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FIGHTING RURAL POVERTY

**European Community policy and approach to rural development and sustainable
natural resources management in developing countries**

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Summary

With poverty reduction as the central objective of EC development policy, there is a need to address more systematically and in a more comprehensive manner rural development concerns. In fact, (i) poverty and hunger are mainly rural problems, (ii) environmental degradation is becoming increasingly severe in rural areas and is closely connected to the problem of rural poverty, (iii) the rural economy constitutes the basis for economic growth in many developing countries, and their integration into the world economy, and (iv) rural development can play a key role in reducing inequalities and conflicts.

This Communication presents the EC's policy and approach to rural development in developing countries, integrating the objectives of poverty reduction, food security and sustainable natural resources management in a coherent framework.

Rural poverty is a multidimensional problem that includes low incomes, inequalities in access to productive assets, low health education and nutrition status, natural resource degradation, vulnerability to risk and weak political power. Strategies for rural poverty reduction must therefore address all of these problems, and take account of the diversity of rural areas and population groups, as well as the changing context of rural poverty.

In contrast to past practice, this Communication calls for a mainstreamed approach to rural development. The aim will be to work within the existing framework of policies, institutions and programmes, and to incorporate rural poverty reduction, food security and sustainable natural resource management objectives. The Communication identifies six policy areas that need to be addressed: (i) supporting economic policies to enable broad-based growth, (ii) ensuring more equitable access to productive assets, markets and services, (iii) investing in human capital, (iv) promoting more sustainable natural resources management, (v) managing risks and providing safety nets, and (vi) building more effective, accountable, decentralised and participatory institutions.

At the national level several types of actions in support of rural poverty reduction will be included in EC Country Support Strategies. These will be determined on the basis of a detailed analysis of rural poverty. The EC will engage in dialogue on Poverty Reduction Strategy Papers (PRSPs) and will pay particular attention to the treatment of rural poverty issues. The EC will increasingly shift towards supporting sector wide approaches (SWAPs) where certain conditions are in place, and strengthen collaboration with non-state actors such as the private sector, civil society and NGOs. In this context, decentralisation processes play a key facilitating, catalysing and co-ordinating role.

At the regional level the EC will focus on encouraging regional integration processes and tackling cross border challenges. At the international level, the EC will support the provision of a number of global public goods identified in this Communication.

This Communication also addresses issues of EC policy coherence related to rural poverty reduction and food security.

Part 1 – Purpose and Context

1. Purpose

Approaches to rural development have considerably evolved over the past forty-five years. With the adoption of internationally agreed development objectives and targets and with the increasing use of comprehensive national development strategies or poverty reduction strategies by developing countries, the Commission feels that it is now timely to come up with an EC Policy and Approach to rural development, which builds on international consensus and best practice. This Communication intends to put an end to uncoordinated and incoherent EC interventions in the rural space in providing a coherent strategic framework (i) for the integration of poverty reduction, food security and natural resources management objectives, (ii) for the formulation of a coherent set of policies relevant to rural development (with a particular focus on key policy issues), (iii) for tackling the multidimensional needs and constraints of the rural poor, and (iv) for the effective use of the wide range of EC financing instruments.

This Communication is based on policy work carried out over the past three years with broad-based participation within the Commission and active support from EU Member States, who have considerably supported the process of policy development. The Communication provides a broad overview of the results of this policy work¹.

2. Context

The European Community's Development Policy supports the Millennium Development Goals and is based on the central objective of poverty reduction². In recognition of the importance of poverty reduction in rural areas, the EC has identified rural development and food security as one of the six priority areas for EC development cooperation. This also reflects the importance of rural development for economic growth and the sustainable management of the environment.

3. The Rationale for a Rural Focus

The poverty/food security challenge

An estimated 1.2 billion people live in extreme poverty on less than one dollar a day. Close to 800 million people in the developing world are undernourished meaning that they are unable to obtain enough food to meet their basic nutritional requirements.

Poverty and hunger are predominantly rural problems. At present, three quarters of the people living in extreme poverty live in rural areas. Although this figure will decline over time with growing urbanisation, the proportion of the poor living in rural areas is expected to remain as high as 60% in 2025.³ At the household level, food security is generally the result of inadequate incomes and household production and is therefore basically an outcome of poverty.

In order to tackle poverty and hunger effectively, it is essential to focus development efforts on rural areas where the majority of the poor are located. The Millennium Development Goals will not be achieved without rapid progress in poverty reduction in rural areas.

¹ Rural development policy orientation paper - Feb 2000 and sectoral policy and strategy papers (agriculture, livestock, fisheries, forestry and agricultural research) - Oct 2000

² Communication from the Commission to the Council and the European Parliament on the European Community's Development Policy, COM (2000)212, 26 April 2000.

³ International Fund for Agricultural Development, Rural Poverty Report 2001.

The environment challenge

Rural areas are affected by increasingly severe environmental problems. Over the past half-century more than a quarter of the world's 8.7 billion hectares of agricultural lands, pastures, forests and woodlands have been degraded. The shortage of fresh water is looming as a serious obstacle to food security, and more than 70% of the world's fisheries resources are overexploited. Environmental degradation threatens rural livelihoods and production capacity, and is resulting in the rapid loss of global biodiversity and genetic resources.

This alarming situation provides another strong reason to focus development cooperation on rural areas. It has become clear that there are close linkages between rural poverty and environmental degradation, and that these problems must be tackled in an integrated way by protecting and expanding the environmental asset base of the rural poor.

The need for economic growth

A third reason to prioritise rural development is that agriculture and the rural economy constitute the engine of economic growth in many developing countries and the basis for their integration into the world economy. Therefore, the productive rural sectors, which make up a substantial proportion of national income, employment and exports, require sustained support in view of ensuring broad-based growth.

The need for more equitable and open societies

Peaceful, equitable and open societies are a prerequisite for rural poverty reduction. This includes ensuring human rights, civil liberties, the rule of law and political representation for all sections of society, as well as promoting good governance and public accountability. Above all, it is vital to prevent conflict, which is a major threat to national development and poverty reduction.

Coherent support to rural development permits to address some of the root causes of conflict in developing countries (e.g. inequitable access to natural resources). Rural development can also play a key role in reducing inequalities between regions and ethnic groups, strengthening institutions for disadvantaged groups, developing community structures, improving governance, building capacity and offering solutions to migration.

The need for pro-poor policies and strategies

Despite their importance, rural areas tend to be neglected in the development strategies of both governments and donors

Government policies in developing countries have tended to be biased against rural needs. Governments have often concentrated public expenditure and services in urban areas, and have harmed rural development through inappropriate policies and institutions such as price distortions (through discriminatory taxation and over-evaluation of the exchange rate), excessive reliance on costly, inefficient and highly centralised parastatal organisations and adverse land and agrarian policies reducing access to and investment in land. In recent years, there has been some progress in tackling these imbalances as a result of structural adjustment and liberalisation reforms.

National development strategies or national poverty reduction strategies (PRSPs), increasingly adopted in many developing countries indicate a growing commitment to poverty reduction that offers important opportunities for tackling rural poverty. However, it is notable that the existing strategies tend to focus on macroeconomic management and social sector spending, and as yet pay relatively little attention to the specific needs of rural areas, where the majority of the poor are located.

The development cooperation strategies of major donors also do not give sufficient priority to rural poverty reduction. Aid for rural development has decreased in general, and there has been a particularly marked decline in aid allocated to agriculture, which is now only about a third of its level of the late 1980s. This is mainly the result of weak rural sectors' performance, unsustainable donor-driven integrated or stand-alone projects, and the greater visibility and political influence of urban populations. In order to achieve the Millennium Development Goals it will be essential to reverse these trends, and to increase investment in the rural space.

