absorption capacity which may in turn translate into a refusal by some regimes to cooperate.

Nevertheless, we can already see that, of the explanations put forward above, it is the first – the lack of geo-strategic interest – that might be best addressed by way of coordination among donors at the regional and international level, because it appears that these are the 'marginalised' countries in the strictest sense. For these countries, it seems theoretically possible to provide additional aid to compensate for the apparent lack of ODA.

Finally, we need to remember that on its own an increase in the ODA for 'marginalised' countries is unlikely to be sufficient to address the problems that confront them. Clearly it is important to ensure that these countries are not abandoned and that they receive an adequate flow of ODA, but the international community needs to adopt a more complex and sophisticated approach to support them in their development efforts.

Donors therefore need to establish specific responses and define them on a case-by-case basis: a situation of fragility, for example, will demand a combination of aid and political dialogue.

2.2 Marginalised countries and division of labour

The European Code of Conduct

To what extent could the European Code of Conduct on Complementarity and Division of Labour help to improve our response to the specific needs of 'marginalised' countries?

In the Code of Conduct, the EU has recognised it is incumbent on it to tackle the problem of 'marginalised' countries in international cooperation in a proactive manner, in view of its own size (number of donors, amount of ODA), its global presence (in practically all developing countries), and the major role that it can play in this area. It should now back follow up this ambition by deciding to take concrete action. Beyond an expression of goodwill and the public commitment before its peers, what is less clear are the incentives which might drive the Member States and the European Commission (EC) to act on this matter.

A radical approach to a division of labour between countries could entail tearing up existing lists of partner countries of the Member States of the EU (with the EC maintaining a global presence) and redeploying aid to the benefit of the 'marginalised' countries. However, such a direct approach is unlikely to work as it would inevitably result in interminable discussions and negotiations to establish who could be redeployed, according to what criteria, to which countries, etc.

We can also imagine the extreme case of a country being completely abandoned by donors for political reasons (such as Cambodia at the time of Pol Pot, or Afghanistan under the Taliban), and the international community wishing to substantially increase the volume of ODA following the resolution of the problem or a change in the context.[27]

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27 In the table given in Annex 4, we can see that Cambodia currently has 27 donor countries, 12 of them from the EU, while Afghanistan has 29 donors in all, 18 of them from the EU. If we take an average of the total number of donors per country (from this table), we find an average of 21 donors, including 10 from the EU. So Cambodia and Afghanistan are now above this average and have a relatively large number of donors present within their frontiers.

The answer to this is often to organise a donor conference where the government of the country and the donors already in place work together to persuade others to join them.

However, it is not just a matter of increasing aid by stepping up the volume and/or the number of donors involved, but rather of ensuring that an increase in aid to these countries is possible and wanted, that it meets specific needs and that it is delivered in ways that make the greatest positive impact, and the least negative impact in terms of transaction costs. As we will see below, one idea might be to exploit each member state's sectoral specialities and added value ('cross-sector division of labour') to respond better to the needs of these 'marginalised' countries. For this, it would be useful to have available as soon as possible the self-assessments[28] that each Member State is expected to carry out according to the Code of Conduct in order to identify its own special characteristics and added value as a European donor.

Practical considerations

How can we increase aid without imposing an additional burden on a recipient country which will often lack the necessary capacity to manage either the additional funds or the demands of new donors?

At the European level, various solutions may be viable without compromising the structure of aid within a country with too great or too sudden an increase in the flow of ODA.

- *Delegated loans* (with or without a silent partnership) would provide an established donor with additional financial resources to cover defined needs. This principle is also recognised in the Code.[29] Where a Member State increases its ODA or redeploys its activities, this procedure allows funds to be routed via the EC or another Member State without the need to increase or transfer staff. At the same time, it is important to ensure that the diversity of the aid on offer or the specific skills and expertise available to the recipient countries, is not unduly

28 GAERC, May 2007, Code of Conduct: each Member State should conduct its own self-assessment of its comparative advantages; see p.17: 'Guiding Principle 9: Analyse and expand areas of strength'.

29 GAERC, May 2007, Code of Conduct: p.15 : 'Guiding Principle 4: Delegated cooperation/partnership.

restricted particularly where a limited number of donors account for a large majority of the aid.

- *Secondments of specialised staff* from an 'external' donor to a donor already in place would enable it to expand the range of expertise provided.

For the partner country's government, this would constitute a real gain, and without a noticeable increase in transaction costs it would enable aid to be directed to new sectors in which the established donors had limited expertise. This would allow us to make use of the sectoral specialities of each Member State ('cross-sector division of labour'), to resolve this problem classified under the heading of 'cross-country division of labour'. However, this method also presents some difficulties in terms of responsibility, delegation and working culture; but, given the various exchanges of officials already taking place between the national authorities and the regional and international organisations, these difficulties can surely be overcome in one way or another. Because of their global presence and their more multicultural working practices, the delegations from the EC may also be the appropriate 'hosts' for this type of practice.[30]

For the external donor, the secondment of staff would allow gradual involvement taking advantage of the experience of the established donor. This would be a process by which the seconded staff would acquire new knowledge which could then be used, particularly with the aim of opening an independent office to develop the activities at a later date.

30 It might be interesting to set up an 'exchange programme' for officials active in the area of development specifically for marginalised countries. In the European context, this could provide an opportunity for countries with a limited volume or experience of cooperation to train their staff at minimal cost (as opposed to opening an independent office requiring more staff, infrastructure, etc.) with the aim of increasing their own capacity.

- *The practice of 'European offices'*, already familiar in some countries, allows various cooperation groups to be housed in the same building[31] to benefit from economies of scale and above all from possible synergies between donors. These 'offices' could also offer an interim solution to keep the costs associated with maintaining a presence in a beneficiary country at a relatively low level before opening new embassies or bilateral cooperation offices, for example. In these cases efficient coordination should be maintained to avoid increasing the transaction costs and the administrative burden on the recipient country.

31 An example would be 5 European donor countries (Denmark, the United Kingdom, Sweden, Finland and Norway) in Juba in the southern Sudan, which share an office and an administrative system. Another example is Burundi, where the DFID and the SIDA share a policy advisor.

2.3 Recommendations

Our analysis leads us to the conclusion that the EU, as the major global donor with a presence in almost all the developing countries, could, with adequate coordination mechanisms, become a reference organisation for international cooperation in aid to 'marginalised' countries, if it so desired. The Code of Conduct of May 2007 provides the political basis for this, but agreement also needs to be reached beforehand on a number of questions and a series of practical points.

A flexible approach adapted to the reality of each country

Although it might seem necessary to begin by defining an overall list of countries to be provided with aid, it is also possible – or even desirable – to take a bottom-up approach, i.e. to leave it to the partner governments to draw the attention of the EU (via the EC and the Member States present in their country) to their marginalisation and to express specific needs taking account of their own absorption capacity.

The European donors already in place should then pass on this request for additional ODA to other European donors. By virtue of its structure and its history of internal coordination between the member States and the Commission, this is one particular area in which the EU can offer real added value. If the partner government is not in a position to organise the dialogue with the European donors already in place within its frontiers, these donors can initiate this themselves.

Key questions:

- Can we draw up a list of countries where the European presence needs to be strengthened?
- What are the terms of a dialogue that would enable the EU to contribute more fairly to the marginalised countries?
- What role could the EC play in this type of approach?

Terms and sources of funding

In parallel with this, we need to identify at the European level the Member States prepared to involve themselves with 'marginalised' countries and to provide the sums and the expertise required. There are a number of ways of approaching the possible conditions and options for this kind of involvement.

On the one hand, we could opt for a centralised system with some form 'clearing house' that would maintain an up-to-date list of needs and coordinate the European response in the country concerned. It could possibly be supported by a specific fund for 'marginalised' countries (or some other kind of specific funding), to which each European donor would contribute and which would make the support provided in this way more visible and auditable.

On the other hand, we could consider a more informal option, such as exchanges between the networks of desk officers responsible for each country/region in the ministries of each European capital and in the EC (which could also play the role of focal point for the network if required), to draw up proposals. These proposals could then be discussed or notified to the Council through the Africa Working Group (or other appropriate regional group). In this approach, no specific funds would be created: the Member States that became involved would apply their own ODA terms, albeit at the risk of increasing transaction costs for the recipient government. Conversely, if it was considered important not to increase the number of donors but only the funds available, those Member States joining their European counterparts in providing increased support to a 'marginalised' country could opt for delegated cooperation to manage their aid.

