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EU Development Aid in Transition

Report with Evidence

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- (Q) refers to a question in oral evidence
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ABSTRACT

There have been considerable improvements in the management of European Union development aid in recent years. This report considers how successful the reform programme that was started in the late 1990's has been, and what more needs to be done. It also considers the place of EU aid within the EU's Common Foreign and Security Policy (CFSP) and in the draft Constitution, and how it might be affected by Enlargement.

The reform programme has had a positive impact on aid effectiveness and it should lead to further improvements as long as the Commission retains its current self-critical approach. But in addition to keeping up the momentum and fully implementing existing reforms, there is scope for changes in several areas that would make EU aid still more effective. In particular:

- The organization structure should be changed so that aid policy and programming for all aid recipient developing countries are brought together under a single Commissioner.
- The EU should for aid purposes treat all developing countries, both the African, Caribbean and Pacific states (ACP) and non-ACP countries, on a common basis. This would mean applying common criteria in allocating aid by country, and the principles of political dialogue and conditionality that currently apply to the EU's aid to the ACP countries should be extended to the non-ACP countries. This should be the case whether or not aid currently going through the European Development Fund is brought within the EU Budget.
- Whilst there is a sound case for the EU providing significant help to the countries on its borders, the proportion of EU grant assistance going to the poorest countries needs to be increased. This may mean resisting pressures from the new Member States whose interests are likely to be more in helping their immediate neighbours than in helping poorer countries elsewhere in the world.
- There should be a separate chapter in the EU budget devoted to aid to developing countries to ensure that development assistance remains focused on poverty.

EU aid is playing a valuable and distinctive role in helping to achieve the Millennium Development Goals. Although the Government should continue to press for further improvements in effectiveness, it would not be desirable for the level of EU aid, or the United Kingdom's share of its financing, to be cut back.

EU aid can also help in the achievement of the EU's CFSP objectives. In this context, aid should be seen as a policy instrument with its own policy objectives rather than as subservient to the CFSP.

EU Development Aid in Transition

CHAPTER 1: OUR INQUIRY

1. EU aid¹ has undergone substantial changes over the past few years, aimed at improving its effectiveness. Considerable progress has been made.
2. These changes were reviewed in 2002 by the House of Commons International Development Select Committee. Its general conclusion was that, whilst in many respects the changes were to be welcomed, there remained a great deal more to do in terms of implementation.²
3. The principal purpose of this inquiry has been to take stock of the reform programme as it now appears two years further on, and to identify what more needs to be done.
4. The Committee has taken the opportunity to consider the following issues currently under discussion in Brussels and other capitals:
 - The reform programme. How far has it succeeded?
 - Future organisational change;
 - What future for the aid relationship between the EU and the Africa, Caribbean and Pacific (ACP)³ states?
 - The issue of “Budgetisation”—should aid to the ACP countries be brought within the EU Budget?
 - Development aid and the Common Foreign and Security Policy⁴—How far should they be linked?;
 - The draft Constitutional Treaty;
 - Enlargement—opportunities and risks; and
 - The case for EU aid.
5. Our Report is concerned with EU aid to developing countries. It does not cover EU Pre-accession aid which still applies to current candidate countries (Bulgaria, Romania and Turkey) but is being phased out in the 10 new Member States. Nor did the scope of this inquiry extend to EU humanitarian assistance and the agency that manages it, European Community Humanitarian Office (ECHO).

¹ In this report, “EU aid” refers to external assistance managed by the European Commission under the Treaties.

² The effectiveness of the Reforms of European Development Assistance [2nd Report Session 2001-02 HC 417].

³ The ACP countries are the 48 countries from sub-saharan Africa, 16 Caribbean countries and 16 countries located in the Pacific Ocean.

⁴ CFSP.

CHAPTER 2: EU AID IN A WORLD CONTEXT

6. In 2002, global Overseas Development Assistance (ODA) amounted to \$57 billion. The European Union, taking Member States' bilateral programmes and EU aid together, accounted for roughly half of this. Aid managed by the Commission is considerably larger than that managed by any single Member State. In 2003, ODA managed by the Commission amounted to an estimated €6 billion.⁵
7. The World Bank estimates that in 1999 nearly 1.2 billion people in the world lived on less than 1 US dollar per day⁶, representing 23 per cent of the population of the developing countries. A large majority of the very poor are in sub-Saharan Africa and in South Asia. In recent decades, the incidence of extreme poverty has been falling, but because of rising population, the absolute numbers have not changed very much. There has been considerable progress in bringing down poverty in East Asia and, over the past decade, in South Asia. In Africa, progress has been much more limited, and the absolute number of very poor has been on the rise.
8. In 2000, world leaders agreed on the Millennium Development Goals⁷ up to the year 2015. Those include:
 - halving the proportion of people in extreme poverty;
 - achieving universal primary education; and
 - reducing child mortality by two thirds.
9. To help the developing countries reach these goals, the World Bank estimates that ODA *inter alia* needs to reach \$100 billion per year, compared with \$57 billion in 2002.⁸ The donor countries have to date committed themselves to increases which might raise the total to \$75 billion in 2006—with over half the increase coming from the EU and from Member States.
10. Whether these goals are met will depend primarily on the efforts of the developing countries themselves. In the case of Africa, the chances of meeting them look rather unpromising for a variety of reasons—including the current HIV/AIDS pandemic. Critically, countries need stability and good governance, and economic policies that will foster economic growth—since without economic growth, poverty reduction on a sustained basis is impossible. The external environment will be important too—especially the trade policies of the developed countries; a successful conclusion of the WTO round; and the quantity and quality of external aid. It is generally agreed that the quantity of aid is likely to lag behind what is required. It is therefore all the more important that its quality should be maximised.
11. Aid is most effective when it both supports economic growth and is focused on poverty reduction. Achieving effectiveness is a challenge for all donors. The obstacles to success in recipient countries are formidable, given the weak institutional structures and the unfavourable policy environment within

⁵ See Box 2.

⁶ At 1985 international prices adjusted for purchasing power parity.

⁷ MDGs.

⁸ See World Bank: "Goals for Development: History, Prospect and Costs" available at http://econ.worldbank.org/files/13269_wps2819.pdf.

which donors often have to work. Nonetheless, there have been a number of aid “success stories” over the years, and the policy and institutional environment in many countries is now more favourable than it was. There is little doubt that EU aid is achieving better results than it has in the past, but is capable of achieving even better results in the future.

EU Aid in Outline

12. EU aid is complicated. One part is funded from the EU Budget and is subject to the same parliamentary and other procedures to which other Budget programmes are subject.
13. Aid via the EU Budget is provided mainly to the non-ACP countries. It includes aid to the countries of the former Soviet Union, Asia, Latin America, the Middle East and the North African countries, and humanitarian aid. It also currently includes Pre-Accession aid to candidate countries under a separate financial heading. The amounts are decided annually within the framework set by the Financial Perspective⁹.
14. Aid to the ACP countries is funded directly by Member States for the Commission to manage on their behalf and until now has been subject to quite different procedures. This aid is channelled through the European Development Fund (EDF) under the Cotonou Agreement.¹⁰ The amounts are negotiated between the Member States and the ACP countries on a voluntary basis every five years. The amounts channelled to ACP countries through the EDF are more, *per capita* in the recipient country, than through the EU Budget to non-ACP countries.
15. The budgetary burden as it affects DfID¹¹ is greater in respect of EU aid via the Budget than via the EDF. This is because, under the normal Whitehall attribution rules, DfID is required to attribute to its own budget 18 per cent (the United Kingdom’s share, following EU enlargement, of total EU Budget spending) of whatever is spent on development by the EU through the Budget. By contrast, DfID is funding only 12.7 per cent of the current EDF. Taking the EDF and Budget aid together, DfID spending through the EU was about £1 billion in 2003.¹²

