CONCORD AidWatch Analysis of the communication: *Improving EU support to developing countries in mobilizing Financing for Development* and staff working document: *EU Accountability Report 2012 on Financing for Development*[1]

Section 1: Reducing aid dependency and increasing sustainable financing for development

1. Increased Domestic Revenue Mobilisation

What do the report and communication says about this issue?

We welcome the recognition of domestic revenues as the key source of development finance and the acknowledgement of the crucial role sound tax systems and fair tax collection play in mobilizing domestic revenues. However, more concrete commitments and actions on strengthening fairer tax systems and adopting international regulatory means must be made to prevent international tax evasion, illicit capital flight and the use of tax havens.

- We welcome the focus on domestic revenues and especially the fact that the report highlights the importance of domestic revenues in development financing.
- We welcome the recognition of sound tax systems and fair tax collection capacities and the principle of Good Governance as crucial in mobilising domestic resources.
- We welcome the acknowledgement of *regulatory means*, which donors have an opportunity to support to increase mobilisation of domestic resources.
- However, limited concrete progress has been made by the EU to support developing countries' mobilization of domestic resources despite the Commission stating that "*domestic revenues tend to be the most important source of development finance directly available to governments"* and the significant focus on domestic revenue mobilisation in the past e.g. the Communication on Tax and Development (2010).

Recommendations

- The Communication suggests incorporating strengthening tax administrations and fair tax collection in its policy dialogue with partner countries. This should be more ambitious and should see the Commission proposing concrete suggestions to ensure more progressive and fairer tax systems in partner countries. Concrete ideas include:
    - Support governments to adopt national tax reforms and efficient tax administrations with increased EU aid allocated to programmes promoting progressive and redistributive tax systems as means to fight poverty and inequality
    - Support reforms relating to transparency in the handling of public finances at all levels of government, pushing for systems that offer adequate information on the use of public money and supporting the work of local civil society organisations to monitor public spending
    - Promote responsible corporate tax behaviour and disclosure of main financial and non-financial indicators to discourage aggressive tax planning schemes and tax evasion and avoidance.

[1] This analysis has been compiled by the Aidwatch working group of the European NGO network CONCORD. The working group is composed of representatives of European Civil Society.

- The Communication should also put as much emphasis on international regulatory means (as it does on strengthening tax administration) to prevent cross border tax evasion, illicit capital flight and the use of tax havens. Concrete actions are needed by the EU and member states to put in place international regulatory measures such as full country-by-country reporting for all sectors; multilateral, automatic exchange of information; strong, robustly enforced, anti-money laundering standards including the requirement that financial institutions know the beneficial owner of a corporate vehicle. Facilitating tax evasion must unambiguously be made a money laundering offence, incentivising professionals to do the necessary checks. DG Devco should be fully involved in the new Communication on fighting tax havens currently being prepared by DG Taxud (and foreseen for the end of 2012).
- It is somewhat ambiguous that the Communication mentions the EC proposal on country-by-country reporting as a regulatory means to identify misuse of transfer pricing and to curtail illicit capital flows caused by multinational corporations' tax evasion. The current Commission proposal is a great step in the fight against illicit capital flows caused by corruption, as it enables citizens in resource-rich countries to hold governments to account for their use of natural resource revenues. However, those illicit capital flows caused by corruption only represent approximately 5% of total illicit capital flows from developing countries. If the country-by-country reporting requirement was strengthened and extended to other sectors, it could increase corporate accountability and help both developing countries and EU member states to combat tax evasion and avoidance (which is currently not the case).

2. Maintaining sustainable debt levels

What do the report and communication says about this issue?