4. The nature of rural poverty

Rural poverty is a complex and multifaceted problem that has several important characteristics:

- (1) Low incomes and consumption resulting from the low productivity of rural activities. *The rural poor are locked into low productivity activities because they lack sufficient access to markets, technologies and services. Inappropriate government policies and ineffective public institutions have often further undermined rural productivity.*
- (2) Inequality in ownership and access to productive assets. *Rural poverty is particularly persistent where there are large inequalities in the ownership and access to productive assets, such as land, capital and rural infrastructure.*
- (3) Poor health, education and nutrition status of rural populations. *Poor health, education and nutrition status limits human capabilities and the ability to work productively.*
- (4) Degradation of natural resources that provide the basis of rural livelihoods: *There are close connections between rural poverty and environmental degradation, which are discussed in Annex 1.*
- (5) Vulnerability to risk: *The rural poor are exposed to numerous risks including man-made and natural disasters, pests, diseases and economic shocks.*
- (6) Weak political power of the rural poor: *The rural poor have much less political influence than more vocal, visible and organised urban populations. The result is that their needs are often ignored in government policy making.*

Strategies to combat rural poverty must tackle these six fundamental problems that are common to most in developing countries. However, they should also reflect the diversity of rural areas, and socio-economic differences in the population. At the global scale there are major differences in the problems faced by rural areas in different regions (see Annex 4). At the national level there are large variations between rural areas reflecting differences in access to markets, the agricultural potential of the land, and the way of life and traditions of the local population. It is also important to take account of differences between socio-economic groups within a given community, and to provide adequate assistance to the most vulnerable groups, which include the landless, pastoralists, ethnic minorities, indigenous groups, female-headed and AIDS-affected households, the elderly, refugees and internally displaced people.

The problems faced by women deserve special attention in rural poverty reduction strategies. Women are particularly disadvantaged in rural communities because they tend to suffer worse nutrition, higher workloads, lower access to health and education, exclusion from social and economic opportunities and marginalisation in decision making and key rural institutions.

Over the coming decades, rural areas will undergo rapid change as a result of numerous processes such as environmental change, globalisation, privatisation, decentralisation, urbanisation, diversification, technological change, HIV/AIDS and conflicts. While some of these processes provide opportunities for rural poverty reduction, others present major threats. Strategies for rural poverty reduction must take account of this changing context.

5. Changing Approaches to Rural Development

In order to tackle rural poverty it is necessary to support the wide range of sectors that make up the rural economy. The agricultural sector is a particular priority because it (i) contributes substantially to national income, exports, employment, investment/savings, (ii) forms the basis of the livelihoods of the majority of the rural poor, and (iii) stimulates the growth of the non-farm sector. In addition to agriculture, several other sectors play a vital role in rural poverty reduction. These include health and education, water and sanitation, transport and communication and natural resource management. Broader macroeconomic policies must also be taken into account because they have a major impact on rural economies.

Recognising that rural poverty reduction requires co-ordinated action in several sectors, it is important to avoid the pitfalls of past approaches. Experience from the past forty-five years indicates that stand-alone projects or complex, multi-sectoral and area-based rural development projects are unlikely to be successful, and that rural development should no longer be treated as a separate activity (see Annex 2).

Consequently, this Communication calls for a mainstreamed approach to rural development, pressing for the incorporation of rural poverty reduction and sustainable natural resources management within the existing framework of nationally owned policies, strategies and programmes, and the wide range of public, private and civil society organisations operating in the rural space. It is important to take a comprehensive view of this framework, and to mainstream the objectives of rural poverty reduction and sustainable natural resources management into all relevant policies, programmes and institutions. In this context, new approaches such as national poverty reduction strategies, sector wide approaches, decentralisation processes and rural-urban linkages are of particular importance:

Approaches to rural development must recognise that rural and urban spaces are becoming increasingly linked. As development proceeds, there tends to be a transition in rural areas away from subsistence agriculture towards more diversified and commercial activities linked into urban markets. This transition is characterised by the growth of non-farm employment, the development of secondary towns and peri-urban farming, rural to urban migration and outmigration from remote and low-potential towards high-potential rural areas. This leads to the development of broader, more competitive and better-integrated markets and it increases economic opportunities. Policies and strategies must take due account of these changes in view of strengthening the rural-urban linkages - which provide many opportunities for poverty reduction - to the mutual benefit of rural and urban populations.

Part 2 - EC Policy and Strategy

6. Policy Objectives

In line with the objectives of the European Community's development policy, as well as its commitment to sustainable social, economic and environmental development, the European Community will aim at ensuring that rural development concerns will be given the appropriate attention within national development frameworks and policies. The overall objective of support to rural development will be poverty reduction. Considering the six causes of rural poverty identified in section four, the specific objectives of EC support to rural areas will be to:

- (1) **Promote broad-based rural economic growth**
by supporting appropriate economic and sectoral policies

- (2) **Ensure more equitable access to productive assets, markets and services**
with a focus on land, rural finance and rural infrastructure
- (3) **Support human and social development**
by investing in human capital in the fields of health, education, nutrition, population and water and sanitation
- (4) **Ensure sustainable natural resources management**
by acting on key policy and crosscutting issues, institutional reform and the development and dissemination of appropriate technologies
- (5) **Reduce vulnerability to risks**
by managing risks and providing safety nets
- (6) **Address the social and political exclusion of the rural poor**
by building more effective, accountable, decentralised and participatory institutions

7. Actions in Support of Rural Poverty Reduction

The following sections describe the types of action that the EC may support in each of the six areas. The EC recognises that it cannot intervene in all of these areas simultaneously, and therefore must carefully prioritise its actions according to a detailed analysis of the country situation (in the context of formulating/reviewing its country support strategies) in order to use its resources most effectively and to maximise impact on rural poverty reduction.

7.1. Supporting economic policies to enable broad-based growth

Economic growth is essential for rural poverty reduction. However, the gains from growth are often unevenly distributed and do not always benefit the rural poor. Consequently, the EC will encourage governments to introduce policy measures with two essential aims: i) enabling rural economic growth, ii) ensuring that the rural poor share in the benefits of growth. The key policy issues are discussed below, and fall into two main areas: economy-wide policies and sectoral policies:

7.1.1. Economy-wide policies

The EC will support policy measures in the following areas:

- **Macroeconomic management**

Countries that have achieved macroeconomic stability (low interest rates, limited inflation, and relatively stable exchange rates) have generally experienced stronger growth and poverty reduction.

Removal of price distortions and other discredited policies

Rural areas have suffered from the effects of overvalued exchange rates, price controls and high taxation of agricultural inputs and exports. Many countries have made progress in removing these discredited policies, but the reforms are still incomplete.

- **Trade liberalisation**

The progress that has been made by developing countries in opening their markets to global trade has had generally positive effects in rural areas, which benefit from stronger export incentives and lower input prices. However, there are risks that must be managed. Many rural producers, particularly in the Least Developed Countries (LDCs), have not been able to compete successfully in the global market. Consequently, the EC will provide support for trade development and actions to enhance the competitiveness of rural economies. This will include infrastructure development, market information

provision, improvements to the regulatory framework and capacity building in trade-related services and administration, both at national and regional levels. At the same time, the EC has taken action to improve access to EU markets for products originating in developing countries and the LDCs in particular.

- **Privatisation and market liberalisation**

The EC will support further privatisation and market liberalisation reforms in developing countries as a means to improve the efficiency of service delivery, to encourage private sector led development and to save public resources for essential functions related to public goods provision and poverty reduction. The EC recognises that privatisation and liberalisation reform require a redefinition of the role of the state (see Annex 2) and must be carefully managed and sequenced in order to minimise negative consequences. In particular, liberalisation must be accompanied by actions to create the conditions for equitable and environmentally sustainable market-led development. The provision of rural infrastructure is particularly important in this context.

- **Allocating budget resources**

The EC will engage in dialogue on government budgets in the context of Poverty Reduction Strategy Papers and Sector Wide Approaches. The aim will be to review public spending priorities - taking due account of rural development concerns - in order to ensure that resources are allocated to activities that are most relevant to poverty reduction and public goods provision. The EC will also support actions to strengthen public expenditure management and accountability in public finance.