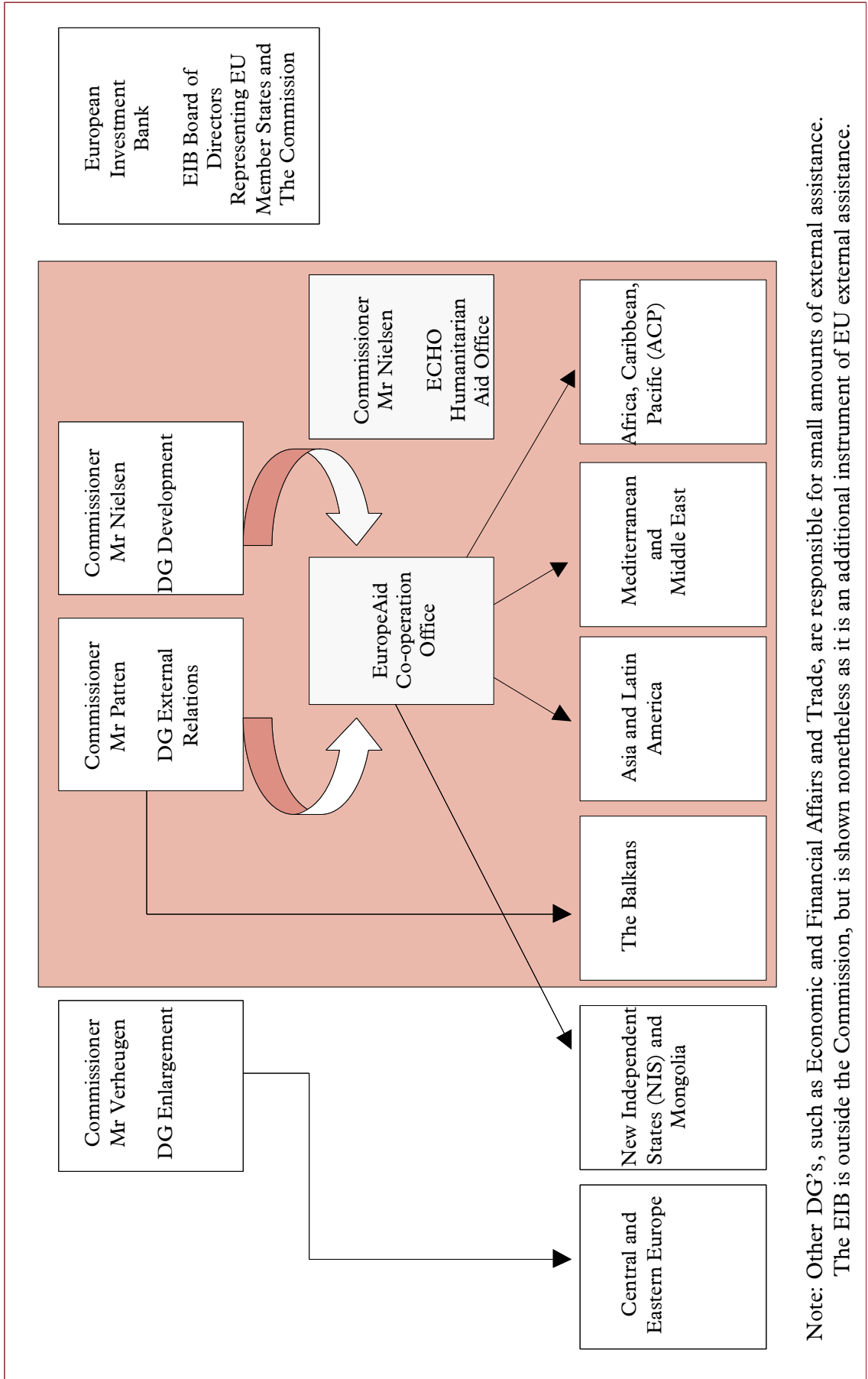
⁹ The Financial Perspective is an inter-institutional agreement negotiated every 7 years between the Commission, the Member States in the Council and the European Parliament. It establishes the maximum amount of EU expenditure in this period and the composition of that expenditure. The current financial perspective ends in 2006. Negotiations are ongoing with regard to the next financial perspective 2007–13.

¹⁰ The Cotonou Agreement was signed in June 2000 between the EU and the ACP countries after the expiry of the Lome Conventions that had previously formed the basis of EU-ACP Relations. Having been ratified by all ACP Member States, it came into force from April 2003. It is valid for a period of 20 years and will be reviewed every 5 years.

¹¹ Department for International Development.

¹² Attribution to DfID includes EU ODA and Official Aid (see Box 2).

BOX 1 Organisation Structure



Note: Other DG's, such as Economic and Financial Affairs and Trade, are responsible for small amounts of external assistance. The EIB is outside the Commission, but is shown nonetheless as it is an additional instrument of EU external assistance.

16. Box One shows the current organizational structure for EU aid in Brussels. Key features are:

- the separation of policy and programming as between the ACP countries (in DG Development under Commissioner Nielson), the non-ACP countries (in DG External Relations under Commissioner Patten), and the candidate countries for EU accession (in DG Enlargement under Commissioner Verheugen);
- the separation of policy and programming from implementation (in a separate agency, EuropeAid). EuropeAid is supervised by a Board consisting of five Commissioners,¹³ with Commissioner Patten in the chair;
- humanitarian aid is managed by a separate agency, ECHO.

¹³ External Relations, Development, Enlargement, External Trade, Economic and Monetary Affairs.

BOX 2**EU Development Assistance**

	Euros Billion		
	2001	2002	2003
A. Managed by EuropeAid	5.4	5.3	5.6
- of which: ODA	5.0	4.9	5.2
Official Aid	0.4	0.4	0.4
B. Managed by other DGs	2.3	2.6	3.1
- of which: ODA	0.9	1.0	0.8
Official Aid	1.4	1.6	2.3
C. Total EU Development Assistance (A +B)	7.7	7.9	8.7
- of which: ODA	5.9	5.9	6.0
Official Aid	1.8	2.0	2.7
D. Financed by: EDF	2.1	1.9	2.4
Budget	5.6	6.0	6.3

Note: Overseas Development Assistance (ODA) is assistance to developing countries (so-called Part 1 countries) as defined by the OECD. Official aid is assistance to countries in transition (Part 2 countries), primarily Russia and the countries of central and eastern Europe.

As shown in the table above, EuropeAid manages the bulk of the EU's ODA. The small amount of Official Aid it manages largely consists of aid to Russia, the Ukraine and Belarus.

Several DGs other than EuropeAid are also responsible for managing EU aid. The largest portion coming under other DGs has been the Official Aid provided to the pre-Accession states (1.6 billion euros in 2002) which is managed by DG Enlargement. The next largest is humanitarian aid (474 million euros in 2002) which is the responsibility of ECHO.

The figures all relate to payments (as opposed to commitments). The figures for 2001 and 2002 have been taken from the Commission's Annual Reports on EC Development Policy and the Implementation of External Assistance. The figures for 2003 are provisional estimates and are based on data given in the Commission's Progress Report as at December 2003 "Reform of the Management of EU External Assistance."

17. Box 2 gives a breakdown of EU aid for the past three years according to who manages it, the split between aid to developing countries (ODA) and aid to countries in transition (Official Aid), and the source of funding. Box 3 shows EU ODA by region and the extent to which it is directed at low income countries.

BOX 3**EU ODA By Region and Income Level 2002**

EU ODA By Region		
	Million Euros	Percent
Europe	1,074	18.1
Africa	2,367	40.0
Americas	408	6.9
Asia	1,091	18.4
Oceania	36	0.6
LDCs ¹⁴ unspecified	568	9.6
Multilateral aid	376	6.3
Total	5,920	100

Source: Commission Annual Report on EC Development Policy and Implementation of External Assistance.

EU ODA Poverty Focus

Percent Share of EU ODA to Low Income Countries

2000	2001	2002
38	42	42

Note: Low Income Countries are countries with per capita income in 1998 of less than \$ 760.

Source: Organisation for Economic Co-operation and Development (OECD), Development Assistance Committee (DAC) on-line data base.

18. Three key features are:

- provisional figures for 2003 suggest a significant increase in total development assistance over 2002 but most of the increase is in Official Aid (i.e. to countries in transition, not to developing countries);
- the largest concentration of ODA in Africa, more than twice the amount in Asia;
- less than half of ODA going to low income countries (whereas DfID have agreed a Public Service Agreement target with the Treasury that the percentage should rise to 70 per cent).

¹⁴ Less Developed Countries.

CHAPTER 3: THE REFORM PROGRAMME—HOW FAR HAS IT SUCCEEDED?

Commission Reforms

19. Mr Marc Franco, Deputy Director-General, EuropeAid, told us that for a variety of historical reasons the EU's external assistance by the mid-1990's "was in a mess...We lacked policy; we had inadequate procedures; and we were understaffed".¹⁵ It was to address these and other weaknesses that the Commission, starting in the late 1990's, introduced a number of reform measures. The main measures can be summarised as follows:
- In November 2000, the European Council adopted for the first time a general statement on development policy. This emphasised the primacy of poverty reduction and cross-cutting issues such as gender, the environment and governance. It also specified six sectors on which the EU should concentrate with its aid—trade and development, regional cooperation, macroeconomic support and access to social services, transport, food security and sustainable rural development.
 - EuropeAid was established in January 2001 to undertake implementation—that is to say, project identification and appraisal, contracting, disbursement of funds, monitoring and ex post evaluation—on behalf of both DG External Relations and DG Development. Previously, implementation had been carried out separately.
 - Programming has been strengthened with the introduction of Country Strategy Papers (CSPs) covering the five years to 2007. CSPs have been prepared for 140 countries in consultation with national governments, other donors and with representatives of civil society. These CSPs provide a framework for EU aid and Member States' aid for each country, as well as for the EU's relations with the particular country more generally.
 - Governance and human rights are now important elements in CSPs, especially in countries where these are serious issues. For aid under the Cotonou agreement to ACP countries, good governance and adherence to good practice on human rights feature as standard conditions in aid agreements. They have also started to feature in aid agreements to other countries.
 - Although policy and programming remain in the separate DGs, the two Commissioners for External Relations and Development sit alongside each other on the EuropeAid Board as Chairman and Chief Executive along with the three other Commissioners with external responsibilities¹⁶, and a range of measures (such as the setting up of Quality Support Groups) have been introduced aimed at ensuring consistency, information-sharing and best practice between the two DGs.
 - New accounting systems have been brought in to help EuropeAid keep better track of commitments, contracts and payments.

¹⁵ Q223.

¹⁶ Trade, Enlargement, Economic and Monetary Affairs.