Finally, in order to overcome any political reluctance to deal with some regimes, the aid could also be organised in conjunction with regional or continental organisations and even routed via these organisations. Here again, the EU would appear by its nature to be the ideal partner to establish contact with other groups of states at a regional level and to promote the necessary consultations.

Key questions:

- Are Member States prepared to take action in 'orphan' countries?
- In order to identify new donors among the Member States, do we need to opt for a more formal and centralised approach, or is it preferable to proceed in a less structured manner by way of an informal network?
- What role should the EC play in this approach?
- Is it necessary to set aside specific funding at EU level for marginalised countries?

2.4 Conclusion

These various considerations would then provide a framework to make practical progress on a case-by-case basis, as follows:

For the partner countries who feel marginalised by the international system of development cooperation:

- Invite the European donors to take part in a dialogue on the ODA that they offer and determine with them the possible ways of improving this offering by better exploiting the possibilities and opportunities presented by the whole community of EU donors.

For the EU donors (Member States and Commission):

- Establish a dialogue between the European donors in each partner country that might be seen as marginalised for one reason or another by the international system of development cooperation, to analyse the European offer of ODA in relation to the needs of the country and to draw conclusions on the possible need to increase, diversify or focus this aid.

- Establish a dialogue with the government in question to share this analysis and see whether it matches the view of the government itself.

- Based on a shared analysis, encourage the country desk officers (of the Member States present in the marginalised country in question) at headquarters in Europe to contact each other and their counterpart in the European Commission as a focal point. Then establish a dialogue with the headquarters of the other European donors that are not present in the country in question, in order to identify other potential sources for the aid that is lacking.

- Finalise the self-assessment exercise required of each Member State and the EC in implementing the Code of Conduct, to help them to evaluate their respective comparative advantages.

· Once agreement has been reached on the additional resources to be supplied, define flexible solutions with low transaction costs to organise this deployment (e.g. by delegated loans, secondments and/or sharing of specialised staff, sharing of offices or other infrastructure).

Chapter 3:
Architecture of European aid and climate change

The French Presidency of the European Union organised an informal meeting of European Development Ministers in Bordeaux on 29 and 30 September, with the specific aim of promoting international discussion on the effectiveness of aid and development funding. For this event, the Presidency has asked the ECDPM to prepare an outline document on the architecture of European aid and the question of how to improve coordination between the players and instruments of European aid in the face of global challenges. *This case study is intended to supplement the outline document by giving a brief introduction to a few factors relating to the subject of climate change.*

3.1 Aid and the increasing importance of tackling climate change

The issue of climate change only emerged on the international stage after the Rio Summit and the adoption of the United Nations Framework Convention on Climate Change (UNFCCC) in 1992, followed by that of the Kyoto Protocol in 1997.[32] Since then it has taken an increasingly high profile with a growing number of declarations, the creation of mechanisms to deal with climate change, and the award last year of the Nobel Peace Prize jointly to Al Gore and the Intergovernmental Panel on Climate Change (IPCC). Climate change has now become a major challenge.

The difficulty of defining it precisely and, in particular, the complexity and scale of its consequences make climate change a special challenge that has given rise to often very difficult and highly technical negotiations. While all countries essentially agree on the 'principle of common but differentiated responsibilities and respective capacities', the way in which this issue should be dealt with is still being negotiated between industrialised countries and developing countries, particularly with regard to how to address the problem, its scale, the identification of effective countermeasures, and the costs that will be involved and how they will be shared. The latter group of countries, which are particularly vulnerable to climate change,[33] fear that conflict may arise between efforts to tackle climate change, economic development and efforts to combat poverty.

Among possible actions to be taken, a distinction is often drawn between 'mitigation' actions, which are intended to lessen human impacts on the climate system – including in particular the reduction of greenhouse gas emissions and efforts to combat 'deforestation' – and 'adaptation' actions, the purpose of which is to

32 United Nations (1998)

33 Developing countries are generally more vulnerable to climate change since significant proportions of their infrastructures are situated in high-risk areas and are often built using inexpensive and unreliable materials; small farmers, for instance, often use marginal land because they cannot afford better land and are therefore affected more severely by natural disasters. The economic activity of developing countries is thus more vulnerable to climate change. Furthermore, those safeguards that are already in place (insurance, emergency and healthcare systems) are much less reliable, and during a natural disaster the repercussions are therefore all the more devastating. Given the scale of their public finances, developing countries are also the least capable of funding efforts to adapt their economies to meet this challenge.

adjust to current or expected climate changes to minimise harmful impacts and/or take advantage of beneficial opportunities.[34]

Lastly, 2012 will mark the end of the first commitment period (2008-2012) of the Kyoto Protocol, the only treaty that includes specific objectives and absolute commitments for 38 industrialised countries with regard to the reduction of greenhouse gas emissions.[35] International-level negotiations are currently under way with a view to planning a second, post-2012 commitment period for this Protocol, which will coincide with a new phase in the EU's financial perspectives. The EU has already shown that it has the political will to go beyond its commitments and in doing so has won the backing of developing countries in this field. If it wishes to continue to play a pioneering role in efforts to combat climate change, it now needs to give some thought to what international coalitions can be created in order to achieve the desired outcomes.

34 Nakhooda (2008), p. 2
35 United Nations (1998), Annex B

3.2 EU activity in the field

Characteristics of aid

By way of introduction, we may begin by noting the increasing level of funding allocated to efforts to tackle climate change at national, regional and multilateral levels: over the past 18 months no fewer than 14 international initiatives have been announced.[36] The joint report published by the WWF and the Heinrich Böll Foundation (2008) notes this trend and highlights the need to examine the contents of these initiatives in detail in order to characterise them.[37] The huge increase in instruments would appear to point to the possibility that aid in this area could become excessively fragmented.

Current sources of financing are varied, including the private sector (the primary source), budgetary contributions to bilateral or multilateral initiatives (including, to a certain extent, official development assistance), resources from carbon markets, and innovative financing. *'Globally, the private sector constitutes the largest share of investment and financial flows needed to address climate change, at approximately 86 percent of all such flows (UNFCCC, 2007). In stark contrast, ODA funds are currently less than 1 percent of global investment (UNFCCC, 2007). However, these funds target poor, aid-receiving countries and provide considerable resources for those most vulnerable to climate change.'*[38] The majority of funding comes from industrialised countries and is invested at national level.

Another factor that characterises aid in this field is the difficulty of determining the precise number and scope of actions. In a recent study commissioned by the European Parliament on EU development cooperation and financing for climate change mitigation and adaptation (2008),[39] Behrens notes the difficulty of pinpointing funds for efforts to tackle climate change.[40] He also states that all projects intended to reduce poverty could, more broadly, be included as adaptation

36 Porter et al (2008), p. 8
37 Porter et al (2008)
38 Porter et al (2008), p. 12
39 European Parliament (2008)
40 European Parliament (2008), p. 34

measures.[41] Poverty is, in Behrens' opinion, the main factor underpinning vulnerability to climate change.[42] Examining initiatives in detail and identifying the total amounts involved is thus a particularly complex task.

The purpose of this case study is merely to outline for illustrative purposes a few initiatives aimed specifically at tackling climate change. It is not intended to be exhaustive. The table in Annex 6 gives a brief overview of some instruments (multilateral, European and bilateral) aimed at financing efforts to tackle climate change. Despite its illustrative nature, it does highlight certain general points which shall be expanded upon below.

Players and instruments

At the global level, the main player is the *United Nations Framework Convention on Climate Change* or UNFCCC. This agreement was adopted in Rio de Janeiro in 1992 by 154 states plus the European Community. The Global Environment Facility (GEF) is the financial arm of the UNFCCC and is now a major player in terms of climate change. It administers the funds created by the Convention, i.e. the LDCF and SCCF (Least Developed Countries Fund and Special Climate Change Fund), and provides secretariat services to the Adaptation Fund.

- 26[43] of the 27 Member States of the EU have joined this initiative and the Union as a whole could play a major role in it (see lines 6, 6a and 6b of Annex 6).
- A second international player with considerable experience in terms of climate issues and their relationship with development issues is the World Bank. It administers a number of funds covering all aspects of the battle against climate change (see lines 7 and 8 of Annex 6), and mitigation in particular. Since mid-2008 it has administered a number of Climate Investment Funds (a British/US/Japanese initiative that has been joined by several OECD countries including France) which are currently managing nearly $5 billion, mainly for investments in clean technologies. The EU also has a role to play within the World Bank, as it traditionally has done.