7.1.2. Sectoral Policies

A key requirement for rural poverty reduction is to raise the productivity of the natural resources sectors. Sustainable increase in productivity is essential to boost rural incomes, to allow for further production increases (considering that natural resources are close to their limit of exploitation) and to provide scope for diversification. In addition to raising agricultural productivity, the EC will promote rural income diversification by supporting the growth of the non-farm sector.

- **Agricultural sector policies**

The EC's policy and strategy for the agricultural sector concentrates on improving the policy environment for agriculture, enhancing market access, supporting producer associations and strengthening production support services, including research and extension, input supply, irrigation, post-harvest processing, marketing and rural finance. In general, the EC will support governments to provide services with a public goods character, and will promote the development of private sector service providers and where appropriate the gradual introduction of cost-recovery.

The EC will place particular emphasis on supporting agricultural research and extension services because where these are effective they have proven to raise agricultural productivity, conserve natural resources and tackle rural poverty. Since improved agricultural technology is a global public good, the EC will support research at the international, regional and national levels. The EC will focus its assistance on supporting demand driven agricultural research that is relevant to the needs of the rural poor, increasing farmer participation in all stages of the research and extension process and strengthening the linkages between national, regional and international research bodies.

Agricultural investment has tended to focus on high potential areas with the objective to get the highest possible returns. There are however very good reasons to increase investment (with reasonable returns) in lower potential areas where population pressure is rising and where the incidence of poverty and environmental degradation are generally more severe. In practice, the appropriate balance between investing in high potential and low potential areas depends very much on country specific factors.

- **Livestock sector policies**

Livestock are a particularly important asset for the rural poor because they provide income and security, as well as draught power and fertiliser. Demand for livestock products is growing rapidly in the developing world as a result of rising incomes and urbanisation. The major policy challenge will be to ensure that this growth will benefit the poor, and can be accommodated in an environmentally sustainable manner. The EC policy and strategy for the livestock sector focuses on improving pro-poor livestock services, enhancing market access, strengthening producer associations, providing demand driven research, tackling animal diseases, addressing environmental and food safety issues and ensuring the sustainable management of grazing lands.

- **Fisheries sector policies**

It is estimated that one billion people rely on fisheries for their food security and primary source of protein. However, most of the world's fisheries (both marine and freshwater) are overharvested or at the limit of exploitation. The sustainable, equitable and participatory management of stocks based on a thorough assessment is therefore a policy priority. In addition, the EC will assist the poor to take part in sustainable aquaculture development, which offers a means to supplement capture fisheries. The recent Communication on Fisheries and Poverty⁴ sets out the EC's policy in this context.

- **Forestry sector policies**

Forests are a vital resource for the rural poor that provide income, shelter, food, fuelwood and fodder. The EC's policy and strategy priorities for the forestry sector are to improve the policy and regulatory environment, to promote sustainable forest management practices, and to enhance community participation in forest management and conservation. The EC is increasingly engaged in trade issues with a particular focus on illegal logging and forest law enforcement.

- **Supporting the non-farm sector**

The EC will support the development of the rural non-farm sector, which is an increasingly important source of income for the rural poor. EC support will focus on developing an enabling business environment, strengthening producer associations and promoting rural enterprise development through the provision of credit, training, and business development advice. The development of rural towns will be supported as a means to establish growth centres for the non-farm sector, and to provide a focus for employment, markets and service provision. EC support for rural infrastructure (particularly transport, energy and water) and rural education services is also relevant to the development of the rural non-farm sector.

7.2. Ensuring more equitable access to productive assets, markets and services

The poverty impact of rural growth will be greater where there are fewer inequalities in access to productive assets, markets and services. In this context, decentralisation plays a key role. The EC will take actions to address these inequalities in a number of areas, in particular land, rural finance and rural infrastructure policy.

⁴

Communication from the Commission to the Council and the European Parliament on Fisheries and Poverty Reduction, COM(2000)724, 8 November 2000

- **Land issues**

Issues of land tenure and access to land are central to rural poverty and natural resources management. The poor need access to land as well as secure, well-defined and enforceable land rights in order to manage natural resources sustainably and to invest in land improvements. Land also provides the poor with collateral that is often necessary to gain access to credit. Skewed land ownership and lack of access to land for the poor is, in many societies, one of the major causes of social conflict and instability. In societies where traditional land tenure systems exist, they often provide sufficient security and flexibility to meet livelihoods needs. Customary tenure systems can in particular, secure secondary rights over land on which the most vulnerable often depend. In a number of countries however, land tenure is still a major constraint to investment, sustainable natural resources management and economic development.

The EC will assist in the design and implementation of land policy reforms provided the processes are participatory, based on a broad social consensus of the key stakeholders and underpin policies which (i) are explicitly targeted at improving and securing access for the rural poor, (ii) respect the existing set of rights, (iii) are comprehensive (i.e. address tenure security in both rural and urban areas), and (iv) provide a framework for the co-existence of multiple tenure systems and gradual evolution towards increasing security.

EC support will concentrate on i) land policy development and legislative changes, ii) institutional strengthening for land administration, iii) land demarcation and titling, iv) strengthening frameworks for the management of common property resources, and (iv) the purchase of land for redistribution purposes by providing budgetary resources to this effect. Special attention will be paid to the particular problems faced by women, indigenous groups and pastoralists in securing their access to land.

In countries where large inequalities in land ownership constitute a major constraint for rural poverty reduction, EC may support equitable and cost effective land redistribution programmes in conditions where they are carried out in a non-confiscatory and participatory manner.

- **Rural finance**

The rural poor need access to savings and credit to take advantage of marketing and investment opportunities, to smooth consumption and to manage risk. However, the rural poor have not been well served by financial services as a result of high operating and transactions costs in rural areas, the absence of collateral, high exposure to risk and inappropriate government policies, such as subsidised interest rates. Over the past decade valuable progress has been made in delivering financial services to the rural poor through the development of microfinance institutions. The EC will support the expansion of these services, and will place particular emphasis on strengthening the institutional capacity and financial viability of microfinance operators.

- **Rural, economic and social infrastructure**

Isolated rural communities have little access to markets, services, information, institutions and political power. The provision of rural infrastructure (including rural roads, rural water supply and irrigation, rural energy, telecommunications, schools and health facilities) is therefore a key requirement for rural poverty reduction. The EC will contribute to the financing of rural infrastructure where this is a cost-effective means of reducing rural poverty. The main priorities will be to develop low-cost infrastructure solutions for remote rural communities, to ensure the effective operation and maintenance of infrastructure, and to enhance community participation in the design, construction, operation and maintenance of infrastructure projects.

Access to energy services is particularly crucial for sustainable rural development, both for the rural economy (agricultural production and processing, transport and enterprise development) and rural household needs (basically for cooking and heating). EC support will focus on the development of appropriate policies, aimed at the provision of access to energy services, based on the full range of options (energy efficiency, modern energy services from both fossil fuels and renewable energy) and improved management and use of biomass.

7.3. Investing in human capital

Raising the health, education and nutrition status of rural populations is essential for rural poverty reduction. Major investments are required in order to improve the coverage, quality and affordability of health and education services in rural areas.

In the education sector EC support will focus on strengthening the management and delivery of education services, mobilising resources and improving school buildings in remote rural areas, staff training, curriculum development, and measures to encourage girls, ethnic minorities and other disadvantaged groups to enrol and stay in school.

In the health sector the EC support will focus on strengthening public health systems with the aim of providing universal access to a core package of essential services. Interventions to combat the major communicable diseases (HIV/AIDS, malaria and TB), to improve nutrition and to address maternal and infant mortality are likely to be of particular benefit to the rural poor⁵. In addition, the EC will promote the provision of reproductive health services and family planning information in order to allow rural households to make informed choices about the number and spacing of their children. A major priority will also be to improve access to safe drinking water and sanitation in order to combat water related diseases that are a major cause of ill health and mortality in rural areas⁶.

