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**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE
EUROPEAN PARLIAMENT**

The European Community's Development Policy

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INTRODUCTION

Development policy is today one of the three principal components of the EU's external action, alongside trade policy and the political dimension. In addition to the objectives specific to development policy, other factors - such as geopolitics, trade, and global environmental problems - affect the EU's external choices. This explains the diversity of its interregional partnership and cooperation agreements concluded with countries in different regions of the world (EuroMed, Eastern Europe, ASEAN, Mercosur, etc). In this context, the EU's objective interests have led it to give priority to the stability and development of neighbouring countries and to aid for countries in crisis in the regions nearest to the EU.

At the same time, Europe has not neglected the challenges for development policy arising globally. The marginalisation of many economies, the increase in poverty in the world, the need to better manage environmental interdependencies and the resulting challenge to Europe's own environment, the destabilising effects of migration, the consequences of armed conflicts and pandemics are major concerns for all.

The European citizens expect the Community to become a partner in solidarity with the developing countries and refocus its activities to combat poverty. The global projection of our fundamental values and the pursuit of our objective of sustainable development must be manifested in strong solidarity, supported by a commercial policy that shows concern for shared interests. Beyond development co-operation, our objective must be to integrate these countries in the world economy and encourage sound domestic strategies. This objective must be attained through greater consistency between the whole range of our policies that have an impact on developing countries. This greater consistency also depends on greater co-ordination and complementarity with the actions of the Member States.

The European Union is one of the major actors in international co-operation and development assistance. In total, the European Community and the Member States provide some 55 per cent of total international Official Development Assistance (ODA) and more than two thirds of grant aid. The share of European aid managed by the Commission and the European Investment Bank (EIB) has gradually increased from 7 per cent thirty years ago to 17 per cent today. The European Community has the political and financial responsibility for more than 10 per cent of total ODA world-wide an increase from 5 per cent in 1985. It is also the largest donor of humanitarian aid in the world.

As the EU's external relations have evolved, the regional distribution of Community aid has altered appreciably, largely reflecting the political factors underlying European policy and its capacity to adapt to new situations. These new regional cooperation agreements have been put in place by increasing the total financial resources allocated by the Community to external aid, and not by redirecting existing flows. Total external aid (in commitments) climbed from € 3.3 billion in 1990 to € 8.6 billion in 1999, - of which 6.8 billion correspond to "development assistance" according to commonly agreed (DAC) definitions.

Community development policy is part of an international strategy where a comprehensive view is currently emerging. The strategy adopted by the Development Assistance Committee of the OECD¹, in which the Community takes part, has a key role in international coordination efforts. Other initiatives go in the same direction – such as the World Bank

¹ Shaping the 21st Century: the contribution of Development Cooperation, May 1996.

Comprehensive Development Framework², or the IMF/World Bank Poverty Reduction Strategy Papers³. The guiding principles behind these initiatives are ownership in the developing countries of their own development process and increased attention to the social dimension of growth and development. Community development policy is already to a large degree fully consistent with these strategic lines, in particular in the new Agreement concluded with the ACP States⁴. Some adjustments are however to be considered, in particular with a view to facilitating complementarity with the Member States' bilateral policies.

The framework proposed in this Communication relates to the Community's development policy in relation to all countries that can be regarded as developing countries from an economic, social and structural point of view. This includes in particular countries that have in the past been covered by instruments such as the Lomé Convention, the ALA or the MEDA Regulations, but is not limited to these. By way of example, reference is made to the list of developing countries developed by the Development Assistance Committee of the OECD (see list in annex 7).

Like other international donors the Community is faced with the challenge to further increase the quality and impact of its contribution to development efforts throughout the world. A number of criticisms have been made by the DAC or other stakeholders, especially the lack of an overall Community strategy and the fact that the objectives of Community development policy are too numerous, too vague and not ranked in any way.

A coherent overall strategy focussing on core activities must be based on the Community's comparative advantages and specific characteristics; its capacity to ensure coherence and synergies between trade, aid, economic cooperation and political dialogue; its neutrality and pursuit of overall Community interests; its critical mass in financial terms but also in terms of economic and political weight and influence at an international level; the global dimension of its development policy, its presence on the ground and in multilateral bodies; its experience in regional integration and finally the role of the Community as an anchor for co-ordination and consistency in development efforts.

The overarching objective is to refocus the Community development policy on poverty reduction and on aligning the policy framework in different regions. The method would be to support action that would enable developing countries to fight poverty themselves.

For this to be effective differentiation of development co-operation must be applied. This differentiation must reflect the level of development of each partner country, taking into account issues of equity and economic, social and poverty indicators. Their diversity will be reflected in the development policy mix and instruments used in individual partner countries. This implies, for instance, that middle-income developing countries will continue to benefit from Community support to macroeconomic stability under appropriate social conditionality.

It is equally clear that trade and development, regional integration, transport and institution and capacity building remain relevant areas of co-operation in developing countries even

² James D. Wolfensohn, *A Proposal for a Comprehensive Development Framework*, The World Bank, Washington D.C., January 1999

³ The World Bank, *Building Poverty Reduction Strategies in Developing Countries*, Washington D.C., September 1999

⁴ Partnership Agreement between the ACP States and the EC and its Member States, to be signed in June 2000.

where the incidence of poverty is declining. In addition, the EC's development cooperation will continue to reflect the variety of partnerships, which govern the EC's relations with the developing countries world-wide. These relationships extend beyond development cooperation and reflect political, economic, and cultural and trade relations.

Community development support has to be concentrated on a more limited number of core areas. This means giving sufficient staff to these core areas to execute programmes, while focusing on co-financing and leaving the leadership to Member States and other donors in programmes outside these areas. Other activities of important interest to developing countries such as in the area of research, technology and environment, which are prolongations of internal policies, will play an important role supporting the main objective.

Other important decisions will also guide development policy. The Commission presented a Communication on the integration of environmental concerns into development to the Helsinki Council⁵, which will improve our strategy of how to consider environment in the elaboration and implementation of development policy.

The Helsinki Council asked the Commission to prepare a comprehensive long-term sustainable development strategy dovetailing economic, social and environmental policies, to be presented in Gothenburg in June 2001. Development policy will be an integral part of this overall sustainable development strategy. The progress made in implementing the ideas set out in the current Communication will be an important element in preparing the overall strategy.

Adjustment in the implementation of developing policy is also required at the operational level with a view to increasing the effectiveness of aid. This would be done by streamlining aid instruments, promoting sector-wide approaches, increasing decentralisation and devolution of responsibilities, and seeking complementarity with the Member States and other donors. To do this the Commission intends to further strengthen its efforts in coordinating its activities with Member States.

This Communication on the Community's development policy fits into a number of policy papers on the Community's external assistance which the Commission plans to present in the first half of 2000. They will cover the reform of the Commission's external assistance programmes to improve delivery, the coherence between development and other EU policies and the perspectives for the EC's external spending. This latter document will analyse the poverty focus of the Community's development assistance. It will reflect the fact that the allocations for Category 4 reflect both development objectives and the political and strategic priorities of the European Union.

A fresh strategy for the Community's development policy has to be established which builds on the positive achievements of the past, responds to the weaknesses of the EC performance, and which reflects the evolving international debate on development issues. It must be seen in the context of the Commission's reform strategy and responds to demands highlighted in several external evaluations, and by the Council⁶.

⁵ Communication (COM/99/499)

⁶ At its May 1999 session, in its conclusions on the outcome of the evaluation of Community development instruments and programmes, the "Development" Council asked the Commission to frame a proposal for a general policy statement on development aid.

In elaborating the present statement, the Commission has benefited from comments and suggestions made by stakeholders in civil society, multilateral development agencies, NGOs, private sector, during a preliminary consultation process.

1. NEW CHALLENGES FOR DEVELOPMENT

Sustainable development, a new approach...

"North-South" relations have changed fundamentally in the last ten years and political, economic and social developments have called development cooperation policies into question. The major UN conferences⁷ and the commitments entered into, inter alia by the Member States and the Community, constitute a new framework for a development approach centred on social and human aspects and on the sustainable management and use of natural resources and the environment. The need for a better integration of political, economic, social and environmental dimensions of development is widely recognised. The Community considers development policy as a multidimensional process that covers broad-based equitable growth, social services, environment, gender issues, capacity and institutional building, private sector development, human rights and good governance. The concept of "sustainable development" encompasses these new priorities.

Drawing opportunities from globalisation...

Globalisation processes, resulting from liberalisation policies and technological advance, have provided fresh opportunities for development in trade, investment and access to know-how.

They have also highlighted the importance of trade for the development process. Trade is the most efficient means to generate resources necessary for self-sustained development. Burgeoning economic growth in emerging areas (Asia, Latin America) has stemmed more from the rise in exports and private flows of investment than from development aid.

Beyond its positive aspects, globalisation involves increased risks of marginalisation, if the country is not prepared to cope with these new opportunities. This will be the case in particular for the poorest countries. The financial crisis that shook the Asian countries in 1998 and its contagion effects highlighted new vulnerability. Rising poverty in many countries and regions, which today affects 1.5 billion people worldwide, and the increase in the world's population (2 billion more in the next twenty years) especially in developing regions will exert increasing pressure on the resources available for development. Moreover the emergence of global environmental problems has brought a new level of interdependence between industrialised and developing countries.

Globalisation is to a high degree driven by technological progress. But whereas the economies of developed countries are experiencing a fundamental transformation towards the information society based on the international exchanges in knowledge,

⁷ This refers to the political statements and action plans adopted at the following conferences: Rio 1992 (environment and development), Vienna 1993 (human rights), Cairo 1994 (population and development), Copenhagen 1995 (social development), Beijing 1995 (women and development), Rome 1996 (food), Istanbul 1996 (Habitat II).

research and information, developing countries are facing an increasing digital divide. Unless the opportunities flowing from these new technologies are seized, this implies the risk of a new form of marginalisation as access to global networks and advanced services become necessary elements of integration into the world economy. The G/7-G/8 Summit in Okinawa will focus on this issue.

There is a real opportunity in both developed and developing countries to use research and information technology in applications that support health care, education, food security, etc. This of course requires setting up an appropriate economic and regulatory environment, in particular to mobilise the private sector in these countries. The risk is even greater given that we are entering a global knowledge society. In this context, research and development has a strategic role to play in strengthening know-how and build the necessary specific knowledge base. Scientific and technological knowledge is a strategic element in promoting sustainable and equitable development and consequently in reducing poverty.

Aid is still needed...

Over the last few years, there has been a significant decrease in aid to developing countries⁸. There are signs however that this downtrend in the volume of aid may now have come to an end.

Official Development Assistance of OECD/DAC Members in 1998	
Total DAC (OECD)	0.23% of donors ' GNP
Of which EU	0.34 % of GNP
Of which non-EU	0.18 % of GNP
UN target:	0.70% of GNP

Source: DAC and Commission estimates, 1999.