- Activity Based Budgeting¹⁷ is being introduced this year.
- Responsibility for project management has been substantially devolved to EU delegations overseas. By the end of 2003, “deconcentration”—as the devolution process is known—had been achieved in some 60 countries. The “deconcentration” process in respect of country programmes should be completed by mid-2004, with regional programmes following soon after.
- Staff numbers have been substantially increased, especially on the accounting side in delegation offices.
- Monitoring and evaluation capacities have been strengthened. A separate evaluation service has been established to undertake in-depth evaluations of strategies, themes and sectors; and a Results-Oriented Monitoring (ROM) system has been introduced to allow a rapid appreciation of a project’s or programme’s performance.
- Contracting and tendering procedures have been harmonised across all the programmes. These are incorporated in the new Financial Regulations covering the Budget aid and aid through the EDF, which came into force in 2003.
- Both the Commission and their overseas Delegations are working more closely with other donors, particularly Member States but also with other donors such as the World Bank—to try to harmonise procedures, and to agree on joint approaches and consistency in their country programmes.
- Under the Cotonou Agreement, conditionality has been strengthened, particularly with regard to governance issues such as human rights and corruption.
- The Commission has improved its reporting to Member States and other stake-holders by instituting annual reports on its aid activities.

Progress So Far

20. What have all these measures achieved? From the standpoint of aid management, all of our witnesses had positive things to say, albeit with different emphases; and some were more positive than others.
21. In the view of the Director of the Overseas Development Institute; Mr Maxwell “the quality is better than it was... The efficiency of delivery is improving markedly”. Bringing implementation together in EuropeAid has contributed to this improved efficiency.¹⁸ This was echoed by Mr Frisch, former Director General of Development at the Commission.¹⁹ The Secretary of State told us that the “reform process has made reasonable progress but still has some way to go.”²⁰
22. Mr Richard Manning, Chairman of the Development Assistance Committee (DAC) of the OECD, referred us to the DAC’s Peer Review of EU

¹⁷ Activity Based Budgeting has been introduced across the spectrum of EU activities in order to ensure that resources are distributed in a manner that is consistent with pre-defined political priorities and objectives.

¹⁸ Q2, Q10, Q27.

¹⁹ Q150.

²⁰ Q281.

assistance carried out in 2002. Whilst recognizing that more needed to be done, that Review had generally commended the Commission on the changes made. The DAC had concluded that the “EU has made substantial progress since January 2001 with organizational and management reforms...Of particular note are improvements to accountability at all levels, the introduction of the Country Strategy Paper process, the speedy and efficient delivery of humanitarian aid, the clarification of the links between relief and development, improved evaluation systems, and progress in the decision-making process with Member States and “deconcentration” of authority to field offices”.²¹ Mr Manning suggested to us that in the period since 2002 there has been further progress in a number of areas. He cited in particular the harmonisation of regulations and procedures with “deconcentration” which, he felt, “has sharpened the performance of Commission operators in the field” and made the Commission a “more effective player in the local donor club”.²²

Commission’s Annual Report on EU Development Policy

23. Mr Maxwell told us that the Commission has “made a serious effort to improve the management of European aid and to improve the degree of transparency”. The publication of a detailed annual report has “greatly improved accountability and transparency”, and the EU development programme is now “no less transparent and no less accountable” than the United Kingdom bilateral aid programme. **The Committee was impressed by the comprehensiveness of the Commission’s latest Annual Report covering aid activities in 2002.**²³

Country Strategy Papers

24. We were told by Ms Hilditch, Coordinator for the ActionAid Alliance, that Country Strategy Papers represented a “qualitative leap in terms of quality control of the (aid) process”.²⁴ She also told us that the tendering process for NGOs has greatly improved, and the Commission’s “response time” has been cut from 18 months in 2001 to 9 months now.²⁵ Dr Mackie, Programme Coordinator at the European Centre of Development Policy Management, said that the Commission has “done a lot to improve (evaluation) over the last five years and been willing to learn a lot from some of the more rigorous evaluation systems”.²⁶

The Development Policy Statement

25. Witnesses generally welcomed the 2000 Development Policy Statement.²⁷ It provided helpful guidance to the Commission on how it should be spending its aid money, with a welcome emphasis on poverty reduction.

²¹ Press release—DAC Aid Peer Review of the European Community, 6 June 2002.

²² Q127, Q134, Q137.

²³ COM (2003) 527 Final. Adopted on 3/9/2003.

²⁴ Q95.

²⁵ Q106.

²⁶ Q51.

²⁷ Statement by the Council and the Commission on the European Communities Development Policy, 10/11/2000 “Doc 13458/00”.

Real Improvements?

26. Firm evidence of improvement in terms of implementation and results was less easy to come by. The Commission has recently written that “the impact on speed and quality will become clearer in the medium term”.²⁸ This is not unreasonable given the fact that the impact of organizational changes is never immediate, and the fact that with development assistance there is usually a considerable lag between programming, the start of a project and its completion.
27. Yet there are some quantitative and qualitative pointers to improvements:
- The large portfolio of old commitments that were never likely to be spent has been substantially cleaned up. Commitments made prior to 1995 and not spent have been reduced by €1.65 billion over the past four years. Expressed in terms of the number of years for a commitment to be spent, the ratio has been reduced from 4.6 to 3.5 in the case of budget aid, and from 5.5 to 4 in the case of the EDF.²⁹
 - According to an internal Commission evaluation, “deconcentration” has already resulted in improvements in both the speed and quality of aid.³⁰ Mr Manning expressed a similar view.³¹ The Secretary of State gave us the example of Kenya where, as a result of “deconcentration”, the time taken to pay invoices has been reduced from 50 days to 8 days.³²
 - In 2002, under the new ROM system, an impressive 743 project reports were prepared, covering projects with a total value of €6.1 billion. These reports showed that, on average, project and programme performance was good (on a 4 scale rating from “very good”, “good”, “some problems” to “major problems”); and, again on average, that projects were progressing according to plan or better. Projects were marked for sustainability, impact, effectiveness, efficiency and relevance. On all counts, average ratings were “on track”—i.e. projects and programmes performing well—though performance varied between regions with Asia, Latin America and Southern Mediterranean and the Middle East doing significantly better than the ACP and the Balkans.³³
 - We were given examples of programme improvement, as in Burkina Faso where the Commission had adopted a “simpler and more focused, sector programme approach” and was “promoting the use of conditionality and results indicators...which is viewed by many as a model for use elsewhere”.³⁴ We were also told that the Commission has been the leader amongst donors in developing budgetary support as an aid instrument.³⁵ Other donors such as the World Bank which in recent years pulled back

²⁸ Reform of the Management of EU External Assistance—Progress Report as at December 2003.

²⁹ Ibid.

³⁰ Ibid.

³¹ Q134.

³² Q281.

³³ EC Annual Report 2003.

³⁴ Q136.

³⁵ Q224.

from infrastructure financing were looking to the Commission for advice in this area.³⁶

- We were told by Mr Robert Reynders, Member, European Court of Auditors, that recent audit reports in respect of a random 45 aid transactions had shown “fairly good” results; that audits carried out in six aid recipient countries had shown that the EU’s aid “systems were well constructed” and there were few criticisms to be made in terms of legality and regularity; and more generally, from an audit point of view, “the whole administrative reform is going in the right direction”.³⁷
28. In summary, there are a number of indications that in terms of both organizational effectiveness and results, the reform process has had a positive impact. In particular we applaud the focus on governance and Human Rights. **It is our view that, taken overall, significant improvements in aid management and organizational effectiveness have been achieved, and the Commission is to be commended for its efforts.**

Outstanding Challenges

29. **There is, however, more to be done if the EU’s aid is to match the best. Mainly, this is a matter of intensifying and carrying to completion the reforms that are currently in train.**
30. We were impressed by the frankness with which Commission officials were willing to discuss the problems and challenges that still have to be dealt with. As Mr Franco told us, “there is still a lot of work to do”.³⁸ Likewise, the Commission’s recent progress report to the GAERC³⁹ sets out clearly what further has to be done to make EU aid fully effective.⁴⁰
31. From this progress report and from the evidence we took, we noted in particular the following:
- The allocation of aid by country and region does not match up with the primacy given to poverty reduction in the 2000 development policy statement. The percentage of EU ODA going to low-income countries was only 42 per cent in 2002. The main reason for this is that the Commission, with the support of Member States, wishes to spend substantial sums on the “near abroad”—that is to say, the Balkans and around the Mediterranean where for political reasons the aim is to support broad-based development and political stability on the EU’s borders.
 - There is insufficient progress as yet with the three “C’s” (Coordination, Complementarity and Coherence) established in the legal provisions for development cooperation of the Maastricht Treaty (1993). Although Brussels and delegations in the field are working more closely with other donors, they have some way to go in terms of bringing about a **coordinated** approach in individual countries. Country Strategy Papers are shared with other Member States but in most countries they have yet

³⁶ Q223.

³⁷ Q179.

³⁸ Q223.

³⁹ General Affairs and External Relations Council. See Footnote 28.