7.4. Promoting sustainable natural resources management

In view of the close linkages between rural poverty and environmental degradation (see Annex 1), sustainable natural resources management will be an integral part of the EC's policy and approach to rural poverty reduction. The aim will be to identify and promote win-win solutions that benefit both the rural poor and the environment, and to minimise trade-offs between environmental protection and rural poverty reduction. The EC will focus on key policy and crosscutting issues, institutional reform and the development and dissemination of appropriate technologies through the following actions:

- Promoting a policy framework that is supportive of sustainable natural resources management. *This includes (i) assessing the environmental impact of sectoral policies (e.g. transport, mining, agriculture, fisheries and industry), (ii) putting an end to distortive subsidies and underpricing of natural resources (e.g. energy subsidies) and (iii) creating an effective legal framework, regulating the extraction of natural resources and issues of pollution, and (iv) contributing to the assessment and monitoring of natural resources threatened by over-exploitation.*
- Strengthening agencies responsible for natural resources management and tackling governance and corruption issues,
- Integrating the assessment of environmental concerns into National Development Strategies, PRSPs and CSPs,

⁵ Communication to the Council and Parliament on Health and Poverty (forthcoming). See also Communication of the Commission to the Council and European Parliament on Accelerated action targeted at major communicable diseases, COM(2000) 585, 20 September 2000

⁶ Communication from the Commission on Water Management in Developing Countries (forthcoming).

- Promoting pro-poor and environment-friendly technology in areas such as soil and water conservation, pest management and energy,
- Addressing land tenure issues.
Land tenure systems should provide adequate incentives for the sustainable management of natural resources and investments in land improvements,
- Strengthening community based institutions for natural resource management.
Community based institutions and resource user groups play an essential role in the management of common property resources,
- Conserving biodiversity
The creation of protected wildlife reserves contributes to the global effort to conserve biodiversity, but may impose significant costs on the users of these areas. It is essential to share the costs of environmental protection in an equitable manner by compensating local communities and developing livelihood alternatives. Protected areas may also provide valid opportunities for livelihood diversification,
- Tackling global environmental problems
The EC actively supports international initiatives to address global environmental problems, such as global warming, which pose a major threat to rural production systems and the rural poor.

7.5. Managing risks and providing safety nets

The rural poor are exposed to a large number of risks related to climate, disease, markets and conflicts. Their ability to cope with shocks is particularly limited because there are few safety nets and reserves to draw upon. In order to survive shocks rural households are often forced to draw down assets, accumulate debt and curtail investments, which results in a long lasting deterioration in living conditions.

The EC will support several types of action to manage risks, and to lessen the impact of shocks:

- **Actions to reduce risks**

For example, the provision of preventative health care, safe drinking water, flood prevention measures, pest control and drought tolerant crop varieties.

- **Actions to mitigate risk**

For example, crop and income diversification, strengthening savings and credit institutions, establishing grain banks, promoting insurance markets, and supporting community institutions providing social protection functions.

- **Safety nets**

Safety nets are required to provide a cushion against shocks when community coping mechanisms break down. The EC will provide targeted financial assistance (through government budget if the necessary conditions are in place) and food aid where it is the appropriate response to the problem (in certain circumstances to save lives, protect livelihoods and preserve assets). Food aid is not only an essential element of safety net strategies for particularly vulnerable sections of the population, it can also be used (i) in complementarity with or following the retreat of ECHO, (ii) as a contribution to strategic reserves, and (iii) for linking relief, rehabilitation and development operations. The EC gives priority to local and regional purchases in view of avoiding market distortion and preserving consumption habits.

- **Rationalisation and improvement of early warning systems**

Considering the importance of rapid early warning and accurate information, but recognising at the same time the existence of too many and often competing systems, it is not sufficient to improve early warning systems in applying the most recent technical development. The EC will provide assistance to rationalise existing systems and focus support on institutions and organisations offering the best comparative advantage.

7.6. Building more effective, accountable and decentralised institutions

Rural areas are covered by a great variety of institutions operating in the public, private and non-governmental sectors, as well as at the community level. While these institutions are essential for poverty reduction and sustainable natural resource management, there are major deficiencies in terms of coverage, effectiveness and accountability. The EC will support institutional development through actions in the following areas:

- **Decentralisation**

The EC considers decentralisation to be one of the most essential elements of rural development to foster dialogue and understanding between the central, regional and local levels in order to ensure greater ownership of policies/strategies and to promote democratic processes at the grassroots level. In principle, local government is in the best position to respond to local needs, to work with local communities, to plan local development activities and coordinate interventions in different sectors, to implement development programmes and to deliver local services efficiently. In practice, the success of decentralisation depends on the existence of local capacity, the strength of local democracy and accountability and adequate links to the central level. The EC will in particular support genuine decentralisation policies aiming at transferring political power, capacity and budgetary resources (or the possibility of raising revenues) to the lower levels of the administration and civil society.

- **Public sector institutions**

The main priorities for EC support will be to strengthen government capacity to formulate and implement development programmes, and to refocus service provision on public goods and poverty reduction. In order to deliver services to the poor in the most cost effective way the EC will encourage governments to work in partnership with NGOs, private companies and other service providers.

The EC will encourage public agencies to become more demand driven, accountable and responsive to the needs of the poor. This will require support for institutional reform (including civil service reform), human resource development, greater openness and changes in working practices, in particular the introduction of more participatory working methods.

- **Private sector institutions**

The EC will support measures to encourage the growth of private sector service providers. This requires an appropriate legislative and regulatory framework, as well as the provision of key public goods, such as infrastructure, market information and quality controls. The EC will support actions to develop the capacity of private sector organisations, such as producer and marketing association, which play a key role in rural development. The EC will encourage public-private partnerships in the delivery of services, for example in the area of agricultural research and extension.

- **Community based institutions**

Community based institutions play a vital role in local decision making, and in managing local development activities and common property resources. EC support will focus on strengthening the capacity of community based institutions, and enhancing their role in the planning and implementation

of development activities. The EC will also explore opportunities to develop community driven funding instruments, such as village funds and social funds.

- **Civil society organisations**

Non governmental organisations and other civil society organisations (CSOs) have a proven record in delivering services to the poor and play an important role in community development work. CSOs are also important actors in the context national political debate as well as in decentralised government systems. Moreover, they have a pivotal role to play in supporting local communities to articulate their needs vis-à-vis local administrations and monitoring the use of financial resources. Considering their crucial role, CSOs will continue to be essential partners in EC rural development strategies

8. The EC Strategy for Rural Poverty Reduction

The EC's strategy for rural poverty reduction will focus on the six policy objectives detailed in sections 6 and 7 above. It will address key policy and institutional issues, promote investment in the rural space and intervene at three main levels: national, regional and international. At each level the EC will concentrate its support on actions where it can offer added value, and where it can achieve a lasting impact on poverty in a cost-effective manner. EC priorities will take due account of the varying problems and specific objectives within the different regions of the globe (see Annex 4).

The main thrust of the proposed EC strategy for rural poverty reduction is to ensure that rural development concerns are properly addressed within the country's poverty analysis as a first step to formulate a comprehensive national development strategy. Further in the process, rural development concerns have to be integrated into the macroeconomic framework and all relevant sector policies and strategies. Finally, rural development concerns and priorities need to be reflected in the government budget (including donor support) and the services provided by the public sector. Decentralisation processes play a key facilitating and catalysing role in this context.

8.1. Guiding Principles

The following principles will guide all EC actions in support of rural poverty reduction:

(A) Impact on poverty

All interventions will be appraised according to their impact on poverty. This assessment will take account of the multidimensional nature of rural poverty, and in particular the six aspects of poverty identified in section 3. Tackling food insecurity will be given particular attention where it is the most urgent need of rural populations.

In order to enhance the impact of EC aid on rural poverty, the EC will base its country programming on a detailed analysis of the country's poverty situation (with due attention devoted to rural areas) providing sufficient information on the geographical distribution and specificities and the underlying causes of poverty. The EC will increase its efforts to assess programme performance through the systematic use of poverty indicators in monitoring and evaluation.