41 European Parliament (2008), p. 24
42 European Parliament (2008), p. 34
43 According to the website of the GEF, Cyprus is the only EU Member State that is not a member of the GEF. Source: www.gefweb.org/interior.aspx?id=210

Numerous other programmes also exist, such as the United Nations Environment Programme (UNEP) which runs workshops to support negotiators from developing countries during UNFCCC negotiations. Besides direct contributions from Member States, the EU as a whole is also involved financially in a number of multilateral World Bank initiatives (worth EUR 1.6 million) and United Nations initiatives (worth EUR 100 million) in this area.[44] No detailed study of the added value and impact of these contributions could be found.

The table in Annex 6 presents certain elements of the international architecture of climate change aid. Examination of certain financing mechanisms allows some general conclusions to be drawn:

- Firstly, instruments are diverse in terms of both their goals and their approaches or working methods;
- The timetable for action often seems to be limited to the period covered by the first commitment period (2008-2012) of the Kyoto Protocol and therefore leaves the question of post-2012 monitoring and architecture open-ended;
- Developing countries are not always closely involved in the instrument design process (where instruments fall outside the Climate Convention), a situation which appears to be at variance with the principle of ownership as defined in the Paris Declaration on Aid Effectiveness.[45]

At the European level, with the exception of certain specific funds (see lines 4 and 5 of Annex 6, for instance), climate change assistance for developing countries comes mainly from the EU's Environment and Natural Resources Thematic Programme (ENRTP)[46] financed by the Development Cooperation Instrument (DCI) as well as regional and national geographical envelopes.

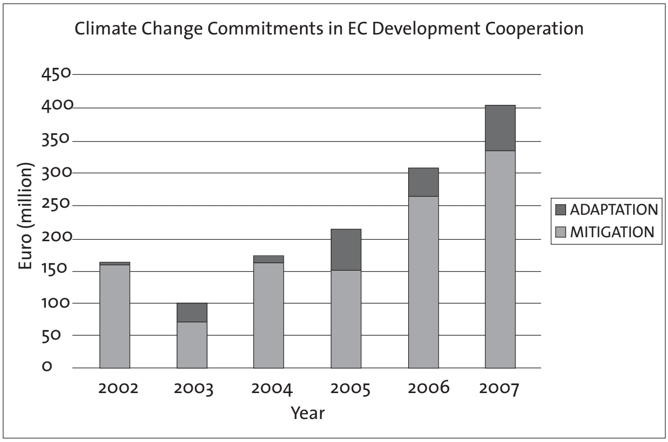
As Behrens notes,[47] in 2007 the Commission also proposed the creation of a Global Climate Change Alliance (GCCA) to build a platform for dialogue between the EU and developing countries in order to strengthen their ability to adapt and, if possible and desirable, to mitigate the effects of climate change. This alliance,

44 European Parliament (2008), pp. 33-4
45 OECD (2005), available at: www.oecd.org/dataoecd/53/38/34579826.pdf
46 € 804 million has been allocated for the 2007-2013 period. Source: http://ec.europa.eu/europeaid/where/worldwide/environment/details_fr.htm
47 European Parliament 2008

which began operating in 2008,[48] draws on funds from various sources including the 10th EDF intra-ACP envelope.[49]

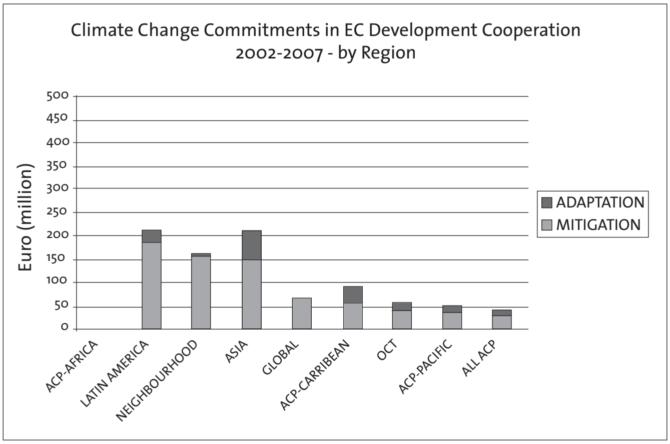
In addition, on the methodological front, the Commission is in the process of developing a reporting instrument to improve identification of amounts allocated to efforts to tackle climate change within the field of development cooperation.[50] With regard to adaptation, the main difficulties relate to the problem of identifying and circumscribing these actions. Some initial findings are given for illustrative purposes in tables 1 and 2. These appear to indicate underinvestment in the area of adaptation, but it is still advisable to bear in mind the aforesaid methodological difficulties when assessing the significance of these figures.

Table 1: Climate change commitments in EC development policy. Source: CEPS, A. Behrens (2008), p. 25



48 European Parliament (2008), p. 22
49 European Parliament (2008), p. 23
50 European Parliament (2008), pp. 25-6

Table 2: Climate change commitments in EC development policy by region. Source: CEPS, A. Behrens (2008), p. 26



The European Investment Bank (EIB) also contributes to efforts to combat climate change through its lending activity and its carbon funds.[51]

At the national level, a number of EU member states have created special funds to tackle climate change by means of various methods: the direct approach (e.g. France/Germany), jointly with international organisations (e.g. Spain with UNDP), jointly with other states (e.g. United Kingdom together with Norway or Japan), or by way of direct transfers to financial organisations (e.g. United Kingdom and the World Bank). Within the framework of their development cooperation programmes, the Member States also have budgets at their disposal for the environment and climate change control.

Analysis: strengths and weaknesses

Although the problem is shared by all countries, differences of opinion exist between industrialised countries and developing countries as to how to address it. Industrialised and developing countries therefore have a number of specific issues

51 European Parliament (2008), p. 31

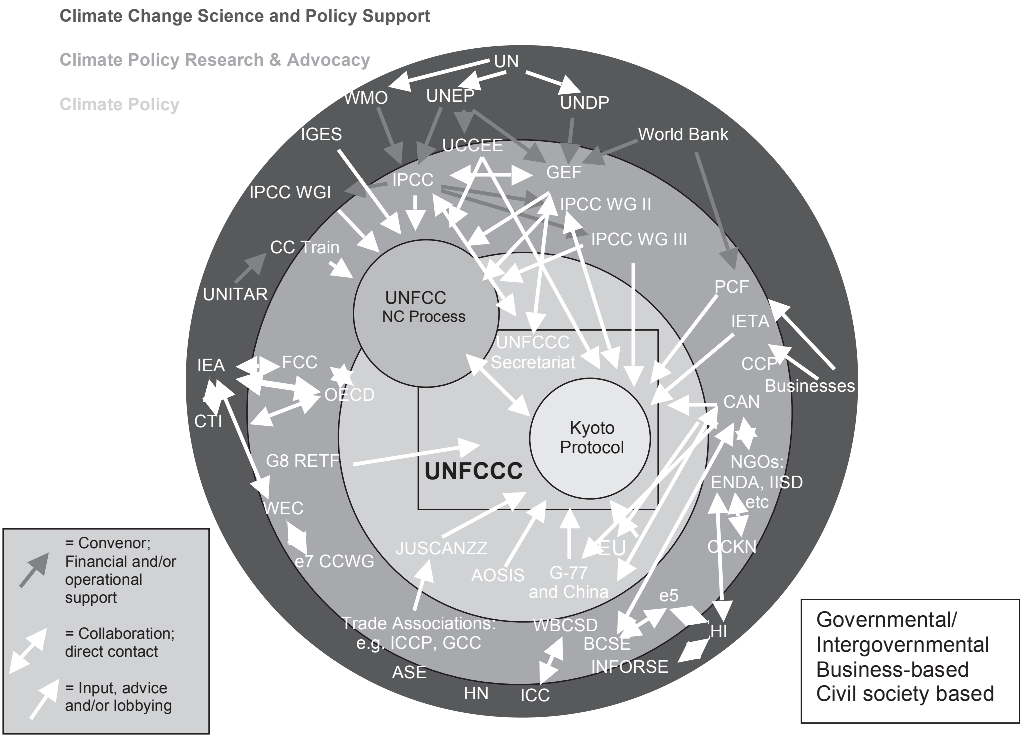
to contend with (vulnerability, financial issues, trade issues, etc). Involving beneficiaries as soon as new funds are initiated facilitates ownership. However, while there is agreement as to the link between development assistance and tackling climate change, the issues of accounting in respect of ODA efforts and the role of development agencies have yet to be resolved. At the moment, the latter seem to be particularly concerned at the prospect of efforts to tackle climate change drawing on ODA resources that would have been used differently, instead of drawing on funds disbursed specifically for such efforts. The G77 expressly asked developed countries, after the meeting of the UNFCCC in Bonn, to devote 0.5% of their GDP to climate change on top of the 0.7% Monterrey commitment. Broadly speaking, it appears that a clearer distinction between possible co-benefits that relate to climate change and those that relate to development would greatly aid the outcome of current climate negotiations (a distinction that is particularly desirable in the case of international financial instruments, for calculating technology costs, etc.)