- Importantly, the report expresses concern about new vulnerabilities and risks regarding developing countries' debt sustainability. Their focus on debt has increased the last two years.
- The Commission rightly highlights developing countries' increased vulnerability to external shocks, rising lending from new private and public creditors and more frequent use of lending mechanisms as key challenges to debt sustainability in developing countries.
- However the Communication presents solutions that do not fully respond to the problems: One positive aspect is the continued emphasis on the need for responsible lending and borrowing practises "including in blending and in export-credit operations". However the rhetoric needs to be followed with action.
- While recognising the increased debt vulnerability of developing countries, the Communication has little to say about how to cope with any future crises. While the report rightly stresses that developing countries now engage a wider range of private and public creditors and that this broad creditor base creates challenges in terms of efficient debt workout once a crisis hits, its proposal to, "*push for the participation of non-Paris Club members in debt workout settlements"* does not promise any lasting or efficient solution. Any fair and efficient solution would need to gather all creditors in one single debt workout process where decision making is independent of the creditors. Such a process should be based on these 10 principles developed by civil society: http://eurodad.org/3946/

Our recommendations

- The EC should organise an expert meeting to 1) discuss the need for a comprehensive developing country debt workout procedure which gathers all creditors in one process and 2) set out a policy process to create such a mechanism.

- The EU and its Member States should use international forums, particularly their voice within the IMF and the World Bank and the UN system, to highlight the need for a comprehensive debt workout procedure.
- the Commission should use the following two opportunities to put their continued commitments to responsible lending into practice: the development of the EU Platform for External Cooperation and Development and the implementation of new EU regulations under which the European Commission will make its first report on Export Credit Agencies' activities.

Section 3: Leveraging International Development Finance: beyond official, beyond development and beyond assistance

3.1 Innovative financing

What do the report and communication says about this issue?

- Many of the elements that we find quite positive in the report are missing or omitted in the communication. For instance, the clear assessment that the report make in relation to the additionally that Innovative Financing Mechanisms have from traditional approaches to mobilising and/or delivering development finance is not restated in the communication.

3.2 Financial transaction tax (FTT)

What do the report and communication says about this issue?

- While we are pleased to hear about the EUs support for the FTT we regret the lack of commitment to explicitly link part of these resources to development financing, which has been long emphasised by campaigners. At the same time, without specific references on how this will support further mobilisation of funding for meeting aid targets, it is unlikely that Member States will scale up efforts to meet development commitments as indicated in the communication through a corollary trickle-down effect. Clear commitments need to be made in how this financing will be used to support development and climate finance.

Recommendations

- The EU being a leader in development financing, EU Commissioners have the responsibility to stress publicly that a significant part of the revenue of the FTT should be used to finance for development financing and the fight against climate change as done by President Barroso in Rio.
- EU Commissioners should convince EU Member States to agree to this principle and not allocate FTT revenues to fill the public deficit. France has already committed to do so with its own FTT but others need to be convinced.
- FTT revenues should be "explicitly" directed to development financing. The increased volume of resources to development through FTT revenues should be reflected in significantly increased contributions to heading 4 of the EU budget and their own bilateral ODA.

3.3 Blending and the external platform

What do the report and communication says about this issue?

- Building on the EU's "Agenda for Change," the communication highlights the need to increase the use of blending loans and grant mechanisms to leverage more private resources and capacities for development.

- The EU supports the establishment of an "EU platform for external cooperation" to maximise the impact of resources through enhanced cooperation, coherence and monitoring

Recommendations

- Before increasing the use of blending mechanisms, the EU and MS should engage in a comprehensive review and evaluation of existing facilities. This would mean assessing:
  - Development impacts,
  - Objectives – in particular how conflicts are managed when partners do not share the development objectives of the EU,
  - Monitoring and evaluation mechanisms,
  - Country ownership – this should be broader than just government ownership, but should assess the extent to which other stakeholders and civil society groups can participate,
  - Transparency and accountability.
- Ensure that the platform has clear added value in terms of enhancing the development impact of EU development cooperation. This would include:
  - Setting out how to assess opportunity costs to ensure blending is chosen only because it offers better outcomes than alternative mechanisms and not only because it can inflate EU Member States ODA,
  - Avoiding proliferation of instruments – and improving coordination and coherence among existing facilities,
  - Ensuring it does not increase debt risks for partner countries.
- Ensure that any platform incorporates all stakeholders in its decision making processes. This should be broader than just government ownership, but should assess the extent to which other stakeholders and civil society groups can participate and their views are considered.

3.4 Engaging the private sector

What do the report and communication says about this issue?