(B) Gender equality

EC actions will address the particular disadvantage experienced by women in rural communities. This will include actions targeted at improving women's access to assets and services, strengthening women's economic opportunities and empowering women's groups in decision making. In addition the EC will mainstream gender equality into all areas of policy making and programming.

(C) Mainstreaming environment

The EC will introduce environmental assessments into many aspects of development policy making and programming as indicated by the recent Commission Staff Working Paper on Integrating Environment and Sustainable Development into Economic and Development Cooperation Policy⁷.

(D) Long term approach

The EC recognises that rural poverty is a deep-rooted phenomenon that can only be addressed through long-term commitment and support. Consequently, EC support will be focused on long term strategies for rural poverty reduction. The EC will continue to provide short-term relief during humanitarian emergencies, but this will always be linked to a longer-term strategy for rehabilitation and development.

(E) Financial sustainability

Many donor-supported actions in rural areas have not proven to be sustainable beyond the period of donor funding. In order to address this critical problem the EC will emphasise the importance of strengthening local institutional capacity and putting in place sustainable funding arrangements (including the possibility of raising local revenues). The EC will avoid funding actions where there are low prospects for sustainability.

(F) Supporting nationally owned strategies for rural poverty reduction

The EC will progressively move away from supporting standalone projects towards a more comprehensive approach based on sector wide programmes and national development strategies or poverty reduction strategies.

(G) Subsidiarity in planning and implementation

The EC will encourage the decentralisation of planning, administration, resource allocation and service provision to the lowest level of government capable of carrying out these functions.

(H) Stakeholder participation

The EC will encourage broad stakeholder participation in the design, implementation, monitoring and evaluation of development policies and programmes.

8.2. Country programming

The EC will support actions for rural poverty reduction as part of its wider country strategies as outlined in the Country Strategy Papers (CSPs). These strategies need to be informed by a detailed analysis of the country's poverty situation with a particular focus on rural areas and government policies and strategies. It is crucial that this analysis looks at the root causes of food insecurity and brings the issues of food availability, access to food, responses to food shortages and nutritional problems to the heart of poverty reduction.

Finally, natural resources management and environmental concerns have to be covered in order (i) to identify and avoid harmful direct and indirect environmental impacts of co-operation programmes, which can undermine sustainability and counteract achieving the development co-operation objectives, and (ii) to recognise and realise opportunities for enhancing environmental conditions, thereby

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Communication from the Commission to the Council, the European Parliament and the Economic and Social Committee on Integrating environment and sustainable development into economic and development policy "Elements of a comprehensive strategy" COM (2000)264, 18 May 2000

bringing additional benefits to development and economic activities and advancing environmental issues that are a priority for the EC.

Annex 3 presents a methodology to guide the process of country analysis with a view to informing National Poverty Reduction Strategies, EC Country Strategies and where required, national rural development strategies.

The following processes and approaches will be used and supported, applying the whole range of EC financial instruments, including geographical and thematic budget lines.

- **National Development Strategies /Poverty Reduction Strategies**

The EC will increasingly engage in supporting the formulation and implementation of national development strategies or poverty reduction strategies through policy dialogue, the provision of technical assistance and finance. The EC will pay particular attention to the treatment of rural poverty; food security and environmental concerns and will encourage a broad debate on the whole range of policy, institutional and public expenditure issues that are relevant to rural poverty reduction as outlined in section 7 above.

- **Rural Development Strategies**

In the absence of comprehensive national development strategies, and in countries highly dependent on the rural economy for the social and economic development, there is a case for the formulation of rural development strategy to provide a coherent strategic framework for efficient and co-ordinated interventions in the rural space (see Annex 3).

- **Sector wide approaches (SWAPs)**

The EC will increasingly provide its development assistance in support of sector wide programmes through budgetary support. In order to ensure the effectiveness of this form of assistance in tackling rural poverty, the EC will pay particular attention to sector policy analysis, key sector policy and institutional reforms, public expenditure management and monitoring of sector programmes performance.

The EC recognises that certain conditions must be in place before sector programmes and budgetary support can be introduced. The approach can only be successful where there is strong partnership between government and donors built on recipient country ownership, broad stakeholder participation in the setting of priorities, adequate standards of public accountability and sufficient administrative capacity to formulate, implement and coordinate sector wide programmes. Consequently, sector wide approaches will be adopted gradually as conditions allow. In the meantime, the EC will be active to promote the creation of the necessary legal, institutional, budgetary and financial environment.

To be responsive to the needs of beneficiaries and effective in tackling poverty, SWAPs must include an active role for local government and local communities. Communities must be involved in planning and monitoring the use of resources, while local administrations must be allowed to coordinate support channelled through different sector programmes at the local level.

- **Project approach**

The EC will continue to finance development projects where sector wide approaches are not feasible or are in their infancy. The main focus of rural development projects is likely to be on i) pro-poor infrastructure and service provision, ii) institutional and policy reform, iii) institutional capacity building, and iv) local government programmes. However, even where a project approach is retained, the EC will actively pursue sectoral coordination with government and other donors in view of developing gradually common approaches and implementation procedures.

- **Support to civil society organisations**

The EC will directly support civil society organisations working with the rural poor, including NGOs, producer associations, trade associations and community based organisations. These organisations play an important role in supporting community-led development initiatives and building community institutions to empower the rural poor. In many areas civil society organisations are the only service providers capable of reaching the rural poor. In addition to funding civil society organisations directly, the EC will also encourage their participation in government-led projects and sector wide programmes.

8.3. Actions at the regional level

Increased regional trade and economic co-operation is a promising path to enhance economic growth and international competitiveness with a direct impact on the rural economy of developing countries. It helps in creating conditions to address critical problems affecting the region as a whole such as employment, income generation, human development and hence poverty reduction, provided it is designed in a manner that benefits the majority, the informal sector and the rural populations.

The European Community has considerable experience to offer and financial assistance at its disposal to encourage regional integration and to help countries to tackle cross border challenges. EC regional funds will be used to support the following priorities for rural poverty reduction:

- (1) Increased economic integration and the establishment of free trade areas, such as the Economic Partnership Agreements provided for under the Cotonou Agreement,
- (2) The regional harmonisation of food security and agricultural policies,
- (3) Regional agricultural research initiatives and the development of regional centres of excellence,
- (4) Regional infrastructure,
- (5) Animal health and disease control,
- (6) The management of shared natural resources and cross border environmental problems, including issues of land degradation and disaster prevention,
- (7) Managing international migration,
- (8) Capacity building, networking and exchanges.

8.4. Actions at the international level

At the international level the EC will continue to promote and facilitate processes in favour of a more equitable economic and social development. It will in particular support the provision of global public goods related to rural poverty reduction:

- (1) Global agricultural research with particular emphasis on genetic resources collection, conservation, management and improvement and policy research,
- (2) Effective and equitable systems for the protection of intellectual property rights in the context of the TRIPS agreement,

- (3) Actions to combat the main communicable diseases,⁸
- (4) Implementation of the multilateral environmental agreements by mainstreaming global concerns and objectives into national development / sectoral strategies and helping developing countries to meet their commitments,
- (5) Promotion of international commodity agreements as a means for dialogue and coordination among the main market partners (producers/exporters and importers/consumers),
- (6) Sharing knowledge related to rural poverty reduction and poverty/environment links.

9. Policy Coherence and complementarity

9.1. Policy coherence

In addition to development cooperation, many other areas of EU policy are relevant to rural poverty reduction and sustainable development, including trade, agriculture, fisheries, food aid, research and technology development, environment, conflict prevention and migration. It is essential to ensure that all EU internal and external policies are coherent and mutually supportive of sustainable development and poverty reduction objectives. To this end, and in accordance with the conclusions of the Göteborg European Council, a Sustainability Impact Assessment will be carried out for all major internal and external policy proposals, analysing their economic, social and environmental consequences. Also, the process of adapting key EU policies, such as CAP and CFP, should be continued. The most important coherence issues relating to rural development are briefly discussed below:

Trade and development

Many developing countries continue to be heavily dependent on the production of primary commodities as a result of their historical legacy, failed development strategies and the trade policies of OECD countries. This dependence on a limited number of primary commodities makes developing countries very vulnerable to volatile prices, and has resulted in unsustainable natural resources management. The declining terms of trade for primary products has further weakened the already vulnerable position of developing countries.