Financing requirements for efforts to address climate change (mitigation, adaptation, technology transfer) are certainly immense, but estimates have such high margins of uncertainty (1 to 5, or even 1 to 10 according to different experts and for different sectors) that research in order to quantify these needs more precisely is essential, in parallel with efforts to seek such financing.

In response to the diversity of the interests, needs and characteristics of beneficiaries, the instruments that currently exist at the European level (Member States and EC) cover the entire spectrum of needs and appear to be highly diversified in institutional terms, ranging from bilateral interventions to intra-EU cooperation, cooperation between EU Member States and other industrialised countries, multilateral cooperation, etc. No formal coordination of these initiatives has been identified and it appears that linkages between the environment and development are not always formalised. Similar diversity may also be found within the Commission, with a number of Directorates-General in charge of various budget lines and thematic approaches.[52] As an illustration of this complexity, figure 1 provided by the Global Action Network (GAN-Net) depicts the structure of the climate change industry.

52 European Parliament (2008), p. 34

Figure 1: The climate change industry. Source: Global Action Network (GAN-Net) quoted in M. Kalilu (2008), p. 7



Member States often have national agencies, such as the AFD in France, that are highly active in the field of climate change, even where their role is generally focussed on development assistance. In terms of quantity and quality this activity is comparable with that of the major international financial institutions. The delegations of the European Commission in developing countries, especially in Africa, play an essential role in coordinating these initiatives launched by the Member States. However, the Member States and the Commission have recognised the importance of dialogue with developing countries; indeed, for as long as the latter are resistant to the idea of incorporating efforts to tackle climate change within their development policies, it will be difficult to reach a consensus that is acceptable and beneficial to all parties. In the Netherlands, for instance, one of the four priorities set by the Minister for Development Cooperation is to tackle this lack of receptiveness on the part of beneficiary countries to the issue of climate change.

One of the EU's strengths in this regard is the existence, within the Joint Africa-EU Strategy,[53] of a Partnership on Climate Change. The Action Plan annexed to the Joint Strategy highlights two priority actions, namely 'Build a common agenda on climate change policies and cooperation' and 'Cooperate to address land degradation and increasing aridity, including the 'Green Wall for the Sahara Initiative" (see Annex 7).[54] These two components and the activities associated with them should boost political dialogue between the two geographical areas and thus ensure that their respective interests and priorities will be addressed more adequately.

Most regional organisations could, for example, act as effective platforms for dialogue on climate change but not all of them have the necessary mandate, capacity or will to do so. Among them, the African Union is very interested in this issue and could serve as a discussion forum for Africa. The task of establishing needs and projects could, however, be entrusted to specialist bodies such as the New Partnership for Africa's Development (NEPAD) or the Global Environment Facility, African Development Bank, World Bank, etc.

At a wider level, the GCCA is a reflection of this desire for dialogue and the EU, by virtue of its global presence, its experience in the field and its international climate change commitments, appears well placed to move discussions forwards, both now and in the post-Kyoto period. However, it would be advisable to clarify the links and coordination between the GCCA and the Partnership on Climate Change referred to in the Joint Africa-EU Strategy, for example.

In more general terms, the WWF/Heinrich Böll Foundation report on Finance for Climate Change and the Environment (2008) lists four priorities for action in this field:

1. The need to scale up efforts – financial and also with regard to the transfer of technology and good practices;
2. The need for coherence between policies with repercussions for climate change;
3. The need for independent coordination;

53 The geographical area that has the highest number of least developed countries
54 Council of the European Union, document 16344/07 (2007), pp. 35-39

4. The need for North-South accord on the approach to be taken.

With regard to each of these four priorities identified by the WWF and the Heinrich Böll Foundation, we believe that the EU has established and recognised strengths:

1. The EU is the primary aid donor worldwide and has shown through its international and internal climate change commitments that it intends to set an example in this field. The Commission is to encourage coordination and the dissemination of good practices. Meanwhile, through the Code of Conduct on Complementarity and Division of Labour[55] the EU can play a pioneering role in the division of labour in respect of development policy;
2. The EU has ever-growing experience in Policy Coherence for Development (PCD) which it can make use of to the benefit of the wider international community;
3. The very nature of the EU enables it to drive coordination at the international level and its role as a 'soft power' seems particularly well-suited to this end;
4. As stated above, the EU has various communication channels within itself and with developing countries at its disposal.

Lines of inquiry

Generally speaking, an abundance of instruments are already in existence at all aid levels and we should make maximum use of their benefits whilst also seeking to ensure coherence and complementarity between them. The following lines of inquiry could prompt a discussion with the aim of establishing more adequately certain aspects of European commitment to tackling climate change:

Strategy and integration of issues facing developing countries.

Before discussing the international architecture of climate change aid, the various players should reach agreement on the strategy they will implement in order to make a concerted response to this global challenge in the short, medium and long terms. In order to gain a better understanding of this and arrive at an international consensus, representatives of industrialised countries must bear in mind the constraints affecting developing countries and their priorities. Development

55 Council of the European Union (2007a)

Ministers can, at the national and European levels, become spokespersons on the specific issues facing the South, the aim being to look at ways of identifying common denominators on which a strategy acceptable to all can be based. In particular, with regard to developing countries, the development dimension should be identified as precisely as possible within this framework. The following questions thus appear particularly apposite:

- What proportion of efforts to tackle climate change relate to development cooperation, and vice versa?
- What are the particular issues faced by developing countries with regard to climate change?
- In view of the interests of developing countries, should we not concentrate on increasing resources allocated to climate change adaptation?
- How can their concerns best be addressed in order to get developing countries to lend their weight to global efforts to combat climate change?

Forums for dialogue and framework for action.

The Africa-EU Strategy or GCCA could be used to create the necessary forum for dialogue between the parties. The goal for these platforms could be to gain a better understanding of the reasons underpinning developing countries' reluctance to commit themselves more fully to the battle against climate change on the one hand, and an idea of the incentives that could be implemented or found to encourage developing countries to act on the other.

The other major question in this area is which framework for action will be the most effective. Leaving national leadership of efforts to tackle climate change to developing countries seems problematic given their current concerns and the divergence between the points of view held by donors and beneficiaries. Cooperation is necessary (inclusion, political dialogue and long-term capacity-building strategy), but at what level (bilateral, regional or multilateral) will it be most effective? On the one hand the EU seems well placed, by virtue of its presence and various existing channels, to play a leading role in this area. On the other hand, some issues would be best addressed at national level while others could be best addressed at regional level. In fact, the majority of crises and natural disasters straddle international borders (river basins, forests or earthquake zones, depending on the scenario) and adaptation measures should therefore be taken at regional level.

The following questions arise with regard to forums for dialogue and frameworks for action:

- What use is currently being made of dialogue platforms?
- Has the Africa-EU Partnership on Climate Change, for instance, been put into effect?[56]
- Can procedures be improved further?
- At what level would discussions be most effective (bilateral, regional or multilateral)?
- Is it possible to establish general rules making it easier to identify the framework for action to be favoured according to specific criteria?

The players and their interests

Aside from dialogue, one of the issues particularly deserving of consideration is the method to be employed in developing the capacities of beneficiary countries to participate actively in discussions. Could not mainstreaming and its implementation at ground level through meaningful ex-ante and ex-post impact assessments whose findings would be available to beneficiary countries for development projects lead to greater understanding of environmental issues? Work is still to be done in this area, as highlighted by Behrens who quotes a study published by Ecorys for the Commission: '*priorities relating to climate change have yet to be integrated into the EU's internal and external policies impacting on partner countries... climate change had not yet been mainstreamed and integrated into EU development cooperation.*'[57] However, the difficulty of implementing such mainstreaming for both donors and beneficiaries must be borne in mind.