There are strong reasons for a further increase. Due to highly competitive and demanding capital markets, there is a need to provide the least developed countries with aid and access to capital.

Foreign Direct Investment flows into developing countries
Foreign direct investment into developing countries has emerged as the largest and fastest growing single component of external finance for this group of countries, taken together. Foreign direct investment to developing countries has increased from a mere \$ 25 billion in 1990 to \$ 170 bn in 1998. In the same period official development assistance flows decreased from \$ 59 bn to \$ 52 bn.
Asia and countries in Latin America have achieved most success in attracting FDI. However the gap among developing countries widens with the top five countries receiving 55% of all developing countries' inflows and the 48 Least Developed Countries receiving less than 1%. Certain regions, in particular Africa, remain particularly marginalised.

Source: World Investment Report, UNCTAD, 1999.

⁸ This resulted in a decline in the aid effort of OECD countries in relation to their GNP, which fell in 1997-98 to its lowest level, 0.22% of GNP, compared with an average of 0.33% in the 1980s, and with an overall objective of 0.70%.

Crises and conflicts, a growing concern...

The combination of population growth, unsustainable debt, environmental degradation and natural catastrophes as well as new diseases has thrown a number of countries into conflict and extreme deprivation. The increase in unstable political situations, in the number and extent of violent conflicts, can undo in a matter of weeks the development efforts of several years. In Africa, poverty has replaced the external struggle for influence during the Cold War as a major cause of armed conflict. This makes development cooperation more necessary and also potentially more effective.

Population living on less than \$1 per day, 1987-98

	1987 (million people)	1998 (million people)	Change (million people)	Headcount (% of population)
South Asia	474	522	+48	40
Sub-Saharan Africa	217	291	+74	46
East Asia & Pacific (excl. China)	417	278	- 139	15
Latin America & Caribbean	64	78	+14	16
Middle East & North Africa	9	6	- 3	2
Europe and Central Asia	1	24	+23	5

Source : World Bank, January 2000

A refocusing of international cooperation...

More coherent action between various organisations and donors working in the field of development is essential to increase the impact of cooperation. The quest for efficiency and effectiveness presupposes a consensus on the fundamental objectives of development cooperation. The international community has been actively debating these issues over recent years and several initiatives have sought to refocus cooperation on shared objectives.

The strategy adopted by the OECD's Development Aid Committee has pinpointed, amongst the key undertakings made at UN conferences, a handful of quantified objectives for poverty alleviation, better education and health provision, narrowing the disparities between men and women and sustainable management of the environment and natural resources. The G7 has adopted guidelines for easing the developing countries' integration into the global economy and reducing the external debt burden.⁹ International (IMF, World Bank, UNDP) and regional bodies (e.g. development banks) recently began to reconsider their strategies in order to focus their efforts on the fight against poverty.

The need for co-operative efforts to solve problems mean that there are an increasing number of Multilateral Environmental Agreements of which both the Community and its Member States are parties. Obligations deriving from those agreements

⁹ G8 Communiqué Köln 1999, Deepening the Development Partnership, and Launching the Köln Debt Initiative.

should also be considered as a part of the international development agenda. The strong focus on the integration of environmental concerns into all Commission development activities has to be seen as a sign of our commitment to the implementation of those obligations. The Commission will also continue to be fully involved in all relevant policy discussions, notably on the link between Multilateral Environmental Agreements and development.

Efforts to devise consistent frameworks for effective coordination between aid donors of which the international financial institutions are gradually emerging. There is presently work in progress at the European level to formulate strategy papers with a view to fostering better complementarity between EU Member States and the Community.

Objectives agreed by the Development Assistance Committee (OECD, 1996) Strategy for the 21st century

- Economic well-being: reduce by one-half, by the year 2015, the proportion of people living in extreme poverty in developing countries
- Social development: primary education for all by 2015, gender equality in primary and secondary education by 2005, fall by two-thirds in mortality rate of new-born and young children by 2015, access to reproductive health for all those of procreating age by 2015.
- Environment: implementation by 2005 of national sustainable development strategies in order to reverse by 2015 the current trend towards degradation of environmental resources.
- Other qualitative aspects : social integration, good governance, etc.

2. THE ROLE OF EUROPE

The global projection of European values of democracy, social justice and sustainable development calls for an EU policy of solidarity. A trade and agricultural policy that takes greater account of the interests of developing countries should support this policy. The Community's exclusive powers in these areas reinforce the responsibility of the Community to adopt a coherent policy mix.

2.1 Combining politics, trade and development

The Community has three principal means of action to pursue its objectives in the field of development - political dialogue, development cooperation and trade. These three dimensions should be mutually reinforcing.

The Community also acts through the external dimension of other Community policies, in particular in the areas of environment, research and technology, and the information society. For instance, Community research activities in sustainable development (crop improvements, animal health, etc) clearly complement development policy goals. Likewise, enlargement of the European Union will also bring new countries in as donors and will enlarge the size of the European market from which the developing countries might take advantage. These policies all have components that will support development objectives, and should as such be seen as

important positive complementary component of the Community's role vis-à-vis the developing countries.

Dialogue and the political dimension...

The political dialogue conducted at the level of a particular country or with regional groupings (Euro-Med partnership, ASEAN, ASEM, SAARC, Rio Group, Mercosur) makes it possible to tackle many issues of common interest, including those where a multilateral debate may be more difficult. Dialogue also takes place in the framework of the Common Foreign and Security Policy as well as in the framework of the association and cooperation agreements or partnership relations (ACP-EC councils and joint assemblies; South Africa-EC joint Council).

Trade policy...

Trade policy is a key lever for development: at the multilateral level, by contributing to a fair and equitable multilateral trading system and thereby facilitating the integration of developing countries into the world trading system; at bilateral level by facilitating access to the markets of the developed countries.

This involves taking into account the interests of developing countries and of economies in transition (and their economic and social constraints) in international bodies regulating the framework of trade and investment, in particular the WTO. The Community's approach towards the upcoming WTO negotiating round reflects these intentions.

At bilateral level, the Community's trade policy can contribute to development by facilitating access to its market. In this spirit, the EC grants all developing countries non-reciprocal trade preferences, with more favourable arrangements for the least developed countries.

Despite these concessions LDCs still face a trade deficit with the EU:				
1998	EU	US	Japan	Canada
Trade with LDCs	€ 18.8 bn	€ 7.7 bn	€ 2.9 bn	€ 0.4 bn
Exports to LDCs	€ 10.1 bn	€ 2.1 bn	€ 2.0 bn	€ 0.2 bn
% QUAD* - exports	70%	15%	14%	1%
Imports from LDCs	€ 8.7 bn	€ 5.6 bn	€ 0.9 bn	€ 0.2 bn
% QUAD* - imports	56%	36%	6%	2%

Source: Eurostat - * Quad = EU+US+J+Can

The Community's trade policy can also contribute to streamlining and consolidating the developing countries' own trade policies. In this spirit the EC has concluded economic and trade cooperation agreements with several countries or regional groupings in the Mediterranean, Latin America and ACP regions, providing for the progressive removal of barriers to trade between the parties.

The EC can furthermore, through cooperation in all areas relevant for trade (sanitary and phytosanitary measures, health standards, etc.) enhance the capacity of developing countries to handle all these issues and thereby remove unintended obstacles to developing countries exports. These aspects are becoming increasingly important for the development of trade and the improvement of a country's ability to attract private investment.

Development co-operation...

The EC provides support for general and sectoral policies, programmes and projects in partner countries according to jointly defined priorities. A relevant element for interaction and synergy between trade and development is the need for trade related technical assistance for capacity building to help countries integrate into the trading system and make use of the opportunities offered for growth and sustainable development. Furthermore, having both humanitarian and development aid at its disposal, the Community is well placed to ensure sound management of the difficult transition between emergency aid, rehabilitation and development.

The ACP-EC new partnership Agreement...

The recently concluded post-Lomé negotiations provide an example of how these three aspects - politics, trade and development - can be brought together. The new agreement between the EU and ACP countries combines a substantive political dialogue among the partners with an innovative cooperation in the field of trade and new mechanisms for development cooperation. Trade cooperation is based on regional integration initiatives in developing countries that will ultimately negotiate trade agreements with the Community. The resulting Regional Economic Partnership Agreements should facilitate developing countries' integration into the world economy while monitoring the effects of liberalisation. Development cooperation will support the entire process. In addition to its combination of politics, development and trade, the new agreement is made unique by its concrete mechanisms for North-South and South-South partnership, its long-term character and its contractual nature.

2.2. Ensuring coherence and co-ordination

Art. 3(2) TEU demand that the consistency of the Union's external activities be ensured. Art. 178 TEC¹⁰ furthermore requests that the Community take account of its objectives in the area of development cooperation when it implements other policies that are likely to affect developing countries. A Development Council Resolution of May 1997 has asked the Commission to come up with proposals to improve coherence, including practical procedures and regular reporting.

2.2.1. Coherence of external policies

Coherence has several dimensions. One is the general coherence of our external policies. The gradual and harmonious integration of developing countries in the world economy (Art.177.1) needs, on the one hand, a dramatic improvement of these countries' internal policies, and, on the other hand, a stronger and more coherent international support to these policies. The EU is the first donor and the first trading

¹⁰ Respectively Treaty on the European Union and Treaty establishing the European Community

partner of the developing countries. Its international weight has increased with the introduction of the euro. It has a growing role in international negotiations on environment and consumer protection. As such, it has to maximise its capacity to act within the various pillars of the international economic system, with a view to ensure coherence between trade liberalisation (WTO), assistance and financial co-operation (Bretton Woods Institutions) and normalisation aiming at sustainable development (Environment, ILO, Codex Alimentarius, etc.). The Commission will soon put forward an action plan to use its external policies to improve the coherence and the international economic governance, to further promote the gradual and harmonious integration of developing countries into the World economy.

2.2.2. Avoiding unintended incoherence

Art.178 of the Treaty and common sense oblige the EU to check that the objectives of its development policy are taken into account when the implementation of other policies are likely to affect developing countries. This coherence-check is relevant for many areas of Community policy including, e.g. trade, agriculture, environment, energy, research and technological development, fisheries, immigration, asylum, conflict prevention, health, competition, consumer protection and humanitarian aid. Development objectives should also be reflected in the overall policy guidelines in areas such as investment, debt management, transport and telecommunication networks, education and training.

When implementing these other policies, the EU can indeed affect, positively or adversely, developing countries. The least that can be expected is that those who make the decisions have full knowledge of these indirect effects of policies. Thorough analysis and quantification of these effects will be promoted.

It is still possible that the EU makes the political choice to go ahead with a policy despite its potentially negative, indirect and unintended impact on developing countries. In these cases, it is important to ensure that this decision is made in full knowledge of its indirect consequences. When various options are available, such policies will have to be implemented in the least damaging way to developing countries. If necessary and possible, measures or programmes may be devised to put developing countries in a position to offset or resist the negative, unavoidable effects of EU other policies.