There are a number of areas where development cooperation will continue to help developing countries break out of this dependence. EC will in particular:

- promote diversification and local processing in order to add value to local production,
- play a role in international negotiations aiming at stabilising commodity markets and developing international mechanisms for the management of market risks,
- enhance regional cooperation, trade and economic integration aiming at reducing developing countries' dependency on OECD export markets and improving their competitiveness,
- promote DC's sectoral policies and strategies which take into account world markets' constraints and opportunities and access to market information,
- build capacity and provide assistance for improving DC's legal and regulatory frameworks and strengthen their negotiating capacity in international fora.

⁸ See Communication of the Commission to the Council and the European Parliament on Accelerated action targeted at major communicable diseases within the context of poverty reduction, COM(2000)585, 20 September 2000

However, for development cooperation efforts to be effective, they need to be accompanied by endeavours to increase the coherence between EU trade and development policies. Despite the fact that considerable progress has been made over recent years (e.g. the EC-led EBA initiative, GSP, quotas and trade preferences for ACP states), the EU will further strengthen coherence by measures to increase export opportunities for developing countries and to improve their ability to integrate into the multilateral trade regime. Particular attention will be given to the following:

- special and differential treatment of developing countries in the new round of WTO negotiations is required to take account of their specific needs and constraints,
- non-tariff barriers such as EU health and safety standards must be made predictable and non-discriminative while leaving time to developing countries to adapt their regulatory frameworks as well as their production, marketing and quality control systems,
- WTO rules on intellectual property must ensure an appropriate balance between the commercial rights and the rights of developing countries and vulnerable communities with particular regard to genetic resources,
- access of developing countries to as broad a range of genetic resources as possible, and fair benefit from sharing their own genetic resources,
- development of legal and market based tools to promote sustainable forests management and trade in forest products from sustainably managed forests.

Common Agricultural Policy

OECD countries' agricultural policies impact negatively on developing countries' rural economies basically in two ways: (i) by restricting access to products originating from DCs which compete with OECD production, and (ii) by subsidising exports, which in a depressed market, reach DC's markets below local production costs and compete directly with local production (milk and derived products) or indirectly through substitution of locally produced food stuff (cereals, meat). More generally, developed countries' internal and external support for agriculture, (i) artificially increases world market supply, (ii) depresses prices and, (iii) increases the volatility of world market prices.

The EC has already made considerable progress in a number of areas. In particular: since 1992 the Common Agricultural Policy (CAP) has been substantially reformed; food aid has been fully disconnected from the disposal of agricultural surpluses and is now totally integrated within the EC development policy. As a result, the quantity of EC food aid has considerably declined, reflecting a shift in emphasis from food aid to food security, and from food aid in-kind to financial assistance. Similarly, the amount of subsidies for agricultural exports is gradually declining thanks to a combination of reduced exports and the development of the Euro/US Dollar exchange rate.

The new round of WTO negotiations on agriculture will offer new trading opportunities for developing countries provided OECD countries are ready for concessions, and this in recognition of the fact that fair international trade is mutually beneficial for developed and developing countries' economies. To this end, the EU has proposed *inter alia*⁹:

- the extension of free access for all LDCs' products (as provided under the EBA initiative) to all OECD countries,
- that developed countries and the wealthiest developing countries should provide significant trade preferences for developing countries and in particular the least developed ones,

⁹ WTO negotiations on Agriculture: Outline of the EC comprehensive negotiating proposal – Council Conclusions 13656/00 (20 and 21 November 2000)

- that domestic support measures to safeguard the livelihoods of rural communities and to enhance food security of developing countries as a means of poverty reduction, should, where appropriate, be covered by the green box and hence be exempted from reduction commitments,
- to devise means aiming at ensuring that trade preferences are made stable and predictable so as to encourage investment in DCs agriculture.

The production and export of a wider range of primary and processed agricultural products from developing countries would be further boosted if the General System of Preferences would be revised to provide more favourable access to OECD markets.

Development co-operation can assist in this transition by helping DCs to restructure and adapt their agricultural sector policies and strategies and review their fiscal and trade policies with the objective of providing a coherent and stable framework of incentives for producers to seek market opportunities on local, regional and international markets.

Common Fisheries Policy

The Commission's Communication on "Fisheries and Poverty Reduction"¹⁰ and the relevant Council conclusions urge the Commission (i) to put more emphasis on the Fisheries sector in developing countries where fisheries play an important role in the context of social and economic development (inclusion of the fisheries sector in country and regional support strategies) and (ii) take into account objectives of sustainable development and the fight against poverty in implementing Common Fisheries Policy interventions, which are likely to affect developing countries. This provides a solid basis to improve the coherence between the objectives of EC development cooperation and the external dimension of the Common Fisheries Policy. It permits in particular:

- to strengthen developing countries fisheries policies and resources management (both at national and regional levels),
- to enable developing countries to make appropriate use of their fisheries resources and to promote their increased participation in international trade,
- to ensure that the EC Fisheries Agreements are coherent with developing countries' fisheries policies and objectives of sustainable resources management.

More progress is however needed:

- to establish (through negotiations with coastal developing countries) transparent and non-discriminatory rules to ensure fair competition over access to surplus resource between EU and non-EU distant fishing fleets,
- to reform the Common Fishery Policy including its financial instruments with the objective to enhance the sustainability of fishing objectives beyond Community waters

¹⁰ Communication From the Commission to the Council and the European Parliament on Fisheries and Poverty Reduction, COM (2000) 724, 8 November 2000

9.2. Complementarity with EU Member States and other major donors

The notion of complementarity implies joint donor support to national efforts to design and implement a common framework of co-operation to which the major donors can adhere. As a general principle, the EC promotes the “lead-donor approach” by which a given donor in a given country takes up the role of co-ordinating the donor side and acts as the main interlocutor for the national authorities.

In countries where rural development is chosen as a focal area for the Commission’s country support strategy, the EC stands ready to lead in assisting the government to carry out the necessary analytical work (poverty, food security and environmental profiles) and in formulating the appropriate national framework to ensure coherent intervention (clear priorities in terms of policy/institutional reform, investment and services) within the rural space. In the case of national poverty reduction strategies, this role would consist in ensuring that the rural concerns are properly addressed.

ANNEXES

ANNEX 1 – The changing context of rural poverty

1) Changes in the global economy

- Globalisation

Although rural areas in developing countries are becoming more integrated into global trade and investment, the process of globalisation is uneven. In particular, the Least Developed Countries and despite the Commission's "Every But Arms" initiative are still largely excluded from global markets, and account for less than half of one percent of world trade.

- Privatisation

Many developing countries have made substantial progress in liberalising and privatising their economies. The rural poor live in a new situation where the role of the state has been reduced and the involvement of the private sector is gaining importance. Although there have been many benefits, the private sector is still predominant in easily accessible areas.

2) Socio-economic changes

- Urbanisation

By 2010 the number of urban dwellers will exceed the number of rural dwellers for the first time in human history. Rural areas will be affected by increasing outmigration to urban areas with major impacts on labour availability and family structures. Rural areas will benefit from the growth of urban markets and the inflow of remittances sent home by migrant workers.

- Diversification of rural livelihoods

The rural poor depend on multiple income sources, and engage in both farm and non-farm activities. In many rural areas agricultural production accounts for a declining share of the local economy, and the non-farm sector is growing in importance.

- HIV/AIDS

In 2000 there were 36 million people infected with HIV/AIDS, and 3 million deaths, mainly in Sub-Saharan Africa. The impacts on affected rural communities are devastating, and include the loss of adult providers, increased health and funeral costs, the withdrawal of children from school, the sale of productive assets, the accumulation of debt, the weakening of community institutions and general economic decline.