Beneficiaries need to recognise the urgency of the situation and their particular vulnerability. Under pressure from donors, the difficulty for them is to reconcile short-term, medium-term and long-term development strategies. One potential solution to this problem could be to pursue climate change-related components

56 A work programme is under way, with a draft joint declaration in Poznan making provision for operational actions.
57 European Parliament (2008), p. 35

of existing planning tools, namely PRSPs or sector-wide approaches (SWAps). That way, this dimension would anchored even more firmly on paper and in people's minds. The difficulty would then be to perform meaningful monitoring. Although the battle against climate change has progressively risen up the international agenda, and although the EU has demonstrated its willingness to take action, donor behaviour must also change: agriculture and the environment have for a long time taken a back seat in national and regional development programmes and greater importance should be attached to them relative to other aid sectors, in the light of the food crisis and climate change.

The battle against climate change thus comprises a wider 'governance' dimension: the EU could, through political dialogue, insist that beneficiary countries be responsible for making the challenge of climate change one of their main concerns so as to bring about behaviour change. Rather than foisting this dimension onto other parties, would it not be preferable for the EU to encourage and make use of cooperation instruments, and especially political dialogue, at the programming stage?

At present, the major concern for many countries is the food crisis[58]. Viewed in the longer term, food security is also closely linked with efforts to tackle climate change and it would be advisable to coordinate these two subjects in a more cohesive manner.

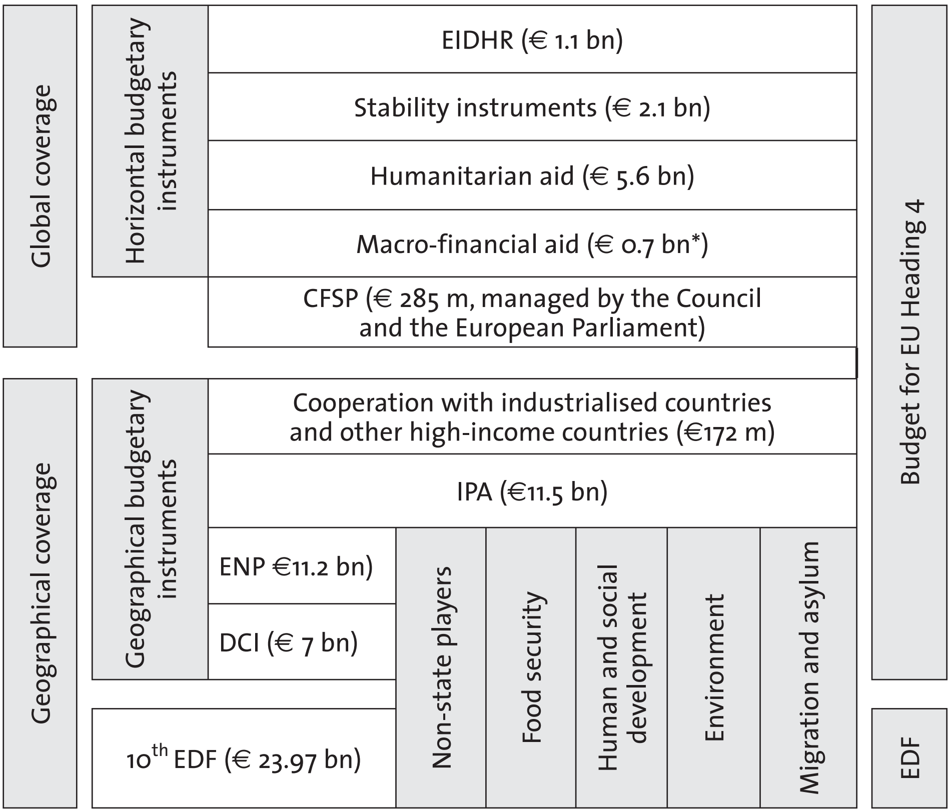
Discussions could focus on the following issues:
· How can efforts to tackle climate change be mainstreamed within development cooperation?
· Within this framework, how can the best use be made of existing cooperation instruments such as PRSPs or SWAps?
· How can greater priority be given to the environment and, in particular, how can tools bringing increased financing for activities in this area be developed?
· How can efforts to tackle climate change and food insecurity be coordinated?
· At the European level, how can policy coherence be achieved? Would creating a new task force including experts on the subject (within the Commission linking various Directorates-General, within Member States linking ministries, or at EU level with a combination of both) help?

58 This present document was drafted in October 2008

Annexes

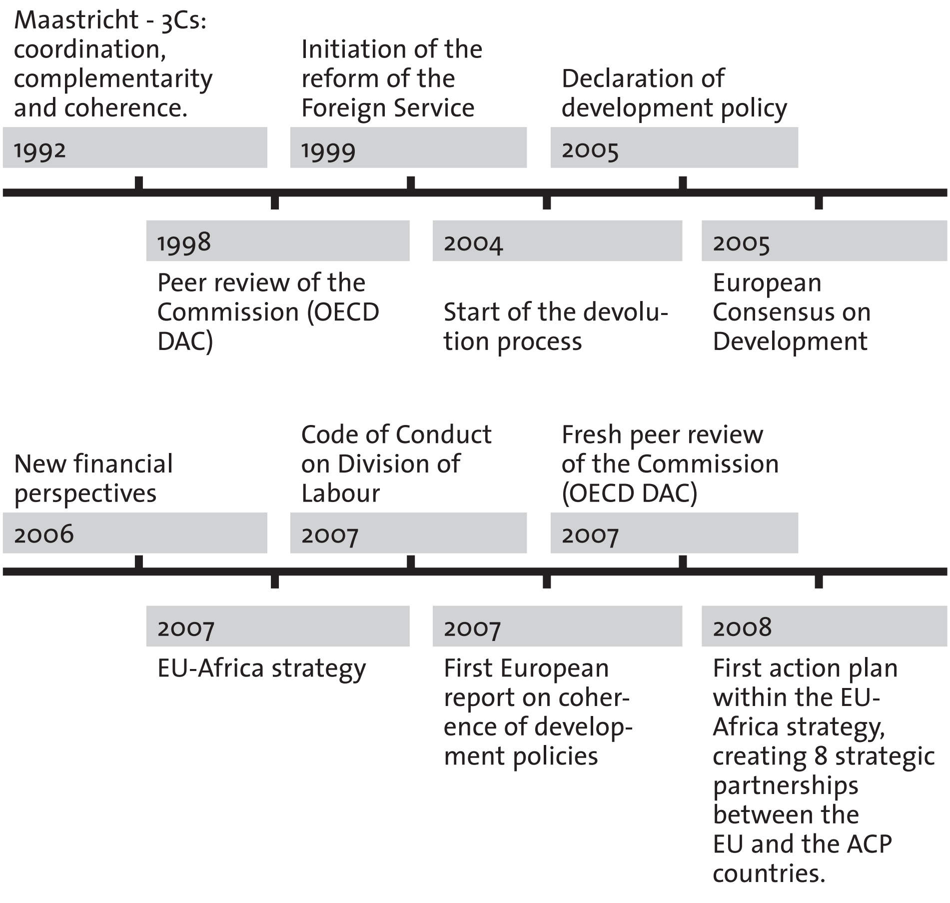
Annex 1: The various instruments of external action by the EU

Figure 1: The various instruments of external action by the EU



Annex 2: Some dates in the evolution of EU development policy

Figure 2: Some dates in the evolution of EU development policy



Annex 3: The Africa Peace Facility: analysis of the added value from a new instrument

The Africa Peace Facility (APF) was established in response to African requests for financial support from Europe for African peace-keeping operations. This request was drawn up by African heads of state at the African Union summit in Maputo in July 2003.

The EU created the Facility on the basis of € 250 million from the 9th EDF (half from the intra-ACP envelope and half from the NIP of the African ACP countries). The Facility was not initially mentioned in the Cotonou Treaty, so it is a new instrument, but Article 11.4 on the prevention of conflicts is considered to provide a solid legal basis.[59] The EDF remains the sole source of funding for this Facility and has just been topped up with € 300 million from the intra-ACP envelope in the 10th EDF. The use of APF funds is approved jointly by the Peace and Security Council of the AU and the European PSC, on the advice of the EDF Committee and the Africa working group.