This pursuit of improved coherence is the responsibility of all institutions, the Parliament, the Commission and the Council to begin with. For its part, the Commission will make all necessary efforts to ensure that the principle of coherence is more and more applied in its own proposals. At the same time, conflicting requests should be avoided or resisted, or, when equally legitimate, the conflict should be brought to the fore and solved. Incoherent decisions and orientations will be highlighted. The co-ordinating mechanisms of each institutions have used to the fullest possible extend.

2.2.3. Co-ordination and complementarity

It is for the EC to promote coordination and ensure complementarity between the Community and Member States in the broader international framework. One of the most critical aspects of coordination within the EU is to enhance the ability of the EU to present common positions in international bodies, thus realising the potential for

increased European influence. This coordination effort has also to be enhanced at the level of the country strategies, sectoral policy guidelines, and at operational level in the partner countries. This is important for developing countries, which have only limited manpower resources and have to deal with many donors.

Building on past experience of coordination, the European Union has to move ahead and to establish a division of labour to achieve commonly established goals. Progress in defining European policy guidelines, integrating Member States' policies, is essential, while pursuing coordination in the various existing fora. There is definitely a need not to confine the Community to being a sixteenth implementing actor in the area of development cooperation, but to consider it as a promoter and facilitator in the search of new forms of European governance.

2.3. Implementation problems are well-known

The evaluations of Community aid policies¹¹ have pinpointed a number of problems. The Commission has recognised their relevance and considers that these problems are mainly signs of a growth crisis, where policies and structures have not been adapted sufficiently fast to meet the growing responsibilities of the Community in the more-and-more complex area of development cooperation.

The main evaluation results can be summarised as follows:

- The Community's aid system is too complex and fragmented in terms of objectives, instruments, procedures and institutional mechanisms. Streamlining should be an objective in itself.
- Policies are guided by the instruments rather than by policy objectives and clearly defined priorities. The Commission should develop more precise sectoral strategies to make the objectives operational.
- Human resources are too thin both on the ground and in Brussels in relation to the volume of aid managed. On average, to manage 10 million USD of aid, there are 2.9 staff at the Commission, compared with 4.3 at the World Bank and from 4 to 9 in the major Member States.
- The concern to disburse substantial funds rapidly is often at odds with the concern to ensure quality of interventions, with focus on input to the exclusion of outputs and impacts.
- Financial controls have to be simplified, by putting more stress on ex-post controls on the basis of verifiable performance indicators.
- Monitoring, evaluation and institutional learning need to be strengthened.
- Internal and external control systems should avoid duplication and be mutually reinforcing and designed with complementarity in mind.
- Finally, it has to be recognised that EU's large-scale disbursement does not entail proportional influence. The EU bears a significant share of multilateral financing.

¹¹ Global evaluation reports: ACP (951338), ALA (951401), MED (951405).

Its presence should be reinforced in the discussions on economic reform policies or other major topics which constitute key issues for developing economies.¹²

The Commission has undertaken to address these problems through administrative reforms. Many innovative means and reforms have also been decided in the framework of the new ACP-EC Agreement. The Commission also draws the attention of Parliament and the Member States to the fact that some of the problems cannot be resolved without their support. This is particularly the case for complementarity, the instruments of financial control and the procedures for Council oversight.

2.4. The Community must focus on its value added

The Community and Member States play a major role in development but their potential for impact and action is grossly under-exploited. More effective linkages between all the participants would make it possible to remedy this. However, even if improved, coordination is not enough. There is a need to go one step further and to envisage a division of labour. This means identifying areas where Community action offers added value.

The special features and value added of Community policy can be identified as follows.

In relation to the Member States ...

- Community policy pursues EU's shared objectives and interests. In principle, this policy is dictated by political, economic and trade interests that are shared by all or by a majority of Member States;
- The Community has a presence in virtually all developing countries through trade and cooperation agreements, and a broad network of representations in the field;
- The EC projects and programmes are usually bigger than those of most Member States. The Community is a natural focal point for mobilising the Union's economic and political weight, its existing technical resources, and its expertise in areas where the required critical mass is high.
- The Community embodies Europe's collective experience of regional integration.
- The Community's capacity to formulate sectoral policies can benefit from the accumulated experience of fifteen Member States, including major donors, and countries with quite different experiences and approaches.
- Community development policy conveys a certain image of Europe in the world. The culture and values of co-operation and collective action carries a strong and positive message to partners in developing countries.

¹² The EU, as a whole, financed for example 64% of the cost of the structural adjustment programmes in Africa, while the cumulated voting right of the Member States in the IMF is only 27%.

- European social values, the diversity of the existing social systems and the importance attached to environmental considerations, give EU policy a distinct profile as regards the quality of sustainable development.

In relation to the IFIs¹³ and other multilateral bodies ...

- The Community's competence is not only on financial and technical aid, but extends to trade, economic and monetary matters and to political issues. This enables it to incorporate these various aspects into development cooperation processes.
- The Community is a major donor and the biggest trading partner of the developing countries.
- The Community's aid is given almost exclusively in the form of grants (except for EIB loans and certain kinds of balance of payments support).

3. A COMPREHENSIVE APPROACH TO DEVELOPMENT AND POVERTY REDUCTION

3.1. Defining poverty

The definition of poverty has evolved significantly over the years. Today, there is a wide consensus that poverty cannot be defined merely as the lack of income and financial resources but should be recognised as a multi-faceted concept. This new definition includes deprivation of basic capabilities and encompasses non-monetary factors such as the lack of access to education, health, natural resources, employment, land and credit, political participation, services and infrastructure. It also covers the risk dimension and the notion of vulnerability. Reducing poverty therefore implies addressing these economic, political, social, environmental and institutional dimensions.

- 86% of global consumption is concentrated on 20% of the world's population. In 1960, the world's richest 20% had an income 30 times higher than the 20% poorest, rising to 82 times higher in 1995 (Report on Human Development, UNDP 1998).
- A significant group of developing countries carry an external debt burden which can, in terms of repayment, represent up to six years of their GDP. These countries are known as Heavily Indebted Poor Countries (HIPC) and currently number about 41, of which 29 are eligible for the multilateral debt relief initiative.
- The flow of private investment to developing countries has increased substantially in the last ten years, but 80% of that goes to just a dozen countries.
- Out of a global population of 6 billion, 1.5 billion people live on less than USD 1 a day. Most of those living below the poverty threshold are in South and East Asia (800 million); in sub-Saharan Africa and in South Asia poverty affects over 40% of the population (World Bank, 1999).

¹³ In particular the IMF and the World Bank.

3.2. A strengthened focus on poverty reduction

The general objective of development cooperation is to encourage sustainable development that leads to a reduction in poverty in developing countries.

However past experience has revealed that certain forms of aid and economic growth do not always lead to a fall in poverty levels. In fact, over the last few decades, the number of poor people have risen. Furthermore, certain studies have demonstrated that some development policies have had a negative impact on poverty and have indirectly contributed to the further marginalisation of vulnerable groups. A greater focus on the nature of poverty and the complex causes behind it is therefore necessary. It is fundamental that we ensure that the Community's development cooperation policies contribute to the short, medium or long term objectives of poverty reduction and that these policies do not have negative effects on certain groups of the population.

Consequently, the Community must take an increased focus on poverty reduction in all its development activities. This has implications both for the distribution of Community aid between and within countries. For countries where the incidence of poverty is declining, the Community should gear its cooperation more towards the encouragement of trade and economic links between private-sector entities (trade agreements, investment protection, scientific cooperation, etc.).

Poverty-related problems in developing countries are complex and multidimensional. Therefore a development policy that fosters poverty reduction requires an integrated approach.

- Institutional support and capacity-building must be an integral part of such an approach which must have a long-term perspective that is progressive and continuous.
- Political responsibility of governments is a key factor and the effectiveness of the strategies adopted depends first and foremost on the priority these governments attach to poverty reduction in their domestic policy. In order to be truly effective, these strategies must be fully "owned" by the governments and civil societies and be based on a commitment to good governance.
- Ownership can only be promoted in the framework of balanced partnerships, at all levels, including policy dialogue, capacity building and adequate implementation systems. Ownership also implies local availability of knowledge and the ability to analyse the complex problems of society and to design policies and strategies accordingly. Research policy and capacity building therefore need sustained attention.
- It must be ensured that macroeconomic reform programmes move towards an integration of social, economic and environmental objectives. Macroeconomic policy must give priority to creating the conditions necessary for sustainable and equitable growth, which creates jobs, reduces inequality, redistributes wealth and safeguards the environment. Any increase in inequality reduces the potentially positive effects of economic growth. The same holds for the strategies to promote

private sector development which are essential for integrating into the world economy and can be a powerful means for poverty reduction.

- Gender issues are particularly important in this context. Gender inequality hinders growth, poverty reduction and progress in health and education. These issues are even more important when one considers that in many regions women and children are increasingly and disproportionately the victims of poverty.

- The lack of access to drinking water and to health and education services is particularly acute in South and South-East Asia and in sub-Saharan Africa (UNDP 1998).
- Nearly half the world's population is under 25, most of whom are in the developing countries.
- Average life expectancy is 62 years in the developing countries (51 in the least advanced) as against 74 years in the industrialised countries. School attendance rate is 57% (36% in the LLDCs) compared with 83% in the industrialised countries.
- AIDS kills 2 million people per year in Africa. Life expectancy is diminishing in a number of countries.
- 800 million people (1 in every 5 in the developing countries), 200 million of them children, suffer from chronic malnutrition.

- The development of social policies such as health, food security, education and training, as well as access to and sustainable management of water resources, are of the utmost importance. Social sector policies must aim at widening access to basic social services and social protection. Access to reproductive health care services, especially the prevention of HIV/AIDS, including research on vaccines and diagnostics is an essential component. Resources must also be properly targeted towards the poorest of the poor.
- The fight against poverty must be an integral part of policies on the environment, the sustainable management of natural resources, food security and urban and rural development. An effort in favour of coherence between the objectives of social development and the objectives of environmental policies and sustainable use of environmental resources must be undertaken, as inadequate responses on environmental issues have a negative impact on long term growth and on the reduction of poverty.
- Access to sustainable energy services has a key role to play in supporting social and economic development. The provision of energy services, in particular through decentralised activities and the promotion of renewable energy sources, is an increasingly important issue.

- The number of mega-cities (more than 8 million inhabitants) rose from 2 in 1950 to 23 in 1995, of which 17 were in developing countries. In 2015 there will be 36. Africa and Asia are the regions in which urbanisation is rising fastest (World Resources, 1998-99).
- The phenomenon of deforestation is concentrated in the developing countries (200 million hectares lost between 1980 and 1995) (World Resources, 1998-99).
- The water problem looks set to become one of the most pressing in the 21st century. In 1997, one third of the world's population lived in countries experiencing a shortage of resources compared with consumption needs; this could rise to two thirds by 2025. (World Resources, 1998-1999).
- Current trends show that in 2010, developing countries carbon dioxide emissions will surpass those of developed countries including eastern Europe (EC, Poles Model, 1999).
- One third of the world's population (around 2 billion people) does not have access to adequate energy services.
- In 1990-98, developing countries suffered more than 97% of natural disaster-related deaths (World Bank draft Report 2000-2001).