- We welcome that the report has a focus on domestic private sector of developing countries; however, the communication does not make this specification and focuses rather on FDI and enabling environment for private sector in general.
- We also welcome that the report notes that an effective domestic private sector requires increasing domestic institutional capacity and facilitating a legislative and regulatory framework that is conducive to this. However, once again this is missing from the communication.
- The communication focuses more on opening domestic markets to foreign investment which may have a destabilising effect on the economies of developing countries as it exposes them to supply shock and to exogenous shock as these flows are far from predictable, particularly in the context of the current economic crises. These flows need to be meted with effective regulation and capital controls to ensure that funds can be utilised in a development friendly manner and that foreign investment can be incentivised, either through punitive or rewarding measure to deliver on development and poverty eradication.
- The communication stresses that the EU "should continue to assist partner countries' efforts to improve their business environment with a view to fostering inclusive growth". However, a clearer definition of what constitutes inclusive growth is required as current definitions are quite broad and difficult to differentiate from regular growth. We would encourage development finance to be targeted towards pro-poor growth which is a clearly defined concept.

Recommendations

- While we are fully in support of the private sector contributing to development, we also believe it matters how private sector development work is undertaken, and which kinds of private actors are emphasized. We would like to see private sector development focused on increasing domestic capacities and supporting sustainable development strategies within country.
- It is important to recognise that the private sector is not a monolith and represents a variety of agendas and interests, so it is important to identify which elements of the private sector are appropriate partners in development and which are potentially destructive.

Section 4: International Development Finance: EU Support to global goals

4.1 Scaling up Official Development Assistance (ODA)

What do the report and communication says about this issue?

- We welcome the recognition in both the report and the Communication that ODA is a key resource for development. However this statement is not supported by the actions of the EU. In 2011, the EU has decreased its ODA level for the first time since 2007 and dropped it to its level of 2010 (0.42% of GNI). The striking fact is that most of the Member States do not plan to increase their ODA budgets by 2015. To ensure the EU reaches the 0.7% target as the whole, France, Germany, UK and Italy should significantly increase their budgets and countries that are already over the target should maintain similar ODA level. From the large EU economies, so far only the UK is on track to reaching the 0.7% target.
- We welcomed that EU met its target for the LDCs, namely 0.15% ODA of EU GNI.
- We welcome the Commission's initial thinking on the measuring of financial flows to developing countries in the future. However it is important to ensure that these flows are coherent with development objectives stated in the Lisbon Treaty (poverty eradication) and the definition of ODA should not be redefined before 2015.

Our recommendations

- The EU and its Member States should agree on ambitious and binding actions to reach collectively the aid target of 0.7% of ODA/GNI by 2015.
- The EU should provide genuine resources for development with a clear focus on poverty eradication and not for the interest of the Member States.
- The EU should retain current definition of ODA until 2015. However the EU should show a strong leadership in the post 2015 negotiation and ensure that the future measuring of development flows is not only a technical exercise but that flows contribute and are coherent with development objectives.

4.2 Scaling up funding for tackling Climate Change and Biodiversity in the context of Sustainable Development

What do the report and communication say about this issue?

- We welcome the recognition of the EU that climate and environmental protection is key to social development and economic growth, and support the commitment to support actions in developing countries through both specific actions and through mainstreaming.
- The Report strongly endorses the focus of the Agenda for Change on the Green Economy. The Green Economy concept is contested, including by many developing countries. The EU should make sure that the primary aim of its support for a 'Green Economy' is to support countries' efforts to invent new paths of economy and society that break away from a highly

unequal, resource-intensive consumption and production logic, towards more equitable and sustainable models.

- The Communication highlights the EU's contributions to climate finance, but stays silent however on the fact that *additional* financial resources are needed to address climate change, as the costs of climate change were not foreseen at the time of agreeing to the existing ODA goals.
- The Accountability Report expands on the notion of additionality and calculates that the EU's own contribution for 2010, and likely 2011 (i.e. that of the EU's central budget) will be additional compared to a baseline average of 2007-2009. This is only true however if one accepts that non-climate related ODA remains static and does not need to increase in line with the commitments to deliver 0.7% of GNI as aid.
- The Communication and Report stress that the EU as a whole is the biggest contributor of both mitigation-related and adaptation related ODA globally (+70%), but the Report recognises that the high share could be due to uneven reporting, and the figure may be inflated.