This structure was adopted to provide for a single financial contribution from the EU to assist in a pan-African initiative involving all the African ACP countries. The Cotonou principle of joint management is maintained by the participation of the respective groups in the Council. The EU Member States also found it preferable to finance these 'peace and security' efforts by the AU via a coordinated body based on political relations between the EU and the AU, rather than through multiple direct aid projects. At the same time, this has not stopped the Member States from offering additional more targeted resources to the AU, as financial aid and as aid in kind, with the military elements coordinated by the Secretariat of the Council.

One great advantage of the APF to the AU has been that the Facility provides a substantial sum in a single block, which can be managed quite independently and easily by the Commission of the AU. The AU is also directly associated with the decisions on the use of the funds, and the money remains available to it even where it is not immediately allocated: this provides a certain predictability and

59 ECDPM/ISS/CECORE, (2006), section 3.5.1.

security around these funds. The impact of the APF is therefore solidly based on the commitment of the EU to direct alignment with the policies of the AU, and support for African efforts to manage their own conflict problems by means of operations directed and resourced by African national forces.

Annex 4: Table of marginalised countries

In the absence of any official list of 'aid orphans' or any validated and recognised methodology to identify them, it is still possible to use the available statistical tables to put forward a summary of the countries based on the following three criteria:

- low Human Development Index (less than 0.5) (all the countries with an HDI lower than the average for the developing countries are listed in the table);[60]
- relatively limited number of donors (less than twenty – the table also shows the number of EU donors);[61] and
- low ODA per capita (less than US$ 50 [current] per inhabitant).[62]

	Low HDI (<0.5) -a-	Donors 2005 and 2006 (<20): in bold -b-	European donors 2005 and 2006 MS and EC -c-	Aid/ inhabitant - US$ current 2006 - (<50): in bold -d-
Countries with HID less than 0.691 (average for the developing countries) **In bold countries meeting the three criteria a, b and d**				
Asia				
Bangladesh		28	11	**8**
Bhutan		**19**	5	145
Cambodia		27	12	**37**
India		29	12	**1**
Myanmar		**19**	8	**3**
Nepal		26	12	**19**
Pakistan		27	9	**14**
Laos		25	10	63
Tajikistan		**17**	6	**36**
East Timor		21	9	204

60 UNDP (2008), p.249.
61 OECD/DAC (2008b).
62 Source: web site of the World Bank entitled 'Key Development Data and Statistics'. http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:20535285~menuPK:1192694~pagePK:64133150~ piPK:64133175~theSitePK:239419,00.html

Africa				
South Africa		28	16	**15**
Angola	X	25	14	**10**
Benin	X	**20**	9	**43**
Botswana		**15**	6	**35**
Burkina Faso	X	24	12	61
Burundi	X	25	12	51
Cameroon		25	12	93
Comoros		**7**	2	50
Congo		27	15	69
Congo (D.R.)	X	24	12	**34**
Ivory Coast	X	**20**	9	**13**
Djibouti		**11**	3	143
Eritrea	X	21	10	**28**
Ethiopia	X	26	15	**25**
Gabon		**10**	3	**24**
Gambia		**18**	7	**45**
Ghana		24	11	51
Guinea	X	**19**	8	**18**
Guinea-Bissau	X	**18**	7	**50**
Equatorial Guinea		**8**	3	54
Kenya		28	14	**26**
Lesotho		**18**	6	**36**
Malawi	X	24	11	**49**
Mali	X	24	12	69
Madagascar		**20**	6	**39**
Morocco		**16**	9	**34**
Mauritania		**20**	9	62
Mozambique	X	30	15	77
Namibia		22	12	71
Niger	X	24	11	**29**
Nigeria	X	23	9	79
Uganda		27	13	52
Central African Republic	X	**10**	3	**31**
Rwanda	X	27	15	62
São Tomé and Príncipe		12	4	139

Senegal	X	26	13	68
Sierra Leone	X	21	10	63
Sudan		27	17	55
Swaziland		**13**	4	**30**
Tanzania	X	28	13	**46**
Chad	X	**20**	8	**27**
Togo		**17**	9	**12**
Zambia	X	25	12	122
Zimbabwe		21	11	21
Latin America				
Guatemala		24	13	37
Caribbean				
Haiti		22	10	62
Middle East				
Yemen		**19**	11	13
Pacific				
Solomon Islands		**7**	2	423
Papua-New Guinea		**13**	4	45
Vanuatu		**7**	2	221
Countries with HDI not known but probably low				
Afghanistan	X	29	18	92
Korea (People's Republic)	X	**?**	5	**2**
Iraq	X	25	10	307
Liberia	X	**20**	12	75
Somalia	X	**17**	11	**46**

Other sources

- Bucar, et al (2007)
- www.mae.ro/poze_editare/2006.03.30_Strategia_eng.pdf

Annex 5: Donors and fragmentation of aid in some marginalised countries

Recipient countries	EU donors / total donors	European donors	Sectors:			Coefficient of fragmentation of European aid
			CDP	EA	DR	
A	B	C	D			E
Haiti	10/22	Belgium	X	X		0.1
		France	X	X	X	2.5
		Germany	X	X		0.25
		Ireland	X	X		0.1
		Luxembourg	X	X		0.1
		Netherlands	X	X		0
		Spain	X	X		0.33
		Sweden	X	X		0.2
		United Kingdom	X			0
Ivory Coast	9/20	Belgium	X	X	X	0.1
		Finland		X		0.2
		France		X	X	1.4
		Germany	X	X		0.1
		Italy	X		X	0
		Spain	X	X		0.1
		Sweden		X		0.3
		United Kingdom	X	X		0
Guinea-Bissau	8/18	Belgium			X	0.01
		France	X	X		1.19
		Germany	X			0.1
		Italy	X		X	0
		Netherlands	X			0
		Spain	X			0.11
		Portugal	X	X		0.15

Guinea	8/19	Belgium	X		X	0.12
		France	X	X	X	0.3
		Germany	X	X		0.2
		Ireland		X		0.05
		Luxembourg	X			0.2
		Spain	X		X	0.2
		United Kingdom		X		0
Central African Republic	3/10	France	X	X	X	0.3
		Germany	X			0.2
Chad	8/20	Belgium	X	X		0.2
		France	X	X	X	0.5
		Germany	X	X		0.2
		Italy	X			0
		Luxembourg		X		0.2
		Spain		X		0.1
		Netherlands	X			0

Legend:

Column C: The European Commission was present in each country but no details of its programmes were obtainable from the sources consulted.
Column D: CDP: Core Development Programs, EA: Emergency Aid, DR: Debt Relief
Column E : Fragmentation of aid. 0 = Concentrated; 3 = Very fragmented

Sources:

Columns B and C: Report of the 2008 Survey of Aid Allocation Policies and Indicative forward spending plans, OECD Development Assistance Committee, May 2008. 'Scaling up: Aid Fragmentation, Aid Allocation and Aid Predictability.' www.oecd.org/dac/scalingup
Column D: EU Donor Atlas, 2008, First benchmarking on EU Aid, situations of fragility. http://fs1.bbj.it/#
Column E: Fragmentation of Aid is measured from 0 to 3. It has been measured by the European Donor Atlas for Fragility Situations. In general, the most fragmented aid to these donor orphans is French Aid, which varies from 0.3 to 2.5.

Annex 6: A brief overview of known international funding instruments for climate change for Africa /developing countries

FINANCING INSTRUMENTS		INDICATIVE AMOUNT(S)	INDICATIVE TIMEFRAME	DESCRIPTION
EUROPE/EUROPEAN UNION FUNDS				
1.	Thematic Programme for Environment and Sustainable Management of Natural Resources (ENRTP)[63]	**€ 806.5 Mio.**[64]	**2007-2013**	Addresses the environmental dimension of development policies and promotes EU environmental and energy policies abroad. Integral part of the Development Cooperation Instrument (DCI). Only partly covering climate change.
2.	The 2004 EU Action Plan on Climate Change and Development[65]	*n.a.*	***2004-2008 (first phase)***	Priorities: raising climate change profile, support for adaptation, mitigation and capacity development Focus on awareness-rising and integration of the fight against climate change in recipient governments policies.
3.	The **Global** Climate Change Alliance (GCCA)[66]	**€ 60 Mio.**[67]	**2008-2010**	New alliance on climate change between the EU and the poor developing countries that are most affected by climate change.