- The fight against poverty and the promotion of sustainable development require a peaceful and stable political environment. Conflict prevention and conflict management are therefore of particular significance.
- Natural disasters have increased over the last ten years, and mainly affect developing countries. Disaster mitigation and preparedness is thus another important element of poverty reduction strategies.

In relative terms the emphasis of Community aid on the poorest nations has diminished. This is due to a globalisation of Community policy and to new external priorities. There is however a clear limitation in an analysis of poverty-focus on the sole basis of the categorisation of the recipient country by level of income. A number of countries, especially in the middle-income bracket, have large percentages of their population below the poverty level (Brazil, Botswana, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Paraguay, Peru, the Philippines, Trinidad & Tobago, South Africa).

Share of Official Development Assistance to Least Developed Countries

	1986/87	1996/97
EU member States	44.3 %	34.2 %
Community aid	51.3 %	33.6 %
Total DAC	38.1 %	31.5 %

(see annex 3 for a more complete picture)

On the basis of this approach, three ways of enhancing and measuring the poverty focus of Community aid can be identified:

- (a) improve the primary poverty focus: meaning more concentration of efforts on LDC's and other LIC category countries;
- (b) improve the secondary poverty focus: meaning more poverty-focused cooperation programmes in middle-income countries (MIC) where more than 20% of the population lives under the poverty lines of \$ 1/per day per capita;
- (c) improve the tertiary poverty focus: meaning greater focus on poverty reduction in cooperation programmes in all other developing countries.

Improving the primary poverty focus is clearly limited by the setting of the political priorities and the consequences for the distribution of the financial resources to the regions.

Improving the secondary and tertiary poverty focus is a process which starts at the level of the definition of overall development priorities and leads through the Community support strategies to the individual countries and regions to concrete interventions. This methodology will need to be refined in order to mainstream the poverty focus in all Community cooperation programmes. The Commission will elaborate concrete proposals to this end. A more poverty-focused, formulation of the Country Support Strategies which are at the basis of the cooperation programmes of the Community is essential in this process.

3.3. Links between poverty, economic growth and trade

Poverty reduction cannot be achieved without sustained growth. The integration of developing countries, and especially the Least-Developed Countries, into the world economy is a necessary, albeit insufficient, condition for their growth and sustainable economic and social development. It is also important to avoid developing countries being further marginalised by not taking part in the emergence of a global information society.

Preferential access to developed countries' markets contribute to their development as well as to their integration in the world economy. MFN based liberalisation in sectors of interest to developing countries is equally important for development. A predictable and transparent trade policy of the developing countries themselves is another precondition for their development. In this context, the Community's trade policy can make an important contribution to sustainable development. This will in particular be the case in the framework of economic integration agreements, which will, through the introduction of trade liberalisation, allow for a better allocation of resources and thereby increase the country's competitiveness. They will further contribute to greater transparency and predictability in the developing countries' own trade policies and thereby contribute to mobilise economic operators and potential investors.

Trade policy reforms and domestic development strategies carried out by the developing countries must be in line with their development objectives and need to be supported by development assistance. Trade liberalisation is not an end in itself, and should not impose excessive burdens on developing countries. There is a need to

set a pace of liberalisation which will not have counterproductive effects, in order to obtain a balanced result which maximises the long-term dynamic welfare effects while minimising the adjustment costs.

Enhanced market access and an improved trading environment are not sufficient. Experience has shown that many countries are unable to benefit from the opportunities offered due to capacity constraints of government, infrastructure or human resource nature. It is therefore essential that the core trade policy elements be supported by in particular trade related technical assistance for capacity building. Hence, apart from market access issues, including its non-tariff aspects, the Community should also address supply-side constraints and competitiveness, trade-related areas, trade development measures, technology transfers, access to information and global networks, strategies to promote investment and private sector development. To really benefit from the potential of globalisation, developing countries and notably the LDCs have also to set up adequate domestic policy environments which also promote sustainable development. Comprehensive private sector development strategies are essential in this respect.

The Community must aim at making development and trade and investment policies mutually reinforcing and complementary. This is a major challenge for the next decade. This implies that development aid should help and encourage developing countries to incorporate international best practices based on multilaterally negotiated norms, in areas such as core labour standards, consumer protection, environment protection and investment and financial regulations.

The importance of sound domestic policies and international governance underlined by globalisation

Since 1948, helped by rapid growth in trade (6% per year) and FDI (12% per year since 1973), world GDP have increased at a rate of 3.7% yearly. This has meant the quadrupling of real world GDP and the doubling globally of GDP per head since 1960. However, this has not led to any real convergence (i.e. GDP/head) between rich and poor countries. Developing countries share of world GDP, at 20%, is even smaller than its level in 1960 (21%) and the GDP/head ratio between developing countries and industrialised countries has remained around 1 to 20 in dollar terms.

Analysis of this period underlines the crucial role of sound domestic governance. If anything, globalisation adds further importance to the need for promoting macroeconomic stability and structural reforms. Better domestic strategies also call for more effective international support. This highlights the need for reinforced policy coherence between international economic policies in the areas of trade, finance, and promotion of multilaterally negotiated rules in environment, consumer protection and core labour standards. As the major trade partner for developing countries and the largest aid donor, the EU has a major role to play in enhancing coherence both at the international and Community level in these areas.

3.4. Promoting the development of the private sector

The private sector is an engine for growth, a source of employment and revenue. It is also a key actor and partner in the development process. The Commission's strategy combines support at the macro level - aiming at improving the business environment and the investment climate -, at meso - financial and non-financial - or intermediary

level, and at micro level to help increase business competitiveness. Consultation with private sector organisations and a strengthening of their capacities is an integral part of this strategy.

For the implementation of its strategy the Commission helps to design country or region-level strategies with emphasis on economic and institutional reforms, but also including support at intermediary and micro levels. It provides demand-driven/cost-sharing facilities aimed at increasing competitiveness of enterprises and strengthening the capacity of private sector and non-financial intermediaries. To foster inward investment and economic cooperation the Commission supports cross-border investment cooperation encouraging continuity and sustainability in investment and partnership promotion as a catalyst for business-to-business cooperation.

Community support to private sector development should be strengthened and given additional focus on poverty reduction notably through more attention to local development and the development of services more adapted to the needs of the poor. Specific attention should be given to the specific needs of micro, small and medium-sized enterprises and to the development of a sustainable financial sector.

3.5. Linking relief, rehabilitation and development

Increasingly, political crises and natural disasters render sustainable development and sectoral policies impracticable. In these situations humanitarian aid often becomes the only substantial source of Community – and other donors' - financing in the regions concerned. The Community's Humanitarian Office (ECHO) is called on more and more to finance post-conflict programmes outside the remit of emergency aid, due to the absence of other instruments that are sufficiently flexible and swift.

The Commission will shortly present a communication on this link between relief and development. The objectives of this exercise are: (1) to devise strategies at national and regional level that take account of the dynamic nature of crises and post-war situations; (2) to ensure that the Commission and Member States make the best use of existing analytical capacity and instruments; and (3) to organise the various Commission services in a way that allows for rapid reaction, timely planning and smooth implementation.

ECHO will refocus its actions on its core mandate, and the Commission will consider how to better address post-crisis situations. Special financial provisions in this regard have for example been defined in the new ACP-EC partnership Agreement, including in order to take account of the particular difficulties of post-conflict countries in the framework of the assessment of countries' financial needs¹⁴.

¹⁴ The new ACP-EC Agreement contains the following provision: Post-emergency action, using effective and flexible mechanisms, must ease the transition from the emergency phase to the development phase, promote the socio-economic reintegration of the parts of the population affected, remove as far as possible the causes of the crisis and strengthen institutions and the ownership by local and national actors of their role in formulating a sustainable development policy.

4. STRATEGIC ACTIVITIES

4.1. Integrated framework for Community activities

Whilst respecting the specific circumstances of different countries and regions, the EC's development cooperation would gain in visibility and coherence with the adoption of a common integrated framework for development programmes and policies for all geographical areas. In such a framework, best practices, as identified within the DAC, must be promoted.

Integrated framework for Community activities	
Central objective: Poverty reduction	
Strategic areas deriving from the Treaty	
A	Sustainable development, in particular through promoting equitable growth, investment, employment, social and human development and environmental protection
B	Integration into the world economy, including through support to regional cooperation and integration
C	Fight against poverty
D	Democracy, human rights, rule of law and when necessary peace-making and conflict prevention.

Guiding principles (mainstreaming)	
1	Effect on poverty reduction
2	Support for institutional development and capacity-strengthening
3	Gender equality
4	Sustainable management and use of environment and natural resources
5	Enhancement of economic, social, political and cultural rights

Levels of action	
➤	Global, regional national, local
➤	Partners and actors (public sector, private sector, civil society)

This framework should be used for guiding country strategies and programming. Its application should be tailored to the individual circumstances and specific situation of partner countries and could evolve over time. The country strategy dialogue will be decisive in choosing the appropriate application of its components. It should also serve to decide on the division of tasks between the Community and the Member States.

4.2. The need for differentiation

The regional approach and the existence of several partnerships with groups of countries should favour rather than discourage a move towards greater consistency in development cooperation activities. These partnerships constitute a useful framework for political, economic, social and environmental policy dialogue. In this way they ensure that the diversity of partner countries can be taken into account and the added value of Community action can be identified on a case-by-case basis.

Within this overall framework, Community development strategies must necessarily be differentiated in accordance with the level of development of each partner country – based on a wide range of socio-economic indicators - and its degree of integration into the world economy, taking into account economic, social and poverty indicators.

Furthermore, the definition of those sectors on which the Community can concentrate must be based on a dialogue with other donors on their policies and specific interventions. In this dialogue the Community should clearly state that it cannot be active in all areas.

4.3. Priority activities for Community development aid

Refocusing priorities in Community development aid is a necessity, as highlighted by the evaluations referred to in point 2.3. Community development cooperation must do fewer things and do them better in order to ensure greater impact. In particular the Community has to decide in which areas of development cooperation it needs to concentrate its human resources in headquarters and delegations. Such refocusing must be based on a combination of two main criteria: first, the areas chosen must contribute to the objective of poverty eradication and sustainable development; second, in the areas chosen Community action must have added value as identified in point 2.4.

The areas chosen should also be interrelated and mutually reinforcing so as to maintain internal coherence of Community development policy and increase its impact. At the same time, the range of areas must remain sufficiently broad to allow for interventions that are adapted to the needs of each country and its own development strategy. However, this can be achieved without the Community itself being directly involved in a particular sector. Coordination, cofinancing and devolution must be encouraged and a division of labour has to take place at country level.