⁴⁰ See footnote 9.

to achieve a clear division of responsibilities between the Commission and Member States. This means continued duplication of effort on the part of donors and imposes an excessive burden on local administrations. But if there is to be more coordination by the Commission, Member States have to agree to be coordinated: this has not always been the case.⁴¹ Donors need to agree on the broad aid and development strategy for the country concerned; they also need to agree a division of responsibilities, with individual donors taking lead responsibility for particular sectors. Which donor takes the lead in different sectors or for being the lead coordinator overall will differ from country to country depending on relative size of programme and their respective expertises. However, we would expect the Commission to be playing a prominent role in many countries. **We regard it as essential that faster progress is made in achieving coordination between the various aid programmes in aid-receiving countries.**

- Lack of coordination inevitably means that the objective of making the Commission's and Member States' aid **complementary** is also not met. But this is exacerbated by the fact that, notwithstanding the Commission's aim to focus more, in many countries its aid is still rather widely spread.
- As for **coherence** between the EU's development and other policies, there is still a wide gap between the principle and the actuality. This is less because of process since the mechanisms for achieving coherence exist (e.g. regular meetings of the relevant Commissioners and the fact that development now comes under the GAERC), but **more a failure of policy-making. The prime examples are failure to reform the Common Agricultural Policy (CAP) and the failed world trade negotiations** (though the reasons for the latter go well beyond the actions of the EU). The efforts under-way to get these negotiations restarted and the attempt to link development policy into the Common Foreign and Security Policy (see below) may be seen as a move in the right direction.
- Whilst the introduction of Country Strategy Papers (CSPs) is a great advance, country strategies are in need of periodic up dating and review—as it is the Commission's intention to do at the half-stage of their implementation—and any changes made quickly operational.
- Even after the rationalisation and harmonisation of regulations and procedures, these still appear too complicated and tend to slow down aid delivery. One witness pointed out that the EU's procedures are bound to be slower moving than those of bilateral donors because of its obligations to tender internationally and to be totally transparent.⁴² Nonetheless, further efforts are required in this area.
- Relative to the size of aid programme, staffing levels are still inadequate especially in the “deconcentrated” delegation offices. There remains a particular lack of people with development expertise, as opposed to people with general administrative training. It was suggested to us that

⁴¹ Q85.

⁴² Q224.

the hiring of more local people could help to deal with this problem, and in a cost effective way.⁴³

- While good progress has been made with developing performance indicators and in monitoring and evaluation, there remains more to do to bring these up to the standard of the best donors.⁴⁴ We agree with the Secretary of State that their programmes, and reporting thereon, should be more closely linked to the achievement of the MDG's.⁴⁵
 - The EU Budget continues to lack clarity and transparency.⁴⁶
32. On this last point, the Commission's Communication on the future Financial Perspective⁴⁷ (dated 17 February 2004), has proposed a very significant simplification of the External Actions part of the budget. In place of the existing 100 or so instruments, it is proposed these be reduced to just six:
- Economic Cooperation and Development (incorporating the EDF);
 - Peace and Security;
 - Humanitarian Aid;
 - Pre-Accession Aid;
 - A new Neighbourhood instrument for cross-border cooperation;
 - Macro Financial Assistance.
33. **In general terms, we think a simplification on these lines is to be greatly welcomed.** We return to the proposal for a Peace and Security instrument later in this report, and also to the idea of incorporating the EDF within Economic Cooperation and Development. But we whole-heartedly support the idea of a single instrument for development in place of the multiplicity of regulations at present which make for confusion, misunderstanding and difficulty in ensuring that aid is tailored to recipient countries' overall needs. We suggest that serious consideration should be given to wrapping Macro Financial Assistance into the Economic Cooperation instrument since such assistance is usually part and parcel of the EU aid programme in any particular country: there seems no good reason to separate it out under a different instrument.
34. **We agree that for political and strategic reasons the "near abroad" countries need help and that the Commission is well placed to provide this support on behalf of Member States. However, we have sympathy with the Secretary of State's view that a larger proportion of EU ODA should go to low income countries.**⁴⁸ We make three suggestions:
- **The Commission and Member States should consider the scope for increasing the volume of loans to these countries from the European Investment Bank (EIB)⁴⁹ so as to free up grant**

⁴³ Q9, Q137, Q138.

⁴⁴ Q51, Q52, Q224.

⁴⁵ Millennium Development Goals Q281.

⁴⁶ Q50.

⁴⁷ COM (2004) 101 Final 17/2/2004.

⁴⁸ Q277.

⁴⁹ See Appendix 5.

assistance for the low income countries. If the EIB is to play a larger role in these countries in place of EU grant aid, it may need to extend its reach beyond its traditional emphasis on private investment and public infrastructure and utilities to investment in the social sectors.

- **The Commission should concentrate grant assistance to these countries on governance and on poverty reduction.**
 - **The Commission should review the 2000 development policy statement so as to ensure, in the words of DfID's and the FCO's written submission to the Committee, "its continued relevance and to clarify its role in guiding the future direction of EU aid"⁵⁰, so that it encompasses the objective of assisting the "near abroad" as well as poorer countries.**
35. **Where the reforms need to be fully "bedded in", the Commission seems to recognize what needs to be done. We urge the Commission to take all necessary steps to bring the reform programme to full fruition so that EU aid can be made still more effective.**

⁵⁰ DfID/FCO Memorandum p.122.

CHAPTER 4: FUTURE ORGANISATIONAL CHANGES

36. One area of the reform programme where change is needed is in relation to the organisational structure.
37. Whilst welcoming the bringing together of implementation in a single agency, EuropeAid, several of our witnesses argued that the current structure remains far from satisfactory. Mr Maxwell, for example, said that—owing to the separation of implementation from policy and programming—the current arrangement is an “unsatisfactory compromise”.⁵¹ Ms Gavas, Policy Officer, BOND, described the “gap between policy and implementation” as “very serious”.⁵²
38. A different criticism came from former Director General Development Mr Frisch. He argued that the separation of policy and programming from implementation is working reasonably well (though he felt that identification of projects should be included in the programming function and not left to EuropeAid). What was not working so well was the separation of programming and policy in External Relations and Development: much would be gained, he argued, from bringing these together.⁵³
39. There are several possible organisational models for consideration. First, of course, is continuing with the status quo—favoured by those who believe there has been enough organizational change in recent years already. Second, all aspects of development assistance—including policy, programming and implementation—could be brought together in a single DG under a single Commissioner. This is the model generally favoured by the NGO community and is favoured by the Secretary of State.⁵⁴ Third, policy and programming could come together in a single DG, but EuropeAid would maintain its separate status.
40. A separate question is where responsibility should lie for the Commission’s overall political relations with third countries. At present it lies with both DG External Relations and DG Development. On the one hand, it was suggested to us that there are considerable benefits from the point of view of coherence in having the same country desks responsible for aid policy and the EU’s political relations with particular developing countries. This is the model in several Member States. On the other hand, this model gives development policy a less distinct focus and it is likely that the DG or DGs will continue to be staffed by generalists rather than by people with development expertise.
41. An alternative model analogous to the DfID/FCO split in the United Kingdom would be for an external relations DG with country desks to cover political relations in cooperation with a separate development DG focussing entirely upon Development assistance. This is the model favoured by the Secretary of State.⁵⁵ If in due course an EU Foreign Minister is appointed with overall responsibility for all external functions, one of his/her tasks would be to ensure that the development and political sides really do work together in a consistent manner.

⁵¹ Q10.

⁵² Q107.

⁵³ Q150.

⁵⁴ Q292.

⁵⁵ QQ292–294.

42. The Commission will soon have 10 more Commissioners and jobs will need to be found for each of them. We very much hope that this factor will not materially interfere with the need to put in place a structure that is fit for purpose.
43. **We are of the opinion that continuing with the present organisational structure would be a mistake. Even though change would involve some disruption, we see considerable benefit in unifying the policy and programming functions in a single development DG under a development commissioner. Whether there should continue to be a separate implementation agency we find it more difficult to say. On balance, we feel that EuropeAid is working well as a separate agency, and that it would be best to leave it as it is. At the same time, it should be more closely linked than it is at present to the policy and programming functions.**
44. **We urge the outgoing Commission to prepare a blue-print for a revised structure for the incoming Commission—taking into account above all the need for efficiency and effectiveness, but also the move towards a strengthened CFSP (see below).**

CHAPTER 5: WHAT FUTURE FOR THE EU/ACP AID RELATIONSHIP?

45. For historical reasons the funding of the ACP countries is quite different from the funding for other developing countries. ACP countries, most of which are very poor, have received much more aid from the EU on a *per capita* basis than have other very poor countries such as India and Bangladesh. They have also received better treatment in terms of trade policy, though their preferential status in recent years has been eroded.
46. The Cotonou Agreement, which governs the EU's relationship with the ACP, only came into effect in 2003 and is supposed to last until 2020. Yet questions are increasingly being asked as to whether the special EU/ACP relationship has a future. Mr Maxwell from the Overseas Development Institute, for example, in his evidence said that he was becoming an "ACP sceptic" both because of the erosion of trade preferences (which is expected to continue) and because of the huge differences in aid allocations compared with other poor countries. He also noted that the ACP grouping is far from homogeneous in its interests as was shown in the Doha trade negotiations.⁵⁶ Dr Mackie from the European Centre for Development Policy Management raised similar questions.⁵⁷
47. The ACP countries would like the benefits they receive from this special relationship to continue. They argue that many of their members have small and highly vulnerable economies and therefore require special treatment; and as the Secretary of State emphasised, they are mostly very poor countries.⁵⁸ They also benefit from a greater degree of predictability of EDF money than there is with EU budgetary aid. Member States for their part value the inclusion in Cotonou of conditionality relating to human rights and governance which enables aid to be cut off if the conditions are not met⁵⁹. Moreover, the relationship is not just about aid and trade. There is also a political dimension to the Cotonou Agreement, involving more consultation than is normally the case with aid programmes and at least in theory a measure of "reciprocal accountability" which the ACP countries and the development NGO's say they value. Mr Maxwell suggested that this aspect of the relationship was a model worth extending to other aid recipient countries.⁶⁰
48. Whether the ACP has a future as a grouping is less a choice for the EU than for the ACP. Some of the African ACP countries are showing signs of wanting to build a new relationship with the EU through the recently formed African Union which includes a number of non-ACP countries. In any case, the EU cannot unilaterally walk away from the EU/ACP relationship. But it could reduce the size of the EDF at its next replenishment, causing the relationship to wither; or by budgetising all EU aid (see below) and applying more equitable criteria in its country allocations. From Britain's point of view, although the ACP does include many countries in which we have a strong interest historically and which deserve substantial assistance, the

⁵⁶ Q21.