Our recommendations

- In the current fiscally constrained environment, and the limited capacity to deliver financial resources beyond existing aid pledges, the EU should 1) prioritise the setting up of a common accounting system for climate finance to help build trust and transparency internationally; and 2) step up its commitment to mobilise alternative sources of finance, such as dedicating revenue from an FTT to development and climate change, ensuring revenue from the ETS allowance auctioning is directed for use as climate finance and other innovative sources, such as carbon pricing of international transport.
- The EU should agree to a uniform and transparent format for climate finance reporting. It needs to do so in the upcoming regulations for the Multi-Annual Financial Framework, which should commit to a reporting format on climate finance that: :
    1) Sets out a clear and transparent Rio marker tracking mechanism to measure climate finance that is applied in the same way in all delegations,
    2) Clarifies the portion of ODA that is climate relevant and which portion is reported to the UNFCCC as additional finance,
    3) Separates amounts for total loans and actual spending,

The same reporting format should be adopted by all EU Member States in the upcoming Monitoring Mechanism Regulation.

- The EU should agree on a joint definition and operationalization of additionality as the Council agreed in 2009 that climate financing would require *additional* resources[2]. Climate finance should come on top of the commitment to deliver 0.7% of GNI as aid and developing countries need reassurances that the commitment to mobilise $100bn annually as climate finance will not result in a cannibalising of existing ODA commitments.

Section 5: Making EU aid more effective

What does the report and communication says about this issue?

- The Communication prepared by the Commission includes very limited references to the new Global Partnership for Effective Development Cooperation (GPEDC), which was

[2] Council Conclusions on Climate Change and Development, 16071/09, 17 November 2009

launched in late June and is for now the most tangible outcome of the Busan High level forum on aid and development effectiveness.

- The EU Accountability Report reiterates the Commission's analyses of the EU performance to the Paris declaration. The Communication confirms that "considerable work is still required" as to "using country-level results framework"; also, it reads that "the full potential of mutual accountability framework is yet to be tapped".
- Important elements are missing relative to the post Busan process. The document fails to mention that the global monitoring systems as well as the common proposal on transparency still require technical work to get them fully underway; in doing so, it is not known what specific angle the EU will bring into this discussion. In particular, we are worried that the Commission Communication is failing to remind Members States that they have to abide by the Busan agreement which requires countries to publish their "respective schedules" to implement the transparency standard by December 2012. We are concerned that, in the absence of a strong regional level agreement, countries will not timely meet this deadline.
- It is good to see the EC is singling out fragmentation and joint programming as one of their priorities areas, which is encouraging in the light of the fact that fragmentation has been for now pushed to the margins of the global monitoring framework without any tangible effort from the EU to avoid so. But progress in the concrete implementation of joint programming remains limited, notably to a group of six countries; without a real step change, these efforts at reducing fragmentation will hardly leave a mark.
- It might be said that Europe is not ready to lend its leadership role in the GPEDC to the best implementation of the Busan agreement. For instance, art 16 of the Busan agreement is remindful of the fact that those countries that were signatories to Paris and Accra are still bound by such commitments and that they will "intensify our efforts to implement our respective efforts in full". The Commission Communication does not cast light on these efforts and we urge the Ministers to use their political weight to get the European Union to firmly implement their original commitments.
- There is limited text in both the report and the communication on the GPEDC.

Our recommendations

- The implementation of the Busan principles, goals and commitments should be the purpose of specific initiatives, which should update and go beyond the positions endorsed prior to HLF IV.
- In order to improve effectiveness, it is vital to bring in the political level in a more systematic way. The Council Conclusions that Ministers agree need to fill the gaps in the Communication.
- We urge Ministers to use their political weight to get the European Union to firmly implement their original commitments to Paris and Accra.

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CONCORD is the European NGO confederation for Relief and Development. Its 27 national associations, 18 international networks and 2 associate members represent 1,800 NGOs which are supported by millions of citizens across Europe. CONCORD leads reflection and political actions and regularly engages in dialogue with the European institutions and other civil society organisations. Find out more about CONCORD on www.concordeurope.org

AidWatch is a pan-European campaign led by a group of European aid experts from members of CONCORD. The group publishes an annual scorecard holding the 27 EU member states and the European Commission to account on their aid commitments and charting their progress towards aid targets.