The Commission's human resources for development cooperation will be concentrated in the listed areas and in those needed to apply the crosscutting principles. In other areas the Community could continue the funding of schemes, but principally through supporting initiatives led by partner donors and institutions. This is what effective coordination and complementarity is about.

Considering the time required in programme preparation, this sectoral concentration should be fully reflected in Community programmes within a time span of four years. In areas outside this concentration, the Community should enhance its ability to contribute to other donors' programmes.

The following priority fields are proposed as those in which Community development cooperation activities will be concentrated. The order in which they are listed does not reflect a ranking. Rather, the priority areas should be seen as interdependent.

1. Trade and development, including the development of trade and investment policies, assistance with integration into the multilateral trading system and into the world market, including by trade related technical assistance and support for increasing capacity in trade and strengthening the competitiveness of the private sector

Without integration into the world economy, be it directly or through regional trade agreements, development will not be sustainable. Trade is a major factor of growth and creation of wealth for all countries. While this is in itself insufficient to foster development, which also depends on the distribution of wealth, it is a necessary precondition for long-term sustainability of poverty eradication.

The European Community has exclusive competence for trade policy. It is the developing countries' largest trading partner. Based on this competence, the Community is well placed to include a trade dimension in its development policy. In order for the European Union to successfully combine trade and aid, this has to be done at Community level.

2. Regional integration and cooperation, including tackling of transboundary economic, social and environmental problems

Regional integration is a key element of sustainable development in all regions. Many developing countries have chosen regional integration as a mechanism of integrating their economy into the world economy.

However, regional integration has other aspects that relate directly to poverty eradication and sustainability. It includes an important institution- and capacity-building component and is the only effective way of addressing transboundary problems. Last but not least, regional integration has become in many areas of the world the most effective conflict prevention and resolution mechanism there is.

The Community's own experience pleads for an active and leading role in this area. This is not to say that the Community's experience can or should simply be copied in other regions of the world. However, no other international actor has as many means at its disposal to support and foster regional integration in developing countries as the Community. The political dialogue, trade relationships and development co-operation of the Community all take an increasingly regional dimension. This is true for all priority areas of Community development co-operation presented here.

3. Support to macroeconomic policies with an explicit link with poverty reduction strategies, in particular sector programmes in social areas (health and education)

Economic growth through trade must be part of the service of poverty eradication. This can only be done by ensuring that the gains from trade are distributed equally. In many developing countries, only a minority of the population enjoys the benefits of economic growth. In addition, highly unequal income distribution is actually an impediment to domestic economic growth because it stifles domestic demand.

Besides the importance of income distribution, macroeconomic policy is key to ensuring sustainable and accessible social services. Sectoral programmes in health and education, which are a key element in any strategy of poverty eradication, cannot be sustainable if they disregard the macroeconomic framework in which they operate. Therefore, it is both efficient and effective to integrate them right from the beginning in macroeconomic policy, in particular in developing countries that are planning or already undergoing structural reforms. In those countries where macroeconomic reform has been successful, financing of sector programmes in health and education should continue if there is a need. Macroeconomic stability is facilitated if policy-making takes place in a regional framework that ensures monetary stability, stable trade relationships and reliable communication and transport networks.

The Community has over the last years mobilised substantial financial means and acquired considerable expertise in support to macroeconomic policies in developing countries. The Commission has been at the forefront of the debate on the relations between macroeconomic and sectoral policies in health and education, sectors that are at the core of sustainable development. Its efforts to integrate economic and social policies and to develop social sector conditionalities that are results oriented have been appreciated by its donor partners. It has financed transborder macroeconomic programmes with a view to facilitating regional economic growth and stability. The IMF and the World Bank have made the Commission the European partner of choice for discussions of adjustment in developing countries.

4. Transport

Reliable and sustainable transport plays a key role in access to basic social services. Not only the formal but also the informal economy in many developing countries develops along transport routes. Sectoral policies in transport are necessary to make it sustainable, to keep it balanced in terms of social, economic and environmental requirements. In many parts of the world transport networks still reflect historical trade patterns. Regional integration thus depends to a large extent on creating and maintaining reliable transport.

Transport is an area in which the comparative advantage of the Community derives from the fact that it has been the major donor in the sector for many years and on this basis has considerably built up experience and expertise. Recent evaluation reports have recognised the quality and added value of Commission support to transport in developing countries. In addition, the Community can mobilise the substantial initial investments needed in the creation of transport networks. At the same, by supporting the integration of sectoral transport policies with macroeconomic and fiscal reform, the Community can help developing countries in ensuring the regular maintenance needed to make transport networks sustainable.

5. Food security and sustainable rural development strategies

Together with health and education, food security is an essential element in any poverty reduction strategy. Food security addresses itself directly to the vast majority of the poor in developing countries, who live in rural areas. A coherent food security policy reduces the necessity of food aid and ensures that the considerable environmental damage caused by the struggle for food is minimised. As opposed to food aid, food security must be part of a larger framework of sustainable rural

development. It is only through such a framework, integrating economic, social, gender and environmental aspects that food security can be assured. Food security also has an important regional element in that it can often only be ensured through a regional rather than a national framework of production and distribution. Finally, food security is one of the first issues to be addressed in the transition from humanitarian and relief aid towards long-term development.

In this area the Community has the following comparative advantages: its critical mass in financial terms; the importance of food security in the link between humanitarian aid, rehabilitation and development; its experience in this field and long-term research and development co-operation in this area. In this area, the Community has been at the forefront of donors who want to facilitate food security through a regional approach, including purchase in regional markets in developing countries.

6. Institutional capacity-building, good governance and the rule of law

It is generally recognised that the lack of institutional capacity and institutional control of the use of public funds are a fundamental obstacle to sustainable development. In all the above presented areas well functioning institutions with a capacity for long-term planning are needed in order to achieve the desired impact of aid. Without institutions capable of analysing poverty in all its facets, impact cannot be measured at all. Institutional capacity building must thus be a key element in the fight against poverty. In this context, good governance and the rule of law are key element in ensuring social peace and stability as well as economic growth. Finally, developing countries also need to build up their negotiating capacities in international fora dealing with, for instance, economic policy, trade, social issues and environmental protection.

Cooperation in this area is reflected in the content of the recently negotiated ACP-EC agreement, the ALA and MEDA Regulations, current co-operation under TACIS and OBNOVA , and instruments such as the Human Rights Regulation. This priority area also reflects the values of the EU's common foreign and security policy. The Commission is therefore proposing to strengthen its own capacity to manage programmes in this area while intensifying in parallel cooperation with other donors.

* * *

In all these areas, cross-cutting principles (good governance, human rights and the rule of law, effect on poverty reduction, institutional and capacity building, gender equality, environment¹⁵) will apply and be mainstreamed.

In addition, humanitarian aid will remain a crucial element in the Commission's efforts to quickly react to humanitarian crises throughout the world.

¹⁵ For example, the way in which environmental issues will be integrated has been recently described in a Communication (COM/99/499).

5. PARTNERSHIPS

5.1. Ownership and participation

The quality of dialogue with the partner countries is the key to successful development policies. Partnership, ownership of development processes by the population, strengthening of institutional and administrative capacity as well as human resources, reduction of dependence on external aid, participation of economic and social actors and the representation of civil society, donor coordination, are all principles which are now largely shared by donors.

These principles call for new modalities and fundamental changes in procedures and practices. At political level, they are based on the respect for essential elements that have systematically been introduced into all the agreements with third countries since 1995 (respect for human rights, democratic principles and the rule of law). Good governance has also to be encouraged, involving in particular a reciprocal commitment to ensure transparent and accountable management of financial resources earmarked for development, and to prevent and fight corruption¹⁶.

5.2. Working with civil society

The Commission considers civil society one of the key pillars of its development policy. Close cooperation with and promotion of civil society is essential to ensure the widest possible participation of all sectors of society to provide the conditions for greater equity, inclusion of the poor in the benefits of economic growth and strengthening the democratic fabric of society. This approach must be implemented whilst respecting the diverse and complementary roles of the State, decentralised local authorities and the private sector.

The Commission cooperates with a wide range of civil society actors, including human rights groups and agencies, grassroots organisations, women's associations, youth organisations, child-protection organisations, environmental movements, farmers' organisations, trade unions, consumers' associations, religious organisations, development support structures (NGOs, teaching and research establishments), cultural associations and the media. The selection of civil society partners is based on the way they respond to people's needs, their specific competencies, their democratic character, the transparency of their operations and management and their ability to strengthen civil society in partner countries.

Future EC policy will aim at the further strengthening of civil society and the further involvement of civil society actors in the community development policy. This will include the definition of methodologies and framework for the:

- Information, consultation and dialogue with civil society actors on the establishment of development policies and strategies.
- Reinforcement of the capacities of civil society actors.

¹⁶ The ACP-EC new partnership Agreement provides a good example of innovative approaches in this regard.

- The involvement of civil society actors in the design and implementation of cooperation programmes.
- Decentralised cooperation whereby actors at the local level take direct responsibility for the drawing up and implementation of cooperation programmes.

5.3. Increasing complementarity through the sectoral approach

Definition of EU sectoral policies and support for national sectoral policies will be encouraged. Within the framework of national policies and in coherence with EU approaches, the transition to "sector programme" replacing "project" support should be accelerated. This approach facilitates ownership by the partner countries, donor coordination, harmonisation of procedures, greater effectiveness of financial support and provides an overall view of the problems of a sector. This process needs to be carefully led with a view to ensuring effective additionality of resources for the supported sectors, good management of public finance, and respect for national sovereignty. It facilitates the use of direct budgetary aid where the partnership and the capacity in a given sector are sufficiently mature, and represents a more result-oriented support. It requires a comprehensive policy dialogue on specific sectors, capacity building, coherence and linkage with macroeconomic support.

In addition, a concentration of EC efforts at the level of the development of sectoral policies and programmes would facilitate complementarity, coordination and the cofinancing of operations with other donors. Such a move would have a number of implications, in particular as regards issues related to the untying of aid.

The Comprehensive Development Framework and, more recently, the Poverty Reduction Strategy Papers, launched by the World Bank to provide a framework for mainstreaming poverty reduction in national strategies for sustainable development and donors' policies, constitute appropriate frameworks for devising effective complementarity and division of tasks.

In the areas where it has a comparative advantage and in the priority fields set out in section 4.3., the Commission will take the initiative to coordinate the efforts of Member States, in particular in the context of applying the sector programming approach.

6. IMPLEMENTATION

6.1. Improving effectiveness through administrative reform

A review of the management of Community aid is currently being prepared along the lines of the principles set up in the Reform White Paper adopted on 1 March. The reforms under discussion foresee:

- reunification of project cycle management within a new delivery structure whose capacity will be reinforced, and ensuring a clear link between the programming exercise, budget procedures, evaluation and the feed back into the next cycle of programming;
- a radical overhaul of the approach to programming assistance to reflect policy objectives and priorities. Multi-annual programming of aid will be given greater

substance to ensure the right “policy-mix ” for each country or region in terms of policy and Community instruments. It will take account of the policy dialogue with beneficiary countries. The consistency and quality of the programming exercises will be monitored by an interdepartmental Quality Support Group;

- more extensive devolution of project management to the Commission’s external Delegations and, where conditions permit, the authorities in beneficiary countries. The role of the Delegations of the Commission in the partner countries will be adapted with the aim of maximising the use of this very large network and benefiting from their experience on the ground.