⁵⁷ Q70.

⁵⁸ Q279, Q302.

⁵⁹ Article 96.

⁶⁰ Q21.

skewing of EU aid in favour of these countries at the expense particularly of the Asian sub-continent, where we also have a strong historical interest seems increasingly hard to justify.

49. **We recommend the following approach. In the EDF's "mid-term review", which is due later this year, the government should put its EU partners on notice that it will be looking for the Commission to develop a new strategy that will treat all developing countries that wish to have a partnership relationship with the EU on a common basis. This would not necessarily mean that all ACP countries would receive less aid than at present: there may be good reasons for some of them to continue to receive preferential treatment. But there would at least be common criteria for allocating aid across the globe. In addition, other elements that are particularly valued in the EU/ACP relationship should remain and be extended to other countries: political dialogue and "reciprocal accountability", conditionality in relation to human rights and governance; and the greater predictability of aid flows.**

CHAPTER 6: BUDGETISATION

50. The question of whether the EDF should be budgetised has been a recurring one over the years. The Commission has proposed this on several occasions, and has recently done so once again: in November 2003 the Commission published a Communication requesting budgetisation.⁶¹
51. Member States' positions on budgetisation have tended to depend on whether they would have to pay more or less. In the United Kingdom's case, budgetisation would mean paying more.
52. The Secretary of State said he remained to be persuaded of the case for budgetisation partly because of the extra cost it would involve for DfID, but partly also because he was worried that it would lead to less EU aid going to the poorest countries.⁶²
53. Most of our witnesses, however, favoured budgetisation. They argued budgetisation would bring greater coherence to EU aid; would increase parliamentary scrutiny; would greatly simplify aid procedures by allowing full harmonisation across the EU programme; would enable country aid allocations to be made on a fairer basis; would put an end to the difficulties involved in using budget and EDF funds for regional programmes including ACP and non-ACP countries.⁶³ It was suggested to us by Mr Schmidt, Deputy Director in Commissioner Neilson's Cabinet, that budgetisation would enable a stronger poverty focus for the Commission's programmes because "we would be giving priority to the size.... and needs of countries".⁶⁴
54. There certainly is a risk, as the Secretary of State pointed out, that budgetisation would result in less aid being spent on poor countries because there would no longer be the ring-fencing provided by the EDF.⁶⁵ Furthermore, more of the "external" budget might be spent on peacekeeping and other non-developmental activities. At the same time, it has to be recognised that without peace, there cannot be development. It was suggested to us that the risks of too much money being spent on peacekeeping might be reduced by adding a separate development chapter to the budget, distinguishing aid for development and poverty reduction from other spending on "external actions".⁶⁶ This, as explained earlier in this report, is what the Commission has now proposed. Another witness suggested that, to prevent money intended for development from being raided, it would help to have a substantially larger sum set aside in the EU Budget specifically to support the CFSP.⁶⁷ As indicated earlier, the draft Financial Perspective proposed a separate "Peace and Security" budget. Apart from helping to protect the spending on poverty reduction, moves such as these would also help to make the budget and budget-making more transparent. But it was also pointed out to us that if Member States and the

⁶¹ COM (2003) 590 Final 8/10/2003.

⁶² Q280.

⁶³ Q26, Q224.

⁶⁴ Q163.

⁶⁵ QQ279–280.

⁶⁶ Q26, Q82.

⁶⁷ Q151.

Parliament really want the EU's aid money to go to the poorest, they can ensure that this happens whether or not there is budgetisation.⁶⁸

55. **If it were not for the extra cost to the United Kingdom, the advantages of budgetisation in our view would clearly outweigh any disadvantages. We believe the government should weigh these carefully, including the extra cost, before reaching a decision on the current Commission proposal. Whether or not budgetisation goes ahead, we believe there is a strong case for a separate chapter in the budget for development assistance to maintain the poverty focus currently found within the EDF.**

⁶⁸ Q86.

CHAPTER 7: DEVELOPMENT AND CFSP—HOW FAR SHOULD THEY BE LINKED?

56. The EU has been providing development assistance to third countries for decades. The Common Foreign and Security Policy (CFSP) was only developed after the Maastricht Treaty of 1992. There is great concern amongst the development community that poverty reduction will in the future be seen as an objective to be pursued in a security context rather than as something to be pursued *per se*.⁶⁹ This concern was summed up by Dr Mackie saying that, with the proposed strengthening of the EU's foreign policy role, "development (aid) will become a tool of foreign policy".⁷⁰ This perception has been confirmed by Javier Solana's recent strategy paper, "A Secure Europe in a Better World",⁷¹ which has been approved by the European Council. This speaks of external assistance as supporting a future security strategy. The Strategy argues that "security is a precondition of development and that new threats require a range of interventions. The Strategy links the foreign policy, development, and security agendas in response to the 'new' security threats: terrorism, proliferation of WMD, failed states and organised crime." The draft Constitutional Treaty reinforces the point. It proposes the creation of a European Foreign Minister able to use all instruments, including development and humanitarian aid, in pursuit of the EU's foreign policy objectives.⁷²
57. The development community already perceives a down-grading of development policy with the abolition in 2002 of the separate Development Council, with development matters now taken twice a year in the GAERC.⁷³ We were told by the International Aids/HIV Alliance that in their view there was already "evidence of increased influence of foreign policy objectives in the allocations of EU funding" at the expense of aid to the poorest countries.⁷⁴
58. It is clear that neither development nor CFSP can be entirely divorced from the other. Mr Childs⁷⁵ described this as "an intimate link between political objectives, such as securing stability and peace, and development objectives."⁷⁶ For the EU to achieve its objectives of peace, stability and poverty reduction in Africa, it is essential to "deploy all the instruments at our disposal", including humanitarian, development and military aid. The Secretary of State said he supported the use of aid money for the African "Peace Facility" since bringing peace to war-torn countries was an absolute prerequisite of development.⁷⁷
59. In our view the key questions are on what terms will there be collaboration between development and foreign policy, and whether development policy

⁶⁹ Q55, Q114.

⁷⁰ Q35.

⁷¹ Endorsed at the December 2003 European Council. Available on <http://ue.eu.int/pressData/en/reports/78367.pdf>.

⁷² Document CIG 50/03.

⁷³ Q119.

⁷⁴ International Aids/HIV Alliance written submission.

⁷⁵ Head, Cabinet, DG External Relations.

⁷⁶ Q231, Q264.

⁷⁷ Q276.

will be subservient to foreign policy interests? Mr Maxwell did not think there were too many principles at stake provided it is clear that “development policy focuses on development and not on fighting terrorism”.⁷⁸

60. We agree with Mr Manning from OECD that the development community must recognize that development and security are linked: without development there will be no security, and vice versa. In helping to address security issues, it is vital for EU aid to “be very serious about building sustainable institutions....(and) avoid gesture politics”. We also agree with his statement that “reducing poverty in the world is...very much in the interests of the Community”. He cautioned that development aid is for the longer term, whilst foreign policy issues tend to be dealt with on a shorter term basis.⁷⁹ Our witnesses from the NGO community said that, in theory, the proposed Foreign Minister could provide greater coherence between development and foreign policy; but there was a real danger the Minister would devote most of his/her time to short-term foreign policy issues and not enough time to development.⁸⁰
61. We accept that EU external assistance can have a wider purpose than pure poverty reduction—especially in the “near abroad”. In particular, it can help to build institutions and support economic development which in turn will help to create stability. But the Commission must not lose sight of its commitment to the Millennium Development Goals—which, if achieved, will over the longer term make Europe more secure.
62. In the latter context, it is perhaps surprising that Mr Solana’s paper referred to above, whilst indicating that external assistance should be used to support the security strategy, did not include poverty reduction as one of the EU’s strategic objectives.
63. There is an inevitable overlap between the EU’s aid in support of development and assistance that may be motivated more by the desire to secure peace and stability. We are not talking here about military assistance but, rather, aid in support of, for example, security sector reform, police training, de-mining, destroying small arms and light weapons, peace-keeping and post-conflict resolution. These can all contribute to achieving the Millennium Development Goals, are justified under the International Development Act,⁸¹ and could in principle be funded from the EDF or from the chapter of the Budget dealing with development.
64. It has been suggested to us, however, that there is a case for having a separate budget for assistance of this nature. The advantage of this would be that it would provide a useful budget discipline for “peace and security” type spending, and ensure that such spending is linked to clear objectives; and it would protect the more traditional spending on development with its intended focus on poverty programmes from being raided at short notice for “peace and security” projects.
65. **We see merit in the idea of a “Peace and Security” budget, as proposed in the draft Financial Perspective, which would be the responsibility of the External Relations DG and Commissioner.**

⁷⁸ Q11.