63 The Thematic Programme on Environment and sustainable management of Natural Resources, including Energy (ENRTP) was prepared on the basis of a Commission Communication (COM(2005) 324 final) on External Actions through Thematic Programmes under the Future Financial Perspectives 2007-2013 www.managenergy.net/indexes/I480.htm

64 www.managenergy.net/indexes/I481.htm

65 http://ec.europa.eu/development/icenter/repository/env_cc_eu_action_plan_en.pdf

66 IP/07/1352, Brussels, 18 September 2007 -- http://europa.eu/rapid/pressReleasesAction.do?reference=IP/07/1352&format=HTML&aged=0&language=EN&guiLanguage=en

67 http://ec.europa.eu/development/policies/9interventionareas/environment/climate/climate_en.cfm

FINANCING INSTRUMENTS		INDICATIVE AMOUNT(S)	INDICATIVE TIMEFRAME	DESCRIPTION
EUROPE/EUROPEAN UNION FUNDS				
				Focus: (i) adaptation strategies; (ii) reducing emissions from deforestation; (iii) taking advantage of the Clean Development Mechanism (CDM); (iv) disaster preparedness and (v) integrating climate change into development cooperation and poverty strategies.
4.	The **Global** Energy Efficiency and Renewable Energy Fund (GEEREF)[68]	**€ 80 Mio.**[69/70]	**2007-2010 Still in the implementation phase**	A global public-private partnership that offers risk sharing and co-funding options for various commercial and non-commercial investors. Supports regional funds for sub-Saharan Africa, the Caribbean and Pacific Island States, Latin America, Asia, North Africa and other EU neighbouring countries. Designed by a private financial consultancy and to be managed by the European Investment Fund.
EUROPEAN INVESTMENT BANK (EIB)				
5.	**Global** Authorisation Mechanism (GA)[71]	**Up to € 100 Mio.**	**2006-2008** (commitment period) Loan repayment period: **20 Years**	Special emphasis on carbon credit generating projects.[72]

68 http://ec.europa.eu/environment/climat/pdf/key_elements.pdf -- The Global Energy Efficiency and Renewable Energy Fund [COM(2006) 583] final.
69 Several International Financial Institutions, Member States and commercial organisations have already shown an interest in co-financing this initiative, including the European Investment Bank and the European Bank for Reconstruction and Development. Further commercial funding will be raised through the sub-fund structure and at the project and SME level.
70 Additional pledges, including those from Germany and Norway, would bring the total amount of funding so far to approx. €110 million
71 www.eib.org/attachments/general/eib_climate_change_marketing_prospectus.pdf
72 These could be financed with a minimum of € 5 million to a maximum of € 12.5 million and a total of 75% of the total project costs.

FINANCING INSTRUMENTS		INDICATIVE AMOUNT(S)	INDICATIVE TIMEFRAME	DESCRIPTION
EUROPE/EUROPEAN UNION FUNDS				
UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE/KYOTO PROTOCOL/GLOBAL ENVIRONMENT FACILITY (GEF) FUNDS				
6.	GEF Instrument Replenishment GEF-4 Previous Funding Levels ***GEF Pilot Phase*** ***GEF-1*** ***GEF-2*** ***GEF-3***	**$ 3.13 Bio.**[73] ***$ 1 Bio.*** ***$ 2.2 Bio.*** ***$ 2.8 Bio.*** ***$ 3 Bio.***	**2006-2010** ***1991-1994*** ***1995-1998*** ***1999-2001*** ***2002-2005***	In August 2006, 32 donor[74] countries pledged further support to the fourth GEF Replenishment for 2006 -2010.
GEF Funds targeting LDCs (including Sub Saharan Africa – SSA)				
6a.	Least Developed Countries Fund for Climate Change (LDCF) Special Climate Change Fund (SCCF): Adaptation Programme	**$115 Mio.**[75] (est.) **$ 50 Mio.**[76]	**2006-2010** (GEF-4 timeframe for both Funds)	Funds additional costs imposed on vulnerable LDCs to meet their urgent adaptation needs in the National Adaptation Programs of Action (NAPAs).
6b.	Adaptation Fund (AF)	**2% of the Certified Emission Reduction (CERs)** issued for projects of the Clean development Mechanism (CDM) and funds from other sources[77]	**n.a.**	Finances concrete adaptation projects and programmes in developing countries that are Parties to the Kyoto Protocol.

73 www.gefweb.org/replenishment/replenishment.html

74 Australia, Austria, Belgium, Canada, China, Czech Republic, Denmark, Finland, France, Germany, Greece, India, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Nigeria, Norway, Pakistan, Portugal, Slovenia, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

75 http://thegef.org/projects/Focal_Areas/climate/documents/LDCF_FAQs.pdf

76 www.thegef.org/projects/focal_areas/climate/documents/adaptationFAQs.pdf

77 www.adaptation-fund.org/home.html

FINANCING INSTRUMENTS		INDICATIVE AMOUNT(S)	INDICATIVE TIMEFRAME	DESCRIPTION
EUROPE/EUROPEAN UNION FUNDS				
WORLD BANK				
7.	Climate Investment Funds (CIF)[78] (i) The Clean Technology Fund (ii) The Strategic Climate Fund **Global**	**$5 Bio. (target)[79]**	**2009-?**	This is a pair of international investment instruments (trust funds) designed to provide interim, scaled-up funding to help developing countries in their efforts to mitigate rises in greenhouse gas (GHG) emissions and adapt to climate change.
8.	Forest Carbon Partnership Facility composed of Readiness Fund: (assist developing tropical and sub-tropical countries prepare to participate in a future, large-scale system of positive incentives for REDD[80]) **Carbon Fund**	**$300 Mio.** (target) [81] $100 Mio. in the Readiness Fund and $200 Mio. in the Carbon Fund	Until **2020**	**Goal**: jump-start a forest carbon market that tips the economic balance in favour of conserving forests. *Readiness Mechanism* will assist approximately 20 developing tropical and sub-tropical countries in preparing themselves to participate in a future, large-scale, system of positive incentives for REDD. This will include: (i) preparing a national REDD strategy; (ii) establishing a reference scenario for emissions from deforestation and degradation, based on recent historical emissions and, possibly, modelling of future emissions; and (iii) establishing a monitoring system for emissions and emission reductions.[82]

78 On the 1st July 2008 – The World Bank Board of Executive Directors approved the creation of the CIF
79 http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:21826304~pagePK:34370~piPK:34424~theSitePK:4607,00.html
80 Reducing Emissions from Deforestation and Forest Degradation – the Bali undertaking
81 http://carbonfinance.org/docs/FCPF_Info_Memo_06-13-08.pdf, p.7
82 http://carbonfinance.org/docs/FCPF_Booklet_English_version_2.pdf

FINANCING INSTRUMENTS		INDICATIVE AMOUNT(S)	INDICATIVE TIMEFRAME	DESCRIPTION
EUROPE/EUROPEAN UNION FUNDS				
				Carbon Finance Mechanism. A few countries that will have successfully participated in the Readiness Mechanism may be selected, on a voluntary basis, to participate in the Carbon Finance Mechanism, through which the FCPF will pilot incentive payments for REDD policies and measures in approximately five developing countries.[83]
COUNTRY INITIATIVES				
9.	French Global Environmental Fund (FGEF) Agence française de développement (AFD)	**€ 8 Mio. Per year** **€ 455 Mio. in 2007 (€ 411 Mio. in 2006)**		Grant with 7 – 8 innovative and prospective projects per year (45 projects on climate change cofinanced by the FGEF for € 56 Mio. since 1994 with a leverage effect of € 4 Mio. for € 1 Mio. of the FGEF) Commitments for the fight against climate change (reported in DAC) for around 30 projects which allow a reduction of 2,7 TEQ CO2/year during the life expectancy of the project
10.	German International Climate Initiative[84]	**€ 120 Mio**.	**Yearly starting 2008** with a smaller allocation in subsequent years[85].	Focuses on sustainable energy systems, adaptation projects and protection of biodiversity (carbon sinks and forests) in developing countries. The projects financed by the initiative aim at strategically supporting the UN climate change negotiations post 2012.