6.2. The need for improved policy orientation structures and comitology

The political control and guidance which Parliament and the Member States exercise over Community development programmes should be improved. Concentrating these functions on questions of strategy and coherence could render management more effective and "lighter" and at the same time help concentrate development programmes on priority objectives.

The role of the Council Working Groups and Committees needs in particular to evolve towards a concentration on policy guidelines, periodic review of individual country strategies, sectoral strategies and issues requiring European coordination upstream in the context of international discussions. This supposes, in the context of a rolling programming system, that administrative rules are adapted with a view to respecting the timeframes set for the completion of the strategic reviews¹⁷.

This also implies that less time would be devoted to the approval of individual projects, while maintaining a completely transparent system of consultation on policy questions and on regular ex-post reporting on progress in programme execution.

Finally, as part of the follow-up to this communication, the Commission will present to Council a framework for Country Strategy Papers to become the main instrument for guiding, managing and reviewing EC assistance programmes.

6.3. Improving impact of development assistance

The nature of EC cooperation instruments has to be adapted to the needs and capacity of the partner countries. The recent increase in the number of countries in conflict or "politically fragile" countries requires the development of appropriate intervention methods. This involves, on the one hand, ensuring the necessary consistency between emergency aid, rehabilitation and development actions; and, on the other hand, developing methods of direct support for the populations concerned by paying particular attention to the most vulnerable population groups.

Increased selectivity should be applied in programme implementation and in the allocation of resources among countries within each of the large regional financial envelopes. This means that, starting with general financial programming, resources are allocated not only according to need but also according to countries' performance in terms of policy reforms and outcomes. Efforts undertaken in the area of

¹⁷ This issue has been addressed in a Council and Commission Declaration on the programming process, attached to the new ACP-EC Partnership Agreement.

institutional capacity-building should promote a high degree of financial accountability in partner countries.

The EC has to continue its re-examination of its policy on aid conditionality, which no longer solely applies to balance of payments support, but also to other intervention methods. Within this framework, the conditions for disbursement will no longer relate only to measures undertaken by governments, but rather to the results obtained, on the basis of impact indicators approved beforehand. This would make it possible to leave to the countries greater latitude on the ways and means employed to obtain the desired impact and to give real meaning to the concept of ownership. Fully coherent with the introduction of a new system of resource allocation, this would thus involve passing from a "stop-go" disbursement system ("yes/no") towards a continuous one ("more/less"), linking the level of disbursement, and not the totality, to the results obtained.

The fragmentation of development aid instruments has to be addressed. Each programme has its own legal basis and its own procedures and allocation criteria (the funds at the Community's disposal are spread among more than 60 different budget headings, in addition to EDF resources, which remain outside the budget). This fragmentation facilitates neither sound management nor coherence of development programmes. Therefore, it would be desirable over time to harmonise the operation of financing instruments, starting with the inclusion in the budget of the EDF combined with a reduction and a regrouping of the existing budget headings around some central topics.

The possibility of having a part of the management costs financed from the operational appropriations allocated to cooperation programmes - as is the case for other donors - should be considered in the context of the revision of the Financial Regulation.

Based on the guidelines adopted by the Council of Ministers in 1998, relations between the EC and Member State representatives in partner countries will have to be re-examined with a view to ensuring closer links and to setting-up more effective and regular coordination and cooperation mechanisms.

6.4. Improving internal control

The inadequacy of current internal control methods, which are both too intrusive and not very effective, is mentioned in the majority of evaluation reports. The multiplication of controls and the number of prior approvals needed reduces the responsibility of the services concerned and results in their weakening.

As explained in the White Paper for Reform, during the transitional period until the new Financial Regulation enters into force, the ex-ante visa will be carried out by controllers to be gradually deconcentrated to operational Directorates-General. After this period the ex-ante visa will be abolished and control integrated into the relevant units of the operational Directorates General. The proximity of controllers to the controlled actions, which deconcentration brings, will increase both the effectiveness and the efficiency of financial management and control, while also ensuring a clearer allocation of responsibility.

6.5. Strengthening monitoring, evaluation and feedback

In the context of the Activity-Based Management (ABM) system established in the White Paper for Reform, monitoring and evaluation to properly assess the effectiveness and costs of activities will provide essential feedback into the process in order to better identify activities.

Monitoring systems including quantitative and qualitative performance indicators which focus on results will be established. This will help to get real feedback from the field. The use of monitoring indicators will be generalised, on the basis of acquired experience and of the work carried out under the DAC in order to ensure a link with international objectives.

The evaluation function should be strengthened in order to improve accountability, support management and strengthen learning. For all the geographical areas where the EC intervenes, the link between evaluations and the lessons to be drawn from them for the formulation of development projects and programmes has to be made in a more systematic fashion and in a harmonised way. It implies a direct feed-back from the policy dialogue with beneficiaries and from delegations into the policy formulation and programming at headquarters. It also implies that ex-ante evaluation, both at programme and project level, should become systematic, in order to strengthen appraisal and programming.

7. CONCLUSION

To European Community should further improve the quality and impact of its development policy by adapting its approach. At the policy and strategic level it should:

- Better integrate the economic, trade and political aspects of its development cooperation by:
 - Strengthening the links between trade and development, giving particular attention to the poorest countries with a view to enhancing their smooth, gradual and beneficial integration into the world economy;
 - Centring development policy on the aim of poverty reduction within the general framework of the external relations of the Union;
 - Continue to make full use of other external policy instrument at the Community's disposal, and in this context seek in a systematic way the highest possible degree of coherence between development policy and other Community policies with an impact on the developing countries such as trade, agriculture, fisheries, migration, research and technological development and environment;
- Increase the linkages between relief, rehabilitation and development, in particular in the social areas essential for vulnerable populations;
- Adopt an integrated development framework and apply common sectoral development policy guidelines, based on the priority fields identified in this document;

- Within the overall strategy, concentrate Community interventions in a more limited number of priority areas and sectors, including an increased emphasis on budgetary support and sector programming;
- Ensure better co-ordination among Member States' bilateral development programmes, within sectoral programmes and, to the greatest extent possible, using the procedures of the beneficiary States;
- Ensure better coherence between Community policy positions vis-à-vis the developing countries taken in the Bretton Woods institutions, WTO and various United Nations and other norm and standard-setting agencies
- Improve the EU's presence and influence in international forums where development policies are discussed.

At the level of implementation, the Community should apply the guiding principles and increase effectiveness by:

- Drawing practical conclusions from the principles of partnership, participation and ownership and applying international best practices
- Refining the criteria used in allocate financial resources to place more emphasis on results, and to include appropriate conditionality;
- Proceeding with a decentralisation and deconcentration of tasks,
- Reunifying project cycle management, ensuring a clear link between the programming exercise, budget procedures, evaluation and the feed back into the next cycle of programming.
- Improving monitoring and evaluation,
- Redefining the respective roles of the Commission, member states and the European Parliament with respect to programming in order to make it more efficient and effective;

The Commission intends to gradually strengthen its ability to provide credible statistical reporting on efforts undertaken in these areas.

The Commission will start producing annual reports on the Community's development assistance, which should try to consolidate other requested reports, to be submitted to the Council and Parliament with a view to:

- Reporting on the implementation of agreed policies,
- Adapting the policy priorities and objectives where necessary,
- Reviewing the priorities for Community strategic activities.

The Council and the European Parliament are invited to work with the Commission to take forward the ideas in this Communication.

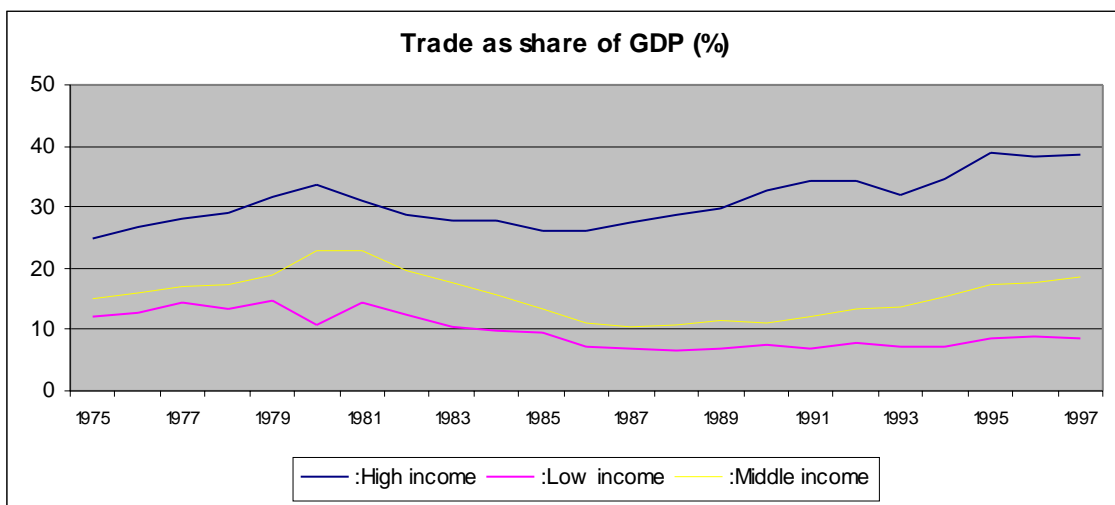
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ANNEX 1

Trends in the integration of developing countries into the world economy

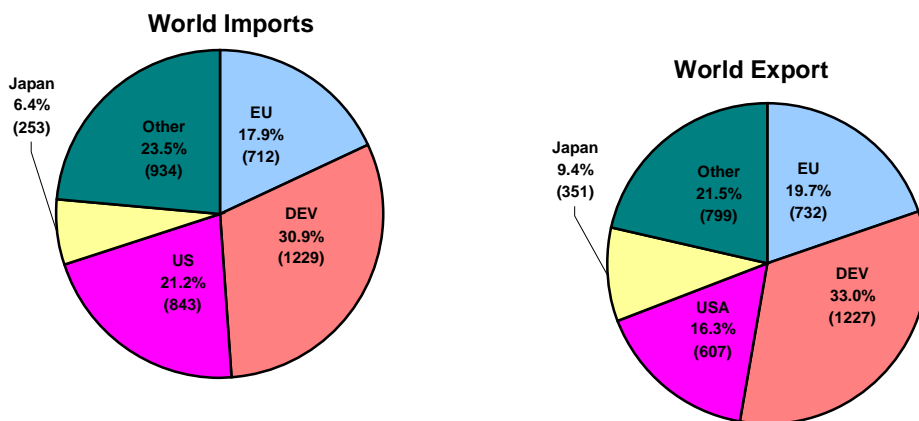
(Trade in goods)

The first half of the 1980s saw a decline in the importance of trade for developing countries. This was caused by the debt crisis (leading to decreasing imports) and the ensuing stabilisation programs that temporarily suppressed economic activity. Since 1985 trade grew three times faster than the previous decade. Developing countries now count for nearly 35 per cent of world exports and 31 per cent of world imports. However, middle income countries drive these aggregate figures upwards. Low-income countries still suffer from the debt crisis and show trade trends that are flat and even decreasing in some cases.