⁷⁹ Q131.

⁸⁰ Q116, Q117.

⁸¹ International Development Act 2002.

66. **We believe it is essential that development policy is not downgraded and made subservient to the CFSP. While fully accepting that a successful development policy will bolster the EU's foreign policy objectives, we would prefer to see development described as an important element in its foreign policy—rather than as an instrument of it.**

CHAPTER 8: THE DRAFT CONSTITUTIONAL TREATY

67. The issue of the link between development and the CSFP also arises in the context of the draft Treaty. The draft, as presented by the Convention on the Future of Europe, was generally welcomed by the development community. The draft provides that:
- poverty eradication is to be an objective of the Union's relations with the wider world (III-193 and III-218);
 - development objectives are to be taken into account in implementing policies which are likely to affect developing countries (otherwise known as the 'coherence principle') (Article III-218);
 - humanitarian aid is given a separate legal basis (Article III-223);
 - the joint competence between humanitarian aid and development is confirmed (Article III-220);
 - and aid to third countries which are not 'developing countries' is provided for in a separate article (Article III-221).
68. There remains some concern, however, that development policy and poverty reduction will not be given a sufficiently high profile in whatever Treaty is finally agreed. This concern is clearly shared by some development Ministries. On 1 May 2003 the then Secretary of State, along with six other like-minded development Ministers, submitted a joint paper to the Convention on the Future of Europe⁸² arguing that development policy should be given a strong and independent place in a new Treaty. We were told that Commissioner Nielson would have welcomed stronger language than exists in the current draft.⁸³ For our part, we feel that there is unnecessary opacity in the existing language on development, and the absence of any clarity as to the relationship between development and foreign policy. The Secretary of State, however, told us that he was broadly content with the draft language, though he too would have liked to see the relationship between development and foreign policy clarified.⁸⁴
69. BOND are concerned that legal experts in the IGC have proposed to remove the distinction between development aid and aid provided under Article III-221 which clarified the remit of Article 181a EU Treaty (post-Nice) to make it apply EU aid to all third countries. They believe this would make Article III-221 redundant, by negating the differentiation between aid to developing countries and aid to non-developing countries, and thereby dilute the commitment to the MDG's.⁸⁵
70. **We share BOND's concern in this regard, as we understand does the government. We recommend:**
- a. that the current differentiation between developing and non-developing countries in the Treaty is retained by using the wording in the latest version of the Treaty⁸⁶;**

⁸² http://europa.eu.int/futurum/documents/other/oth010503_en.pdf.

⁸³ Q161.

⁸⁴ Q273.

⁸⁵ BOND letter to the Prime Minister dated 15 October 2003 p.

⁸⁶ Document CIG 50/03.

b. and that development cooperation and development policy, whilst in support of CFSP, do have distinct and autonomous objectives.

CHAPTER 9: ENLARGEMENT: OPPORTUNITIES AND RISKS

71. There are opportunities and risks for EU aid arising out of Enlargement.⁸⁷ The main opportunities are:
- Although the new members are unlikely to contribute to the EDF, they will be contributing to budgetised aid through their general contributions to the EU budget. Consequently, budgetised aid should increase;
 - There will be considerable savings when Pre-Accession Aid (Chapter 7) to the new members comes to an end. This will be offset elsewhere in the EU budget, especially by additional expenditure on agricultural, structural and cohesion funds. It is to be hoped that some of the savings made in Chapter 7 of the EU budget by the accession of 10 new Member States can be re-allocated for spending on the aid budget (Chapter 4 of the EU Budget);
 - Some of the new members have been recipients of aid in the past. Their experience in undertaking successful economic transition may be useful for the Commission's programmes elsewhere. The Hungarian Government told us: "the exchange of our experiences and technical know-how gained during the period of political and economic transition would greatly contribute to the political stability in the region and would promote good governance."⁸⁸ and
 - The present enlargement should permit a refocus for EU development aid on the poorest countries, though there will continue to be a requirement to provide economic assistance to some new neighbours.
72. The main risks are:
- The commitment by most of the new members to development cooperation is relatively low, and they have limited development constituencies. There may therefore be a further dilution of the EU's development effort;⁸⁹
 - The new Member States' principal concerns on the external front are likely to be about security and stability issues in their neighbouring countries. This could put further pressure on the EU to spend aid money on the "near abroad" rather than on the poorest countries. DfID are worried on this account.⁹⁰ The Hungarian government told us that it would be interested in forming a "development partnership with countries that are important to its foreign and security policy and foreign trade relations that are well known to Hungarian social and economic actors and where its international development cooperation efforts are duly received;"⁹¹ and
 - The European Investment Bank will focus even more on lending within the Union. We were told by Mr Peter Sedgwick, Vice President at the EIB that "Around 90 per cent of our lending is within the EU. That

⁸⁷ Q63, Q91.

⁸⁸ Hungary written evidence p.

⁸⁹ Q155.

⁹⁰ DfID written evidence p.

⁹¹ Hungary written evidence p.

percentage will go up to around 95 per cent on 1 May, when the acceding countries become members of the Union.”⁹²

73. The NGO, Saferworld, told us that “the increase over the last decade of amounts of EU aid to middle-income countries in Central Eastern Europe and South Eastern Europe and the Mediterranean at the expense of the poorest countries is not desirable. The process of enlargement has no doubt contributed to this trend, in order to facilitate the accession of new members this May. Whilst increased stability in the region is most welcome, this should not be at the expense of efforts to support development and peace within the EU’s wider external relations.”⁹³
74. This gets to the heart of the problem: the EU and its new members rightly want to secure development and stability in the near-abroad, but at the same time the EU is committed to poverty reduction and the Millennium Development Goals.
75. We have expressed the view earlier in this report that aid allocations need to be rebalanced in favour of the poor countries. **We recommend that the Government works with other like-minded Member States to ensure that enlargement does not lead to a disproportionate share of EU aid going to the “near-abroad”, and that the Commission takes full advantage of the benefits that enlargement may be able to bring to development cooperation.**

⁹² Q195.

⁹³ Saferworld submission p.

CHAPTER 10: THE CASE FOR EU AID

76. Finally, we have addressed the question of whether EU aid provides added value as compared with national aid programmes. Senior politicians in both of the main United Kingdom political parties have on various occasions cast doubt on whether the United Kingdom is getting adequate value for money by channelling its aid—or at any rate such a large proportion of the DfID budget—through the EU, and have threatened “repatriation” of this money unless the quality improves. In a recent speech, the Leader of the Opposition described a “compelling case for increasing national control over overseas aid and development”.⁹⁴
77. Most of our witnesses were loath to rate the quality of EU aid relative to British aid. We were told that in a few respects EU aid was now amongst the leaders. However, the underlying view seemed to be that, while the quality of EU aid was improving quite fast and was likely to go on improving, it was still on average somewhat inferior to that of British aid. Mr Maxwell, from the Overseas Development Institute, was the clearest of our witnesses on this matter when he told us the quality of EU aid is “not as high the British” but better than that of a number of other Member States.⁹⁵ DfID are also clearly of this view.
78. Even though EU aid quality remains less than it might be, and its country allocation likewise less than satisfactory, our witnesses pointed to a number of advantages that it has over bilateral aid:
- The EU has an advantage over the bilaterals in some countries in being better able to handle sensitive political issues because it is seen as more neutral. In the same vein, it is easier for the Commission to impose conditions without this appearing “neo-colonial”;
 - In some regions, such as the Balkans, the Member States have been more than happy for the Commission to take the lead as the principal European donor;
 - The EU has particular experience and expertise in certain sectors—particularly humanitarian assistance where it is able to put together large packages of aid, regional integration and transport;
 - The EU has more experience and expertise than the bilaterals in dealing with middle income countries, in particular the experiences gained in institution building and cohesion policy through the process of eastern enlargement;
 - The EU, acting on behalf of all the Member States, is in a good position to argue the case for good performance on governance and human rights, and include this in aid agreements.
 - In principle, though this is not yet proven, there should be economies of scale in procurement and administration—because the EU programme is much larger than most bilateral programmes;
 - It should be possible to secure greater coherence between aid and other instruments in which the EU has competence, particularly in trade and

⁹⁴ Speech by The Rt Hon Michael Howard QC MP, Berlin, 12 February 2004.

⁹⁵ Q27.

agriculture; and if the EU is to have a larger foreign policy role, its external assistance programme can be used in support of it;

- As mentioned earlier in this report, there are advantages for recipient countries in dealing with a coordinated group of donors, and for the donors there is value in having their aid coordinated in a single aid strategy. The EU can provide this coordination. (One country, India, has decided that it is drastically reducing the number of bilateral donors it is willing to accept aid from. In future, it will accept aid on a government to government basis only from the US, Japan, the United Kingdom, Germany and Russia. Consequently, for the smaller donors within the EU, aid through multilateral channels such as the EU becomes their only way of assisting India); and
- The existence of a substantial EU aid programme is a mark of the EU's maturity and solidarity, and of its seriousness as a group of states in trying to assist the achievement of the MDG's.