3) Political trends

- Decentralisation

Many developing countries have embarked on decentralisation programmes to transfer administrative, decision making and fiscal functions from the centre to local levels. The aim is to make government more responsive to local needs, to increase the efficiency of service delivery and to enhance participation and accountability.

- Civil society participation

In many developing countries, civil society organisations are playing an increasing role in policy dialogue and the delivery of services to the poor. Civil society refers to a broad range of non-state actors including NGOs, community based organisations, producer and trade associations, trade unions, the media and academia.

- Conflict and insecurity

Armed conflict has a hugely destructive effect on rural communities

4) Environmental problems

The ecosystems that are the basis of rural livelihoods are increasingly heavily exploited, resulting in a number of environmental problems including land degradation, deforestation, overgrazing, overfishing and the loss of global biological diversity. Many countries are experiencing increasing water scarcity, which limits their potential to expand irrigation. In addition, global warming is likely to result in changes in rainfall patterns, greater variability of climate and extreme weather events, increased flooding and sea level rise and significant changes in agricultural production patterns and agricultural risks.

There are close connections between environmental management and poverty reduction.¹¹ In favourable conditions a virtuous circle can develop where sustainable natural resource management contributes to rural poverty reduction, which in turn generates additional resources for investment in environmental improvements. However, the rural poor often face the opposite situation – a vicious circle of accelerating environmental degradation and deepening poverty. The rural poor are particularly affected by environmental degradation for several reasons:

- They are particularly dependent on the direct utilisation of natural resources, such as soil, water, forests, pastures, fisheries and biodiversity, and therefore suffer most when these resources are degraded.
- They are vulnerable to natural disasters. Environmental degradation processes, such as deforestation and soil erosion, increase the likelihood of natural disasters.
- They are often exposed to water pollution, and are in the weakest position to mitigate the effects.

Rural poverty, in turn, contributes to environmental degradation processes:

- Because the poor tend to be preoccupied with their immediate survival needs they are often unable to manage natural resources for long term sustainability.
- As a result of population growth and migration, the rural poor are increasingly concentrated on marginal lands (e.g. mountain slopes and drylands) that are particularly vulnerable to degradation processes.

Although poverty is a major cause of unsustainable natural resources management, it must be recognised that environmental degradation is also caused to a great extent by the non-poor, who consume many more resources than the poor. Commercial interests are also responsible for large scale environmental damage, such as tropical deforestation, cattle ranching and overfishing.

¹¹ World Bank/DfiD/UNDP/ EC Poverty & Environment Paper (January 2002)

ANNEX 2 - Changing approaches to Rural Development

Over the past forty-five years, rural development constituted one of the main priority areas for EC Development Cooperation. Within the European Community's Development Policy (COM (2000) 212), food security and sustainable rural development strategies is one of the six priority activities for Community Development Aid.

On average, rural development accounted for roughly 25% of the Commission's overall development assistance. During the 80's, with massive support provided to large integrated rural development programmes, the rural development share represented more than 50% of total aid. During the 90's this share dropped sharply below the 10% line.

Over the same period, the approach to rural development has constantly evolved:

The 60's were dominated by uncoordinated piecemeal interventions with a focus on agriculture and the various sub-sectors and hardly any link to other major sectors. Stand-alone projects were the main aid delivery tools. Sector policy and institutional issues were taboo.

During the 70's considerable efforts were made to increase the links between agriculture, transport and the social sectors. With regard to agriculture and its different sub-sectors, the focus was increasingly on farming systems and crop diversification. Massive support was provided to the development of cash and export crops. In terms of aid delivery, there was a shift from stand-alone projects to more comprehensive development programmes. Policy and institutional issues were addressed through ad-hoc donor conditionality.

During the 80's support to rural development was mainly provided through large-scale, area-based Integrated Rural Development Programmes. This multi-sectoral approach applied by most of the major donors, made it possible to address in a coherent manner the whole spectrum of constraints and to seize the various development opportunities. But at the same time this approach overstretched the managing capacity of developing countries and resulted in heavy and unsustainable technical assistance and donors driving the rural development agenda in their respective "zones of influence". Under these circumstances, it was also difficult to establish a common and coherent dialogue with national governments on policy and institutional reform.

With the arrival of increasingly comprehensive national development frameworks **over the 90's**, conditions are ripe to adopt a mainstream approach to rural development i.e. to work within existing or emerging frameworks of policies, strategies and institutions and to incorporate rural poverty reduction, food security and sustainable natural resources management objectives.

The proposed Communication to Council and Parliament reorients the Commission's working practices towards a mainstream approach to rural development.

The main thrust of the proposed EC strategy for rural poverty reduction is to ensure that rural development concerns are properly addressed within the country's poverty analysis as a first step to formulate a comprehensive national development strategy. Further in the process, rural development concerns have to be integrated into the macroeconomic framework and all relevant sector policies and strategies. Finally, rural development concerns and priorities need to be reflected in the government budget (including donor support) and the services provided by the public sector.

National development strategies, poverty reduction strategies or rural development strategies will constitute the strategic frameworks for analysis and strategy formulation. Sector wide approaches and decentralised cooperation will be the main delivery tools. Privatisation and market liberalisation will require a redefinition of the role of the state.

- **National Poverty Reduction Strategies**

Many developing countries have prepared Poverty Reduction Strategy Papers (PRSPs) that define an overall policy and public expenditure framework for poverty reduction covering all sectors. A key aim has been to formulate comprehensive poverty reduction strategies on the basis of principles of national ownership, broad stakeholder participation and partnership between governments and donors. The early experience of PRSPs has been promising, but there is a need to take more specific account of the rural dimensions of poverty and problems of natural resource degradation.

- **Sector Wide Approaches**

Donors are moving away from funding standalone projects towards supporting sector programmes covering all financing requirements of a particular sector, as well as policy and institutional reforms. The sector wide approach offers important advantages over traditional projects in terms of building country ownership, strengthening donor coordination and addressing sector policy and public expenditure issues in a more comprehensive way. It also provides an appropriate framework for budgetary support. It is expected that donor support for rural development will increasingly be channelled through sector programmes in key sectors such as agriculture, health, education, transport and natural resources management. This will require the mainstreaming of rural poverty reduction and sustainable natural resources management objectives into the design of each sector programme, and the effective coordination of programmes in different sectors.

- **Decentralisation Processes**

Decentralisation plays a key role in achieving coordinated rural development at the local level. It involves the decentralisation of political power, decision making and budgetary resources and it is essential for improving national policies and strategies. Local government is in the best position to respond to local needs and to coordinate interventions in different sectors that reach the local level.

- **Redefining the Role of the State in Rural Areas**

Many developing countries have implemented privatisation programmes and liberalisation measures that aim to encourage private sector development and foreign investment. The state has withdrawn from many areas of service provision and production, and is increasingly focused on the provision of public goods. In principle, these reforms offer important benefits for rural poverty reduction by providing a foundation for market led development, encouraging private investment, reducing the wasteful use of public resources and allowing governments to concentrate expenditure on public goods provision and poverty reduction.

In practice, the impact of privatisation and liberalisation on rural poverty has been mixed. The ability of the poor to take advantage of opportunities in the market depends very much on their access to productive assets. The development of the private sector has also been uneven, and has concentrated on the most accessible and densely populated areas. In remote areas the private sector is undeveloped as a result of high transport and transactions costs and weak demand. Market failures, such as information problems, externalities and barriers to entry, are particularly prevalent in rural areas. This means that there is often a lack of competition, and that certain markets may be absent or inaccessible to the poor.

The experience of liberalisation indicates that governments must take an active role in creating the conditions for market development. This includes building and maintaining infrastructure to improve market access, providing market information, monitoring and enforcing quality standards, providing an enabling regulatory environment and putting in place a legal framework to enforce contracts. There is also a need to safeguard the provision of services that are particularly important to the rural poor where private sector services are unavailable, inaccessible or unaffordable.