Source: World Bank, 1999d.

Developing Countries' Share of World Trade



(%(Ecu bn) intra-EU trade excluded)

ANNEX 2

EC AID IN FIGURES

TOTAL AID VOLUME 1986-1998
EC aid has increased considerably over the last decade from a total of € 4.2 billion committed in 1988, all regions accounted for, to € 8.6 billion in 1998. This amount represents € 6.8 billion of aid to developing countries and € 1.8 billion of aid to other countries.

REGIONAL DISTRIBUTION OF EC AID 1988-1998							
	1988 (€ million)	%	1990 (€ m)	%	1998 (€ m)	%	1998 as % of total aid
ACP (incl SA)	2899	69.4	1393	52.1	2983	43.6	34.7
Asia	226	5.4	317	11.8	617	9.0	7.2
Latin America	159	3.8	222	8.3	485	7.1	5.6
Mediterranean	309	7.4	386	14.4	1368	20.0	15.9
CEECs	1	0.0	110	4.1	614	9.0	7.1
NIS	-	-	-	-	243	3.6	2.8
Not attributable aid	582	13.9	249	9.3	534	7.8	6.2
TOTAL ODA	4176	100	2678	100	6843	100	79.4
Pm Official assistance*	20		578		1771		
Grand Total	4196		3256		8614		100

*Aid to countries in transition (DAC definitions)

Source: ODI, 1999

ANNEX 3

Official Development Assistance by categories of beneficiary countries

	ODA to LLDC		ODA to other LIC		ODA to LMIC		ODA to UMIC		ODA to HIC	
	1986/87	1996/97	1986/87	1996/97	1986/87	1996/97	1986/87	1996/97	1986/87	1996/97
Germany	37,4	29,6	26,1	36,3	29,4	28,4	6,8	5,4	0,3	0,3
Austria	21,8	21,5	14,0	35,9	62,0	35,7	1,1	5,9	1,1	1,0
Belgium	64,7	43,7	19,6	23,5	13,1	26,0	1,5	6,8	0,1	0,0
Denmark	49,6	47,4	33,9	26,8	14,7	17,8	1,8	8,0	0,1	0,0
Spain	39,1	21,2	15,5	26,6	42,4	45,8	2,9	6,4	0,1	0,0
Finland	56,9	41,0	30,0	34,8	11,4	20,3	1,6	3,9	0,1	0,0
France	35,3	27,9	26,3	26,8	17,0	23,5	6,8	6,7	14,7	15,0
Ireland	67,5	66,2	23,7	17,2	7,7	9,4	1,0	7,2	0,0	0,0
Italy	60,4	37,6	23,9	33,2	14,0	19,3	1,7	9,8	0,0	0,1
Luxembourg	-	37,1	-	26,0	-	26,1	-	10,7	-	0,1
The Netherlands	42,2	39,4	29,5	27,0	20,3	21,6	1,9	5,7	6,0	6,3
Portugal	-	91,6	-	2,8	-	3,9	-	1,6	-	-
United Kingdom	44,9	38,4	34,8	37,1	10,5	17,2	8,1	7,2	1,6	0,1
Sweden	54,0	41,6	35,8	28,1	8,7	24,3	1,5	6,0	0,1	0,0
EU member states	44,3	34,2	27,6	30,6	18,8	24,2	4,7	6,5	4,6	4,6
Community aid	51,3	33,6	24,1	20,2	22,1	38,3	1,8	7,5	-	-
Total DAC	38,1	31,5	26,9	31,6	27,9	29,7	4,2	5,1	2,9	2,1

ANNEX 4

EC aid – sectoral allocation

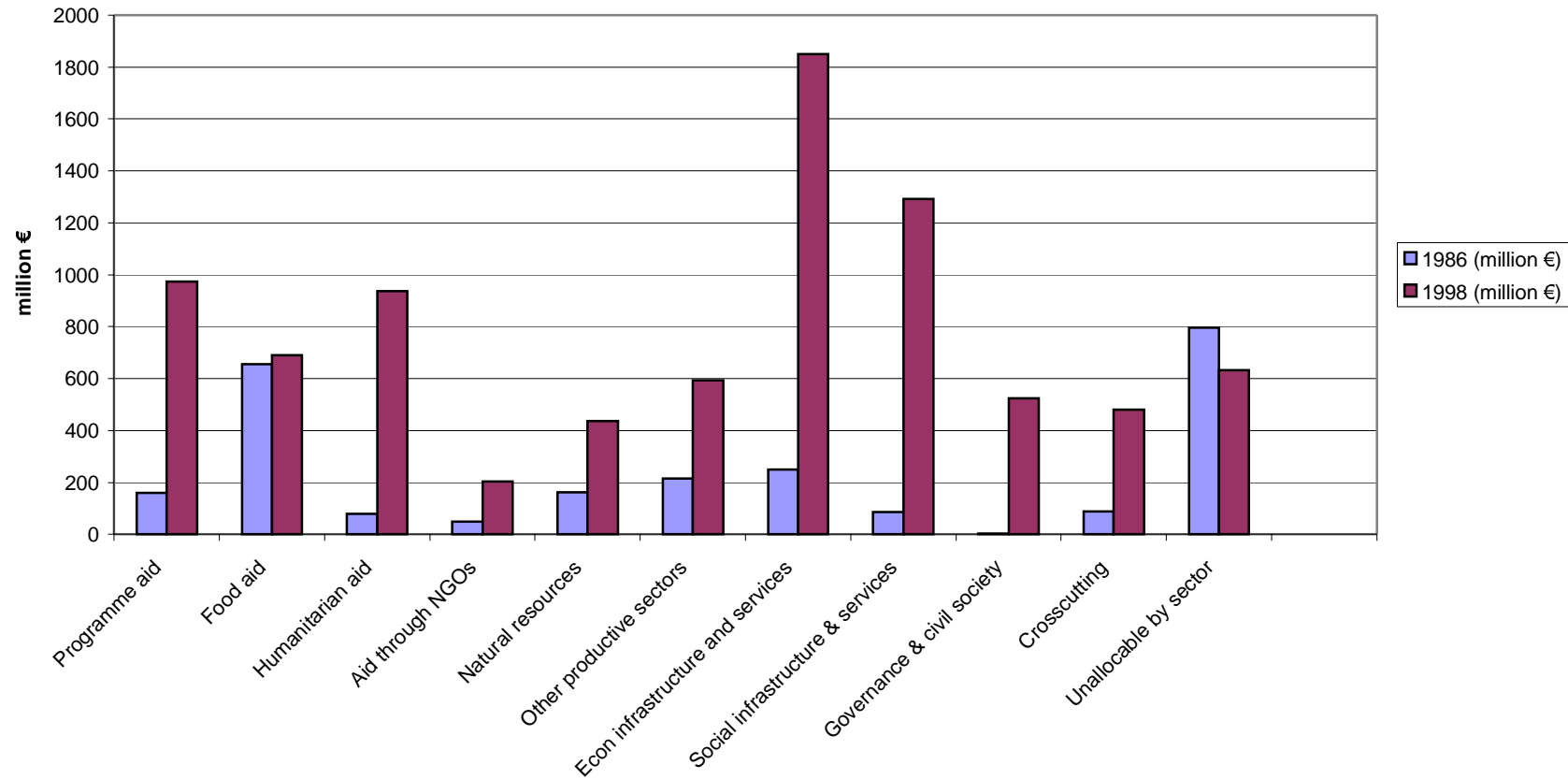
Commitments

	1986 (million €)	1986 (% of total)	1998 (million €)	1998 (% of total)
Programme aid (struct adj, Stabex, Sysmin)	159	6.2	974	11.3
Food aid	655	26.0	690	8.0
Humanitarian aid	80	3.1	936	10.9
Aid through NGOs	49	1.9	204	2.4
Natural resources	163	6.4	437	5.1
Other productive sectors	214	8.4	592	6.9
Econ infrastructure and services	249	9.8	1850	21.5
Of which transport & com	130	5.1	928	10.8
Of which energy	112	4.4	434	5.0
Of which banking & finance	8	0.3	488	5.7
Social infrastructure & services	86	3.4	1291	15.0
Of which education	13	0.5	450	5.2
Health & population	24	0.9	313	3.6
Water supply	49	1.9	293	3.4
Other social	1	-	235	2.7
Governance & civil society	3	0.1	525	6.1
Crosscutting	89	3.5	481	5.6
Of which environment	4	0.1	146	1.7
Gender	0	0	13	0.2
Rural devt	7	0.3	215	2.5
Other	78	3.1	107	1.2
Not attributable by sector	796	31.2	632	7.3
TOTAL	2553	100	8614	100

Source: Overseas Development Institute, The European Community External Cooperation Programmes, 1999.

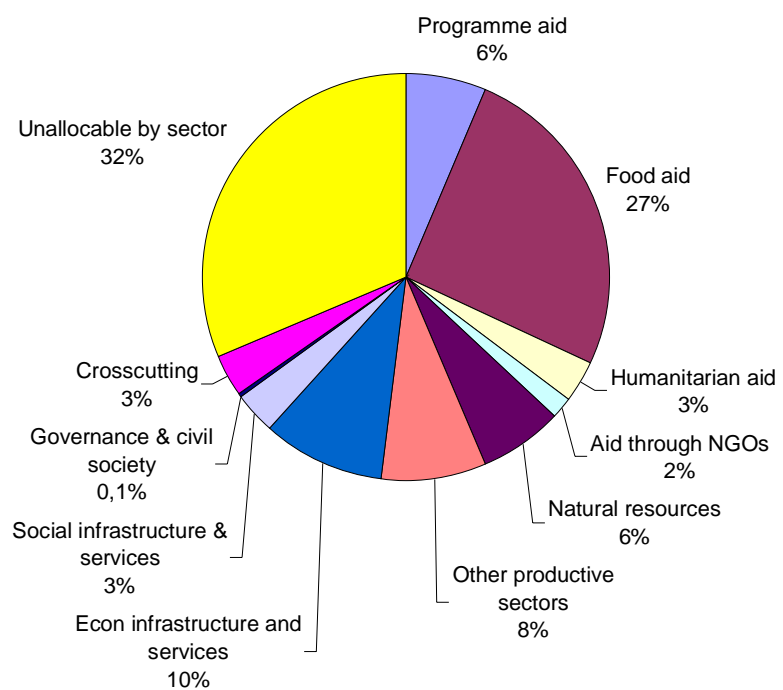
ANNEX 4A

EC aid -sectoral allocation 1986-1998 (Commitments)