79. In addition, to the extent that the quality of EU aid is better than that of some Member States' aid, the quality of EU aid taken as a whole may be enhanced. (It is noticeable that several of the southern Member States, which have rather undeveloped aid programmes, are happy to put a much larger proportion of their aid through the EU than other countries such as the United Kingdom).
80. Whether the United Kingdom would do better to "repatriate" its aid, assuming it was politically possible, is thus more complicated than simply whether DfID is able to spend the same money more effectively. If we had been conducting this inquiry ten years ago, we might very well have argued in favour of such a course—given the very poor quality of EU aid at that time and the pressures on the United Kingdom aid budget at that time. Today, in view of the improving quality of the EU programme, the much larger United Kingdom bilateral aid budget and all the other considerations noted above, our view is that the existence of a substantial EU aid programme is in Britain's interest.
81. In practice, of course, the options for reducing our contributions to the EU aid budget are not very great—barring a general move in this direction by other Member States which seems unlikely. The main practical opportunity for reduction would be at the next replenishment of the EDF in 2007 (unless by then the EDF has been budgetised). However, our share of the current EDF is already well below our share of the budget, so—although our contributions are voluntary and could in theory be reduced to zero—the scope in political terms for a further reduction is limited. As regards budget aid, the United Kingdom will go on paying our "normal" share of whatever is agreed in the next Financial Perspective which will also take effect in 2007. The Government might argue for a reduced external chapter, but ours would only be a voice amongst many. We recognise, moreover, that the size of the EU aid budget, including the issue of budgetisation, will be decided partly by wider consideration in the negotiations on the EU's future financing.
82. **We conclude that the benefits of EU aid outweigh the possible advantages of "repatriating" it to national aid budgets which is of doubtful practicality. Until EU Development Aid's quality and speed of delivery further improves, the Government and other Member States should be wary of any large increases. But we think it would be**

neither desirable nor feasible for EU aid to be cut back. The Government can take some credit for helping to bring about the changes that have been achieved so far. The Government should continue to give priority to supporting the reform programme and ensuring that it produces its full potential. It is inevitable that there will be pressure for the EU aid Budget to be expanded in the future; any increase should be directly linked to further improvements in quality and focussed on the most poor. With continuing vigilance, understanding and (on occasion) pressure from the United Kingdom and like-minded governments, EU aid can improve further.

CHAPTER 11: CONCLUSIONS AND RECOMMENDATIONS

83. The Committee was impressed by the comprehensiveness of the latest Annual Report covering aid activities in 2002⁹⁶ (para 23).
84. It is our view that, taken overall, significant improvements in aid management and organizational effectiveness have been achieved, and the Commission is to be commended for its efforts (para 28).
85. There is, however, more to be done if the EU's aid is to match the best. Mainly, this is a matter of intensifying and carrying to completion the reforms that are currently in train (para 29).
86. We regard it as essential that faster progress is made in achieving coordination across the EU between the various aid programmes in aid-receiving countries (para 31, second bullet point).
87. Coherence is lacking between the EU's development and other policies; this is a failure of policy making. Prime examples are failure to reform the Common Agricultural Policy and the failed world trade negotiations (para 31, fourth bullet point).
88. In general terms, we think a simplification of the External Actions part of the Budget in the Future Financial Perspective is to be greatly welcomed (para 33).
89. We agree that for political and strategic reasons the "near abroad" countries need help and that the Commission is well placed to provide this support on behalf of Member States. However, we have sympathy with the Secretary of States view that a larger proportion of EU ODA should go to low income countries.⁹⁷ We would make three suggestions:
 - The Commission and Member States should consider the scope for increasing the volume of loans to these countries from the European Investment Bank so as to free up grant assistance for the low income countries. If the EIB is to play a larger role in these countries in place of EU grant aid, it may need to extend its reach beyond its traditional emphasis on private investment and public infrastructure and utilities to investment in the social sectors.
 - The Commission should concentrate grant assistance to these countries on governance and on poverty reduction.
 - It should review the 2000 development policy statement so as to ensure, in the words of DfID's and the FCO's written submission to the Committee, "its continued relevance and to clarify its role in guiding the future direction of EU aid", so that it encompasses the objective of assisting the "near abroad" as well as poorer countries.⁹⁸ (para 34).
90. We urge the Commission to take all necessary steps to bring the reform programme to full fruition so that EU aid can be made still more effective (para 35).

⁹⁶ COM (2003) 527 Final. Adopted on 3/9/2003.

⁹⁷ Q277.

⁹⁸ DfID/FCO Memorandum p..

91. We see considerable benefit in unifying the policy and programming functions in a single development DG. On balance, we feel that EuropeAid is working well as a separate agency, and that it would be best to leave it as it is. At the same time, it should be more closely linked than it is at present to the policy and programming functions (para 43).
92. We suggest that the outgoing Commission should prepare a blue-print, or blue-prints, for a revised structure for the incoming Commission—taking into account above all the need for efficiency and effectiveness, but also the move towards a strengthened CFSP (para 44).
93. In the EDF’s “mid-term review”, which is due later this year, the government should put its EU partners on notice that it will be looking for the Commission to develop a new strategy that will treat all developing countries that wish to have a partnership relationship with the EU on a common basis. This would not necessarily mean that all ACP countries would receive less aid than at present: there may be good reasons for some of them to continue to receive preferential treatment. But there would at least be common criteria for allocating aid across the globe. In addition, other elements that are particularly valued in the EU/ACP relationship should remain and be extended to other countries: political dialogue and “reciprocal accountability”, conditionality in relation to human rights and governance; and the greater predictability of aid flows (para 49).
94. If it were not for the extra cost to the United Kingdom, the advantages of budgetisation in our view would clearly outweigh any disadvantages. We believe the government should weigh these carefully, including the extra cost, before reaching a decision on the current Commission proposal. Whether or not budgetisation goes ahead, we believe there is a strong case for a separate chapter in the budget for development assistance to maintain the poverty focus currently aimed at by the EDF (para 55).
95. We see merit in the idea of a “Peace and Security” budget, as proposed in the draft Financial Perspective, which would be the responsibility of the External Relations DG and Commissioner (para 65).
96. We believe it is essential that development policy is not downgraded and made subservient to the CFSP. While fully accepting that a successful development policy will bolster the EU’s foreign policy objectives, we would prefer to see development described as an important element in its foreign policy—rather than as an instrument of it (para 66).
97. We share BOND’s concerns with the draft Constitutional Treaty, as we understand does the government. We recommend:
 - a. that the current differentiation between developing and non-developing countries in the Treaty is retained by using the wording in the latest version of the Treaty⁹⁹;
 - b. and that development cooperation and development policy, whilst in support of CFSP, do have distinct and autonomous objectives (para 70).
98. We recommend that the Government works with other like-minded Member States to ensure that enlargement does not lead to a disproportionate share of EU aid going to the “near-abroad”, and that the Commission takes full

⁹⁹ Document CIG 50/03.

advantage of the benefits that enlargement may be able to bring to development cooperation (para 75).

99. We believe the benefits of EU aid outweigh the possible advantages of “repatriating” it to national aid budgets. Until its quality and speed of delivery further improves, the Government and other Member States should be wary of any large increases. But we think it would be neither desirable nor feasible for EU aid to be cut back. The Government should continue to give priority to supporting the reform programme and ensuring that it produces its full potential. The Government can take some credit for helping to bring about the changes that have been achieved so far. It is inevitable that there will be pressure for the EU aid Budget to be expanded in the future; any increase should be directly linked to further improvements in quality and focussed on the most poor. With continuing vigilance, understanding and (on occasion) pressure from the United Kingdom and like-minded governments, EU aid can improve further (para 82).
100. We make this Report to the House for debate.

APPENDIX 1: SUB-COMMITTEE C (FOREIGN AFFAIRS, DEFENCE AND DEVELOPMENT POLICY)

Sub-Committee C

The members of the Sub-Committee which conducted this inquiry were:

Lord Bowness (Chairman from November 2003)
† Lord Harrison
† Baroness Hilton of Eggardon
Lord Inge
‡ Lord Jopling
§ Lord King of Bridgwater
§ Lord Lea of Crondall
Lord Maclennan of Rogart
Lord Morris of Aberavon
§ Baroness Northover
Baroness Park of Monmouth
Lord Powell of Bayswater
§ Lord Tomlinson
† Lord Watson of Richmond
† Lord Williams of Elvel
† Lord Williamson of Horton

The Sub-Committee records its gratitude to Sir Tim Lankester KCB for his services as Specialist Adviser.

‡ Chairman of the Sub-Committee until November 2003

† Member of the Sub-Committee until November 2003

§ Member of the Sub-Committee from November 2003

APPENDIX 2: CALL FOR EVIDENCE

The Sub-Committee on Foreign Policy, Defence and Development (Sub-Committee C) of the European Union Select Committee is launching an inquiry into EU Development Policy and External Assistance.

The Sub-Committee would be interested in receiving views on the following questions:

(1) Evaluating the reform of EU development assistance

- ‘European Development Policy’

- (a) To what extent has the joint Declaration agreed by the Development Council in November 2000, which set out the main objectives of EU development assistance, had an impact on the allocation of aid?
- (b) To what extent have poverty reduction and the agreed cross-cutting issues, including the environment, gender, human rights and good governance, been incorporated into country programmes?
- (c) Has the intention to make EU aid, to a greater extent than before, conditional on performance as well as need, been brought into effect?