ANNEX 3 – Integrating rural development objectives into country programming

A methodological guide for country analysis

This annex presents a methodology to guide the process of country analysis with a view to informing National Poverty Reduction Strategies, EC Country Strategies and where required, national rural development strategies.

The EC will support actions for rural poverty reduction as part of its wider Country Support Strategies. These strategies need to be informed by a detailed analysis of the country's poverty situation with a particular focus on rural areas and government policies and strategies as defined in the country's strategic development framework.

The EC will pay particular attention to the treatment of rural poverty, food security and environmental issues. It will encourage a broad debate on the range of policy, institutional and public expenditure issues that are relevant to rural poverty reduction as. In the absence of comprehensive national development strategies, and in countries highly dependent on the rural economy for the social and economic development, there is a case for the formulation of rural development strategy to provide a coherent strategic framework for efficient and co-ordinated interventions in the rural space.

Proposed roadmap

Step 1: Rural poverty/food security profile

Key issues to be looked at are: main socio-economic and natural resources indicators, livelihood analysis of the main rural population groups as well as the groups to be targeted by the rural development strategy.

1.1. Rural areas and rural populations

- Short presentation of the main features of rural areas (agro-ecological zones, main resources of rural areas and main economic activities, etc.) and of the rural population as a whole (share in the total population, poverty dimensions, etc.).
- Main trends and issues regarding rural population livelihood outcomes (income, well-being, vulnerability to risk, food security, sustainability of natural resources management).

1.2. The main rural groups and their livelihoods

- Short presentation of the main rural population groups and of the salient features of their livelihoods.

1.3. The rural groups to be targeted by a Rural Development strategy

- Identification of the rural population groups targeted by the Rural Development strategy, including their location and size.
- Description of the livelihoods of these population groups (assets, strategies, outcomes) and of the related trends and shocks. In this description, attention will be given to developments that take place outside the main activities of the given populations, but that they make a significant contribution to their livelihood. This description will be summarised in a table complying with the model of table 1 of the guidelines.
- Reasons underlying the choice of these target groups.

Step 2: Assessment of rural institutions. This will include a comprehensive assessment of the political, legal, administrative, economic and social institutions affecting rural areas, as well as gender relations, ethnicity and important social and cultural practices. It will indicate how far and through which mechanisms each given element impacts on the livelihood of the targeted rural population groups:

- Political and administrative structures
- Law, regulations and practices governing the distribution of assets among rural households and within households

- Social and cultural practices, special attention being given to those practices which lead to discrimination based on gender, religion, membership of an ethnic group or occupational status
- Market institutions and mechanisms for inputs and outputs
- Taxation

Step 3: Analysis the causes of rural poverty and development opportunities. On the basis of the six aspects of rural poverty identified in section 4 of this communication, this step will diagnose the problems facing different groups of the rural poor, and will identify development opportunities. Problems will be ranked in relation to their acuteness and the breadth of their impact.

This section will:

- Identify the problems that impact on the outcome of rural livelihoods,
- Assess the relevance of these problems for the population groups targeted by the rural development policy,
- Evaluate the acuteness of these problems, that is on the one hand their seriousness, and on the other hand the size of the affected population groups,
- Survey the current trends relative to the seriousness of these problems (improvement or aggravation),
- Assess the breadth of the problems' impact on livelihood outcomes,
- Pinpoint the problems whose negative impact is mutually reinforcing and should therefore be tackled in a co-ordinated approach,
- And finally list the problems which a rural development strategy should aim at alleviating or removing.

Step 4: Assessment of policies and programmes addressing rural poverty. This will examine the role of existing government policies and programmes addressing rural problems and fighting rural poverty. It will also include an assessment of existing projects and programmes in rural areas funded by the EC and other donors. Because of the very diverse nature of the problems that affect rural livelihood outcomes, the range of policies and actions to survey may be large and will not be restricted to the sole actions and policies dealing with agriculture, livestock, fishery or forestry.

As far as possible, the dimension of donors interventions will be assessed and put in relation with the magnitude of the problems being tackled in order to highlight the areas in which additional resources might usefully be mobilised. Success stories and failures, notably of EC interventions, will be analysed with the view to draw lessons for future interventions.

Step 5: Prioritisation of actions for EC support. The EC cannot address all problems facing rural areas, and must therefore carefully prioritise its actions in order to ensure the most effective use of limited resources in fighting rural poverty. EC actions will be prioritised according to the following criteria:

- Long lasting impact on critical problems facing the rural poor
- Actions where the EC can offer particular added value and experience (in particular sector programmes and decentralised support)
- Cost effectiveness in tackling rural poverty
- Nationally owned policy priorities as presented in the Poverty Reduction Strategy Paper or other national development framework
- Opportunities to support processes of policy and institutional reforms that are favourable to the poor
- Coordination with other donors, in particular the EU Member States and UN agencies

Should some of the interventions envisaged not meet the Government objectives or not be consistent with Government policies, the Profile should recommend a policy dialogue with the Government prior to any involvement of the EC in this area.

Detailed presentation of the EC priorities for rural development.

For the purpose of identifying specific areas of intervention and priority activities in the Country Support Strategy, it may be necessary to further develop the strategic orientations into the sectors and programmes to be financed and the most appropriate financial instruments to be used. In such an event the CSS will describe:

- The scheduling of the transition from the current EC activities to the activities proposed,
- The instruments that are the most appropriate for the financing of these activities,
- The identification of partners for the implementation of these activities and the forms of co-operation to develop with them,
- The means, in particular locally available means, that can be mobilised in support of these activities,
- The assumptions underlying the expected outcomes of these activities and the risks that may endanger these expectations,
- The monitoring procedures of these activities and of evaluation of their outcomes and a set of rural poverty indicators to be monitored

Ref: Guidelines for the formulation of RD strategies, Dec 2000. Programming guidelines for Rural Development, Nov 2001

ANNEX 4 - Regional Differences in Rural Problems

<p>Sub-Saharan Africa</p> <ul style="list-style-type: none"> • Economic stagnation and rapid population growth • Predominance of low-input, rainfed, subsistence agriculture with little application of improved varieties • Inadequate coverage of rural infrastructure • Very poor health and education status of rural populations • Poor coverage of services in rural areas • Weak administrative capacity • Governance problems and corruption • Accelerating land degradation on marginal lands • Severe impact of HIV/AIDS, especially in Southern and Eastern Africa • Inequitable land distribution in certain countries (especially Southern Africa) • Man made and natural disasters including drought, floods, pests, human and animal diseases, and conflict • Great distances to urban centers/markets and lack of economic infrastructure 	<p>South and Southeast Asia</p> <ul style="list-style-type: none"> • Increasing land scarcity, land fragmentation and landlessness • Rapid population growth • Environmental problems including land degradation on drylands and sloping lands, deforestation and salinisation of irrigated areas • Inequitable tenancy and sharecropping arrangements in certain countries • Weak management of irrigation schemes in several countries • Corruption • Natural disasters • Vulnerability of low-lying coastal regions to sea level rise
<p>Latin America</p> <ul style="list-style-type: none"> • Large inequalities in landholdings and inequitable sharecropping arrangements • Macroeconomic instability • Deforestation - conversion of forest for unsustainable cattle ranching • Natural disasters 	<p>Mediterranean</p> <ul style="list-style-type: none"> • Declining or stagnant agricultural sector • Increasing water scarcity • Land degradation
<p>Eastern Europe and Central Asia</p> <ul style="list-style-type: none"> • Incomplete transition from state ownership to private enterprise • Inefficient landholdings reflecting the legacy of collectivisation • Breakdown of social and economic institutions • Corruption and weak governance • Environmental problems (atmospheric pollution, soil contamination, negative impacts of irrigation schemes) • Great distances to urban centers/markets and lack of economic infrastructure 	<p>Caribbean and Pacific</p> <ul style="list-style-type: none"> • Lack of diversification and dependence on a few export commodities • Particular vulnerability to sea level rise. • Natural disasters • Water shortages