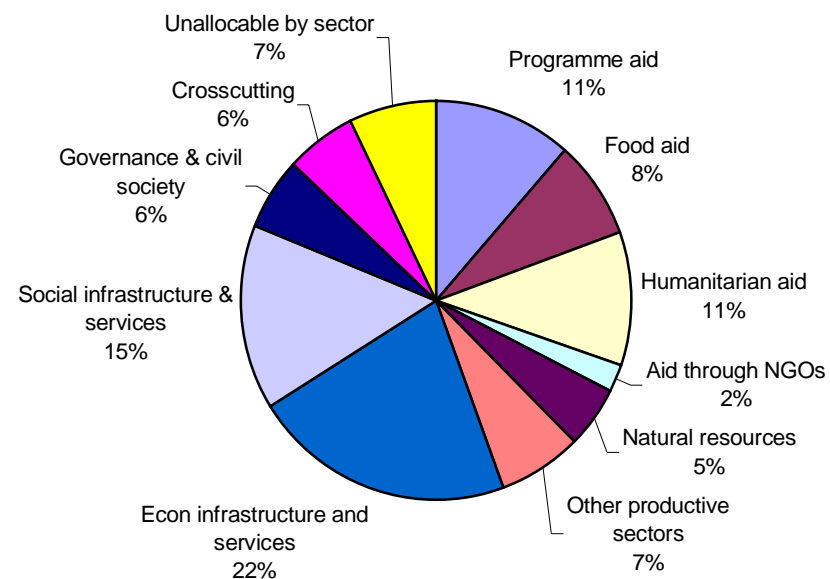


ANNEX 4B

EC aid-sectoral allocation 1986 (Commitments)



EC aid-sectoral allocation 1998 (Commitments)



ANNEX 5

PERSONNEL IN EU BILATERAL AID AGENCIES, EUROPEAN COMMISSION AND WORK BANK

Country	1995	n° Staff	Bilat. Aid (in \$ mil)	Staff unit for 10 mil \$
Austria		34	560	0.61
Belgium		360	514	7.00
Denmark		400	895	4.47
Finland		159	220	7.23
France		3073	6429	4.78
Germany		3904	4815	8.11
Ireland		45	88	5.11
Italy		530	806	6.58
Netherlands		540	2245	2.41
Portugal		157	179	8.77
Spain		760	816	9.31
UK		1077	1670	6.45
CE	(1997) [*]	2534	8658	2.90

[*] C E/ODI

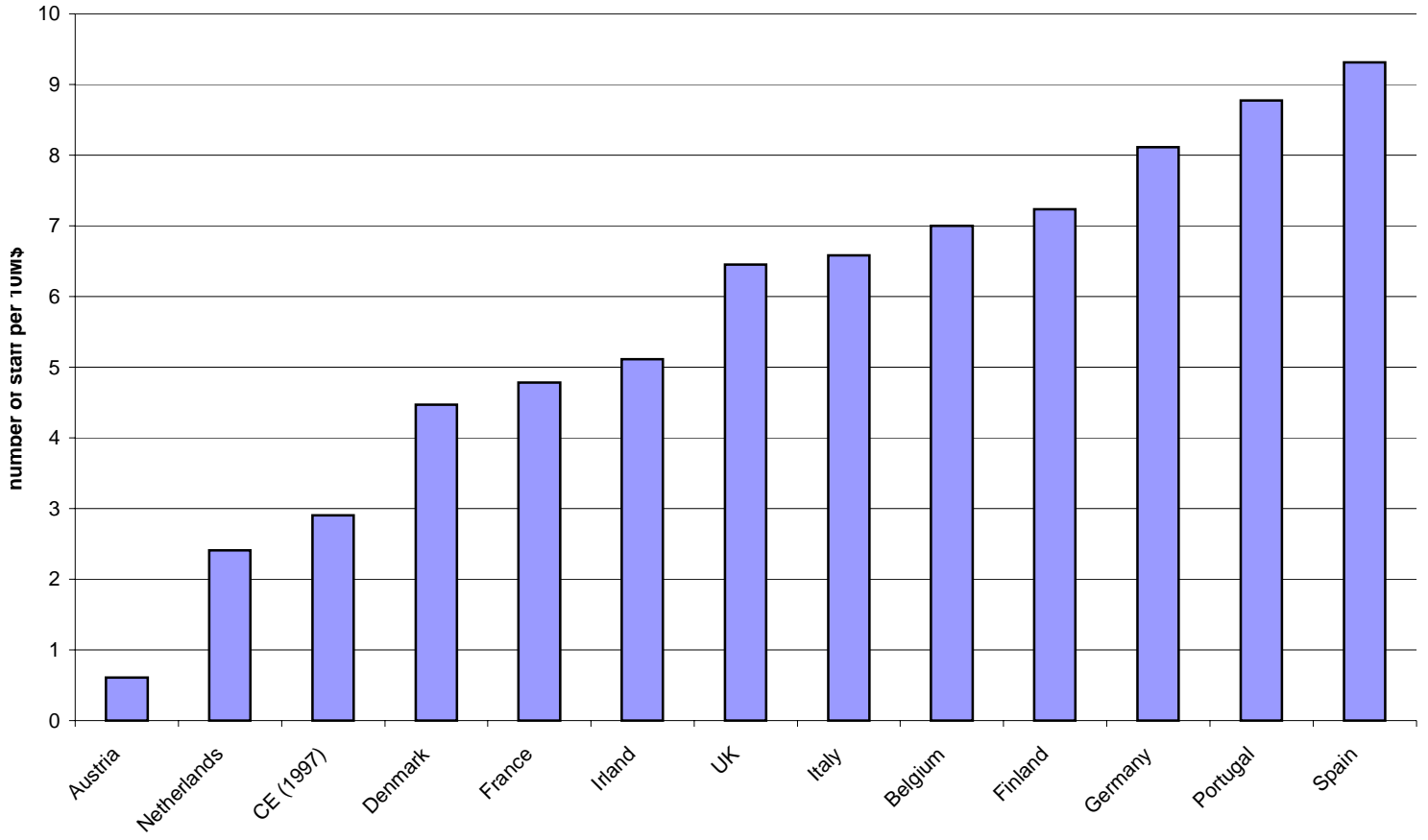
Source: Comparative Overview of EU Aid Agencies, ODI/EC DPM - Nov. 1995 plus DAC Reports

WORLD BANK - 1995 DATA

4.26

ANNEX 5A

Personnel in EU Bilateral Aid Agencies, European Commission and World Bank



ANNEX 6

Acronyms

ACP	African, Caribbean and Pacific States
ASEAN	Association of South East Asian Nations
CEECs	Central and Eastern European Countries
DAC	Development Assistance Committee
EDF	European Development Fund
EIB	European Investment Bank
EuroMed	Euro-Mediterranean Partnership
GNP/cap	Gross National Product per capita
G 7/8	Group of 7/8
HIPCs	Heavily Indebted Poor Countries
IFIs	International Financial Institutions
ILO	International Labour Organisation
IMF	International Monetary Fund
LDCs	Least-developed countries
LIC, LMIC, UMIC, HIC	Low-Income, Lower-middle Income, Upper middle Income, High Income Countries
Mercosur	Mercado Común del Sur (Latin American regional organisation)
MFN	Most Favourite Nations
NGO	Non-governmental organisation
NIS	New Independent States of the former Soviet Union
OECD	Organisation for Economic Cooperation and Development
REPA	Regional Economic Partnership Agreement
SA	South Africa
SAARC	South Asian Association for Regional cooperation
Stabex	Special Lomé instrument to STABILise EXport earnings from agriculture commodities
Sysmin	Special financing facility for safeguarding mining production (Lomé)
UN	United Nations
UNDP	United Nations Development Programme
USD	US Dollar

ANNEX 7**DAC list of aid recipients – Part I: Developing countries and territories****(Official development Assistance)**

Least developed countries	Other low income countries (per capita GNP < \$765 in 1995)	Lower middle income countries and territories (per capita GNP \$766-\$3035 in 1995)		Upper middle income countries and territories (per capita GNP \$3036-\$9385 in 1995)	High income countries and territories (per capita GNP > \$9385 in 1995)
Afghanistan	Albania	Algeria	Palau Islands	Brazil	Aruba
Angola	Armenia	Belize	Palestinian administered areas	Chile	French Polynesia
Bangladesh	Azerbaijan	Bolivia	Panama	Cook Islands	Gibraltar
Benin	Bosnia and Herzegovina	Botswana	Papua New Guinea	Croatia	Korea, Rep Of
Bhutan	Cameroon	Colombia	Paraguay	Gabon	Macao
Burkina Faso	China	Costa Rica	Peru	Malaysia	Netherlands Antilles
Burundi	Congo, Rep	Cuba	Philippines	Mauritius	New Caledonia
Cambodia	Côte d'Ivoire	Dominica	St Vincent & Grenadines	Mayotte	Northern Marianas
Cape Verde	Georgia	Dominican Republic	Suriname	Mexico	Virgin Islands (UK)
Central African Republic	Ghana	East Timor	Swaziland	Nauru	
Chad	Guyana	Ecuador	Syria	South Africa	
Comoros	Honduras	Egypt	Thailand	St Lucia	
Congo, Dem. Rep.	India	El Salvador	Tokelau	Trinidad and Tobago	
Djibouti	Kenya	Fiji	Tonga	Uruguay	
Equatorial Guinea	Kyrgyz Rep.	Grenada	Tunisia	Anguilla	
Eritrea	Mongolia	Guatemala	Turkmenistan	Antigua and Barbuda	
Ethiopia	Nicaragua	Indonesia	Uzbekistan	Argentina	
Gambia	Nigeria	Iran	Venezuela	Bahrain	
Guinea	Pakistan	Iraq	Wallis and Futuna	Barbados	
Guinea-Bissau	Senegal	Jamaica	Yugoslavia, Federal Republic	Libya	
Haiti	Sri Lanka	Jordan		Malta	
Kiribati	Tajikistan	Kazakhstan		Montserrat	
Laos	Vietnam	Korean Democratic Republic of		Oman	
Lesotho	Zimbabwe	Lebanon		Saudi Arabia	
Liberia		Macedonia (former Yugoslav		Seychelles	

		Republic)			
Madagascar		Marshall Islands		Slovenia	
Malawi		Micronesia Federated States		St Helena	
Maldives		Moldova		St Kitts and Nevis	
Mali		Morocco		Turks and Caicos Islands	
Mauritania		Namibia			
Mozambique		Niue			
Myanmar					
Nepal					
Niger					
Rwanda					
Samoa					
Sao Tome and Principe					
Sierra Leone					
Solomon Islands					
Somalia					
Sudan					
Tanzania					
Togo					
Tuvalu					
Uganda					
Vanuatu					
Yemen					
Zambia					

Source: DAC, March 2000.