- Coherence and Consistency

- (d) Has there been progress in bringing about more coherence and consistency within the EU’s aid programmes?
- (e) Has the agreement on broad development objectives and the introduction of Country Strategy Papers helped?
- (f) How much progress has been made in bringing about greater coherence between development and other policies affecting third countries?

- Commission

- (g) How successful in terms of improved efficiency and effectiveness has been the new organisational structure for EU aid introduced in 2000? Is there a case for further rationalisation?
- (h) Are the quality, skills and number of staff now commensurate with the size of the overall programme?
- (i) How much progress has there been in simplifying financial procedures so as to speed up disbursements without taking undue risks?
- (j) What progress has there been in making the budget more transparent, bringing allocations into line with clear objectives and in achieving better reporting?

- Governance

- (k) Has the abolition of the Development Council resulted in a downgrading of input and oversight by Development Ministers? Or by putting development aid within the ambit of the General Affairs and External Relations Council, has development been given greater political prominence and ensured greater coherence with other international policies?

(2) Looking ahead to 2004 and beyond

(i) Development and Foreign Policy

EU assistance and CFSP

- (a) There has always been a strong political/foreign policy element in EU aid. This has increased over the past decade with increased aid to Central and Eastern Europe, the Balkans and the Mediterranean countries, and with the greater emphasis on governance and conflict prevention. Is this desirable?
- (b) Has the relatively large amount of aid that continues to go to middle income countries been at the expense of aid to the Low Income and the very poorest countries?
- (c) Should development aid be used as an instrument of foreign policy as is suggested in the High Commissioners 'Security Strategy' presented to the European Council at Thessaloniki in 2003, or should it be seen as an autonomous policy with its own objectives and rationale?
- (d) Whilst good governance, political stability and conflict prevention are necessary for development, will the new emphasis on these objectives mean a down-grading of other development objectives, particularly poverty reduction?

Aid to the 'near abroad' and other middle income countries

- (e) Should financial assistance to the near abroad come under the remit of EU development aid?
- (f) Whilst recognizing that the EU will for political reasons want to continue to assist a number of such countries, can the assistance be provided in ways that could free up scarce grant money for the Low Income countries – e.g. by placing more emphasis on technical assistance and loans from the EIB?
- (g) To what extent has aid to the middle income countries tackled poverty issues in those countries?
- (h) How realistic is DfID's Public Service Agreement target to increase the proportion of EU Overseas Development Assistance to Low Income countries to 70 per cent by 2006?

Development in the Constitutional Treaty

- (i) Is the new Treaty being negotiated able to ensure that development assistance is provided for the poorest and that humanitarian assistance is adequately protected?
- (ii) Enlargement
 - (a) How will Enlargement affect EU aid policy, e.g. country allocation, relative emphasis on development versus political issues, and quantity of aid?
- (iii) Does the ACP grouping have a future?
 - (a) Although the Cotonou Agreement was only signed in 2000 and is supposed to run to 2020, questions are being increasingly asked whether the ACP grouping of countries continues to make sense as a

Partnership for the EU. What is the particular benefit for the EU or for the ACP countries themselves of continuing on this basis?

- (b) Is it right that the ACP countries benefit disproportionately from EU aid compared with Low Income countries such as Bangladesh and India?
 - (c) Would it not be better for the EU to treat countries on a regional basis and/or on the basis of their development status?
 - (d) How effective have been the joint consultative arrangements with recipient country Ministers and Parliamentarians under the Lome and Cotonou Agreements? Should these be carried over into other aid Partnerships?
- (iv) EDF and Budget
- (a) The Maastricht Treaty requires Member States and the Commission to produce complementary policies and to avoid duplication. To what extent has this been achieved with EU and Member States' bilateral aid?
 - (b) Does the EU provide a contribution in its aid-giving that adds value to Member States bilateral programmes?
 - (c) Formal negotiations on the new Financial Perspectives begin in 2004, and the mid-term review of EDF 9 in 2004 will lead on to the negotiation of EDF 10 in 2005. Given the pros and cons of using the EU as a channel for aid, what should be United Kingdom's approach on both these issues?
 - (d) The issue of whether the EDF should be budgetised is also likely to come into play. Would this be a good idea from the United Kingdom's standpoint?

APPENDIX 3: LIST OF WITNESSES

The following witnesses gave evidence. Those marked * gave oral evidence.

Mr Giampiero Alhadeff, Secretary General, Solidar, Brussels*

Mr Nick Banner, Member of Cabinet, Office of Chris Patten, European Commission, Brussels*

Ms Barbara Brandtner, Member of Office, Office of Chris Patten, European Commission, Brussels*

Charity Finance Directors' Group

Mr Patrick Child, Head of Cabinet, Office of Chris Patten, European Commission, Brussels*

Mr Olivier Consolo, Director, Concord, Brussels*

Mr Dominique de Crayencour, Director Institutional Affairs and Brussels Office, European Investment Bank, Brussels*

Dr Anna Dickson, Department of Politics, University of Durham, and Dr Peter Clegg, University of the West of England, Faculty of Humanities, Languages and Social Sciences, Bristol

Embassy of the Federal Democratic Republic of Ethiopia

Foreign and Commonwealth Office[†]

Mr Marc Franco, Director General, EuropeAid Cooperation Office, Brussels*

Mr Dieter Frisch, former Director-General for Development*

Ms Mikaela Gavas, EU Policy Officer, BOND*

Global Witness

Ms Louise Hilditch, Co-ordinator, ActionAid Alliance*

Department for International Development*[†]

Jamaican Mission to the European Communities, Brussels

Dr James Mackie, Programme Co-Ordinator, European Centre for Development Policy Management, Netherlands*

Mr Richard Manning, Chair, Development Assistance Committee, Organisation for Economic Co-operation and Development, Paris*

Mr Simon Maxwell, Director, Overseas Development Institute*

Mr Carlos Montes, Director, Development Strategies*

Embassy of Portugal

Mr Robert Reynders, European Court of Auditors, Brussels*

Saferworld

Mr Kristian Schmidt, Acting Head of Cabinet, European Commission, Brussels*

Mr Peter Sedgwick, Vice President, European Investment Bank*

Stop Aids Alliance

Ms Francesca Villiani, Development and Humanitarian Aid Officer, Solidar,
Brussels*

WaterAid

† Combined written evidence

APPENDIX 4: GLOSSARY OF ACRONYMS AND TECHNICAL TERMS

ACP	African, Caribbean and Pacific states
BOND	British Overseas Non-Governmental Organisation for Development
CAP	Common Agricultural Policy
CFSP	Common Foreign and Security Policy
CSP	Country Strategy Paper
DAC	Development Assistance Committee
DfID	Department for International Development
DG	Director General
ECHO	European Community Humanitarian Office
EDF	European Development Fund
EIB	European Investment Bank
EU	European Union
FCO	Foreign and Commonwealth Office
GAERC	General Affairs and External Relations Council
IGC	Inter-Governmental Conference
LDGs	Less Developed Countries
MDGs	Millennium Development Goals
NGO	Non-Governmental Organisation
ODA	Overseas Development Assistance
OECD	Organisation for Economic Co-operation and Development
RELEX	External Relations
ROM	Results-Oriented Monitoring
WMD	Weapons of Mass Destruction
WTO	World Trade Organisation

APPENDIX 5: EUROPEAN INVESTMENT BANK

The EIB's shareholders are the EU Member States and the Commission. It provides loans, risk capital and guarantees in support of private and public investment in the Member States and in developing countries. Over 90 per cent of its loans are to Member States. It currently lends and provides other forms of financing to developing countries in a total amount of about €3.5 billion per annum. For its lending to Member States, the EIB is funded by borrowings on the capital markets (its so-called "own resources"). For its lending to developing countries, it also relies on "own resources"; but in addition, it receives loans and guarantees from the Member States and interest subsidies from the Commission.

APPENDIX 6: REPORTS

Recent Reports from the Select Committee

Review of Scrutiny of European Legislations (1st Report session 2002–03, HL Paper 15)

Annual Report 2003 (44th Report session 2002–03, HL Paper 19)

The Draft Constitutional Treaty (41st Report session 2002–03, HL Paper 169)

Session 2003–2004 Reports prepared by Sub-Committee C

Current Developments in European Foreign Policy (4th Report session 2003-04, HL Paper 28)

Session 2002–2003 Reports prepared by Sub-Committee C

EU Russia Relations (3rd Report session 2002–03, HL Paper 29)

EU—Effective in a Crisis? (7th Report session 2002–03, HL Paper 53)

The Future of Europe: Convention Working Group—Reports on Defence and External Action (15th Report session 2002–03, HL Paper 80)

Evidence by the Minister for Europe, Foreign and Commonwealth Office on European Security and Defence Policy Scrutiny, the General Affairs and External Relations Council of 18–19 March 2003 and the Current State of Common Foreign and Security Policy (19th Report session 2002–03, HL Paper 94)

The Future of Europe: Constitutional Treaty—Draft Articles on External Action (23rd Report session 2002–03, HL Paper 107)

A Fractured Partnership? Relations Between the European Union and the United States of America (30th Report session 2002–03, HL Paper 134)

Current Developments in European Foreign Policy (37th Report session 2002–03, HL Paper 152)