83 http://carbonfinance.org/docs/FCPF_Booklet_English_version_2.pdf
84 Fuentes (2008)
85 www.umweltministerium.de/files/pdfs/allgemein/application/pdf/klimaschutzinitiative_flyer_en.pdf

FINANCING INSTRUMENTS		INDICATIVE AMOUNT(S)	INDICATIVE TIMEFRAME	DESCRIPTION
EUROPE/EUROPEAN UNION FUNDS				
11.	UNDP-Spain MDG Achievement Fund (MDG-F)[86] (Thematic window on Environment and Climate Change)	**€ 90 Mio.**[87] (€528 million for the entire Spanish support through the UN-system towards the achievement of key MDGs and related development goals)[88]	**2008-2011**	Launched in the first quarter of 2007. Seeks to reduce poverty and vulnerability in eligible countries (15 in Africa,[89] and many others all over the world) by supporting interventions that improve environmental management and service delivery at the national and local level, increase access to new financing mechanisms and enhance capacity to adapt to climate change.
12.	**DFID**[90] Environmental Transformation Fund (ETF) Improving scientific understanding of climate change in Africa; Research and improvement of adaptation to climate change in Africa, Asia and Latin America;	**£800 Mio.** **£5 Mio.** **£74 Mio.**	**Continuous**	DFID is supporting poor countries to develop in a cleaner, 'greener' way; to prepare for the impacts of climate change; and to get a fair deal from a global climate change agreement.

86 www.undp.org/mdgf/goals.shtml
87 Porter et al (2008), p.25
88 United Nations Development Programme
89 Angola, Cape Verde, Democratic Republic of Congo, Equatorial Guinea, Ethiopia, Guinea Bissau, Mauritania, Mozambique, Namibia, Sao Tome & Principe, Senegal and South Africa
90 www.dfid.gov.uk/mdg/climate-facts.asp 89

FINANCING INSTRUMENTS		INDICATIVE AMOUNT(S)	INDICATIVE TIMEFRAME	DESCRIPTION
EUROPE/EUROPEAN UNION FUNDS				
	Tackling climate change and speeding up investment in cleaner energy; Supporting UN efforts in poor countries (adaptation)	**£59 Mio.** **£20 Mio.** (Total amounts)		
13.	Congo Basin Forest Fund (CBFF)[91]	**$216 Mio.**[92]	**2008-?**	The Fund will support projects which complement the COMIFAC (Central Africa Forests Commission) convergence plan.

91 www.cbf-fund.org/cn/why/index.php
92 African Development Bank Group (2008)

Annex 7: Extract from First Action Plan (2008-2010) for implementation of EU-Africa Strategic Partnership

(6)
AFRICA-EU PARTNERSHIP
ON
CLIMATE CHANGE

Rationale

Climate change is affecting all countries, but Least Developed Countries and other vulnerable developing countries are expected to be hit earliest and hardest. Africa will be particularly affected in terms of food security, sustainable water supply and extreme weather phenomena such as floods, droughts and threats of desertification. Economies and livelihoods of an increasing number of communities, countries and sub-regions of Africa continue to decline due to desert encroachment partly emanating from climate change and local land degradation processes.

In addressing these pertinent issues, Africa and the EU will engage in a partnership that will provide for dialogue, cooperation and exchange on concrete actions to respond to climate change and an effective framework for holding deliberations on a shared Africa-EU vision, with close links to the proposed Global Climate Change Alliance. This partnership will take into account African initiatives such as the African Climate Information for Development in Africa (ClimDev Africa) Programme and the need to implement and further develop climate change related instruments, especially the 1992 United Nations Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol (KP), but also the United Nations Convention on Combating Desertification (UNCCD) and will represent an integrated framework for Africa-EU cooperation on climate change.

PRIORITY ACTION 1: BUILD A COMMON AGENDA ON CLIMATE CHANGE POLICIES AND COOPERATION

Objectives

- Enhanced dialogue, and common approaches, including at multilateral level, on climate change challenges in Africa, Europe and globally, in particular with a view to the negotiations for a global and comprehensive post-2012 climate agreement;
- Strengthened capacities to adapt to climate change and to mitigate its negative effects.

Expected outcomes

- A strengthened Africa-EU dialogue on the development, implementation and further improvement of climate change related initiatives and treaties, in particular with a view to the negotiations of a global and comprehensive post-2012 climate agreement;
- Systematic integration of climate change into African national and regional development strategies as well as into Africa-EU development cooperation;
- Increased capacity in African countries to adapt to climate change and mitigate its negative effects, including through climate risk management and resilience to deal with climate-related disasters;
- Improved data, analytical methods and infrastructure for sectoral Climate Risk Management (CRM), monitoring climate variability and detecting climate change with strengthened observation networks and service centres in Africa;
- Reduced rates of deforestation and better preservation of forest ecosystems, while improving the livelihood of forest-dependent populations;
- Increased benefits for Africa from participation in the global carbon market and enhanced capacity of African negotiators in the international market;
- Increased energy efficiency and resilience to climate change in the African economies.

Activities

- Coordinating approaches on climate change challenges in Africa, Europe and globally, in particular with a view to the negotiations of a global and comprehensive post-2012 climate agreement;
- Set up national/regional adaptation plans to climate change, and support the implementation of ClimDev Africa;
- Jointly promote and deploy environmentally friendly technologies and improve the monitoring of environmental effects of climate change;
- Launch risk-awareness and preparedness campaigns on climate-related natural disasters, in particular for vulnerable communities;
- Strengthen climate-monitoring and forecasting capacities;
- Develop and implement adaptation and mitigation strategies, particularly in relation to water, energy, health, environment, agriculture and food security issues;
- Integration of climate change in African development planning and in Africa-EU development cooperation;
- Build up reporting systems to monitor deforestation, support innovative performance-based mechanisms to provide incentives for reducing emissions from deforestation and improve sustainable management of natural resources;
- Facilitate the participation of African countries in the global carbon market, including through the Clean Development Mechanism;
- Enhance capacities of African negotiators;
- Contribute to initiatives like European Capacity Building Initiative (ECBI);
- Promote climate observation, in particular for the African continent, and enhance links to global climate observation systems.

Players

- AU Commission/NEPAD, African States, RECs;
- European Commission, EU Member States;
- Local authorities;
- Private sector, civil society;
- UN Agencies, AfDB, Global Climate Observing System;
- Regional technical institutions like Agrhymet, OSS (Observatory of Sahara and Sahel).

Finance

- Appropriate financing sources in accordance with their respective scope and their relevance to objectives and activities concerned, their specificity and eligibility criteria, such as the 10th EDF, ENPI, DCI, and appropriate thematic programmes on Environment and Natural Resources;
- Bilateral contributions from EU Member States and African states;
- Private sector, African Development Bank;
- Funds under United Nations Framework Convention on Climate Change/ Kyoto Protocol (Least Developed Countries Fund, Special Climate Change Fund, Adaptation Fund);
- Global Climate Change Alliance (GCCA);
- Funds deriving from the Bonn political commitment;
- GEEREF (risk sharing and co-funding options for commercial and non-commercial investors).

PRIORITY ACTION 2: COOPERATE TO ADDRESS LAND DEGRADATION AND INCREASING ARIDITY, INCLUDING THE 'GREEN WALL FOR THE SAHARA' INITIATIVE

Objective

- Combat desertification and improve the livelihoods of the inhabitants of the countries of the Sahara and Sahel zones of Africa.

Expected outcomes

- Progress towards reversal of desert encroachment and land degradation;
- Improvement of micro-climatic conditions and reduction of land degradation.

Activities

- Identify the relevant activities in the 'Green Wall Initiative' adapted to the national and regional context;
- Enhance environmental sustainability within the framework of regional and

international environmental agreements;

- Advance the implementation of the United Nations Convention to Combat Desertification;
- Improve the knowledge on land degradation and desertification;
- Control land degradation, promote sustainable land management with a view to integrating land management issues in national development strategies, including poverty reduction strategy papers (PRSPs), and increase land productivity and food production;
- Promote integrated natural resource management and conserve biological diversity;
- Address the problems of land degradation and increasing aridity at all relevant levels to respond to local needs and build on local and individual efforts and successes;
- Create awareness and promote wider public involvement in stopping desertification in a sustainable manner;
- Identify and promote alternative livelihoods and production systems for the populations affected by desertification.

Players

- AU Commission/NEPAD, African States, RECs, local communities;
- Regional technical institutions and networks;
- European Commission, EU Member States;
- AfDB, civil society and other interested actors.

Finance

- Appropriate financing sources in accordance with their respective scope and their relevance to objectives and activities concerned, their specificity and eligibility criteria, such as the 10th EDF, ENPI, DCI, and appropriate thematic programmes on Environment and Natural Resources;
- Bilateral contributions from EU Member States and African states;
- Private sector, African Development Bank.

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