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**ANNUAL REPORT 2004 ON EC DEVELOPMENT POLICY AND EXTERNAL
ASSISTANCE**

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A. FOREWORD

This is the European Commission's fourth Annual Report on development policy and external assistance and the last of the Prodi Commission. It sets out the objectives agreed for 2003 and highlights progress against these.

The European Union is a world player in economic, trade and development terms. It accounts for 55% of global aid flows – about € 30 billion per year – of which more than a fifth is managed by the European Commission. This assistance is provided to more than 160 countries, territories or organisations worldwide. It is a tangible expression of the Community's commitment to the Millennium Development Goals, which centre on poverty reduction. Since 2000 the core objective of Community development policy has been to reduce and eventually eradicate poverty. Through its external assistance, the European Union demonstrates its support for the promotion and entrenchment of universal values such as democracy and human rights.

For 2003, the Commission set out to improve the global partnership between North and South, notably by delivering on commitments made in the 2002 UN conferences on Financing for Development in Monterrey and the Sustainable Development in Johannesburg and by using the framework of the Cotonou Agreement¹ to affirm Europe's solidarity with Africa. Moreover, the objective was to ensure that the positive effects of globalisation are shared evenly between and within countries, while respecting their cultural diversity and environmental heritage, and to work for a fairer distribution of resources between North and South.

2003 was also a significant year in terms of improving the coherence and impact of EC external assistance. The Commission pursued its reform of how it prioritises, organises and implements its programmes, and this began to deliver concrete results. Commitments and payments in both the budget and European Development Fund reached record levels in 2003. Devolution of day-to-day decision-making to delegations has made the Union's external assistance programmes more responsive to partner countries and other donors report markedly improved co-ordination. The devolution exercise will be largely complete by mid-2004. The quality of strategy documents, which serve to analyse the situation in a partner country and select the sectors on which aid should be concentrated, has also much improved.

Important steps were taken in 2003 to overhaul the Union's Common Agricultural Policy in order to minimise its distorting effects on international trade and to promote both a more development friendly approach and improved coherence between the EU's agriculture and development policies in line with aspirations for the WTO Doha Development Round. Further reforms are in preparation for the sectors not yet affected, in particular cotton, tobacco, olive oil and sugar.

The EU's relations with its near neighbours were given new impetus and clearer definition in 2003. In December, the European Council agreed the principles of a new policy framework offering these countries a partnership aimed at sharing everything but institutions. The

¹ A multilateral agreement covering trade, development cooperation and political dialogue between the EU and 78 countries in Sub-Saharan Africa, the Caribbean and the Pacific signed in the year 2000.

European Neighbourhood Policy will ensure that following enlargement of the EU new dividing lines are not drawn on this war-torn continent between the 'haves' and the 'have nots'.

The year 2003 also brought an innovative leap forward in the Community's contribution to peace building in Africa. The Commission will be making a € 250 million contribution to an African Peace Facility. It will be based on the principles of: (i) ownership reinforcing the capacity of the African people to deal with African conflicts; (ii) solidarity through financial contributions from all African countries; and (iii) development recognising that without peace and stability there can be no development in Africa.

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1. THE EC COMMITMENT TO DEVELOPMENT CO-OPERATION

This Annual Report provides an overview of the European Community's policy initiatives and activities in the field of Development Co-operation and External Assistance in 2003. It intends to reach a widespread audience: the European Institutions themselves, Member State administrations, other agencies active in the

development and external assistance fields, partner countries and Europe's Non State Actors and citizens who, as taxpayers, help make this important effort possible.

Financial assistance is vital to achieve all the ambitious objectives which the developing countries and the donor community have set for themselves. The European Union as a whole is the world's largest donor in the development field, providing more than half of all global development assistance: over € 30 billion in 2003.

More than one-fifth of the European Union's total current aid budget is managed by the European Commission on behalf of the European Community. These funds come from the Community budget as well as the European Development Fund (EDF).

The geographical span of the Community's assistance programmes is also global - from the EU's immediate neighbours to small Pacific islands. This report accounts for the € 7.8 billion committed and the € 5.8 billion disbursed during the year 2003.

The objective of European Community development co-operation policy is to foster sustainable development designed to eradicate poverty in partner countries and to integrate them into the world economy. This can only be achieved by pursuing policies that promote the consolidation of democracy, the rule of law, good governance and the respect for Human Rights.

Ownership of these strategies by the partner countries - through strengthening the democratic system and extending participation to all segments of society - is the key to success. The Community attaches great importance to the quality of dialogue with each partner country to ensure coherence between policies pursued by that country and the Community's support operations.

The report provides an update on progress towards the strategic goals set by the EC and the achievements of the past year. The EC's strategic goals are based on the Millennium Development Goals (MDGs) agreed by the world's leaders at the Millennium Summit in September 2000, with the overarching objective of reducing world poverty by half by 2015.

The EC contributes to the achievement of the MDGs by focusing its assistance on six key areas where it can add particular value. The report analyses progress in these focal areas: the link between trade and development; regional integration and co-operation; support for macroeconomic policies and equitable access to social services; transport; food security and sustainable rural development; and institutional capacity building, in particular good governance and the rule of law. The promotion of Human Rights, equality between men and women, environmental sustainability and conflict prevention are cross-cutting issues that need to be integrated at every stage and within all of the Community's assistance programmes.

1.1. The link between trade and development

In November 2002 the Council of Ministers adopted conclusions on the Communication² on Trade and Development prepared by the Commission and this led to a series of EC initiatives during the year under review. The key objective of the Commission is to ensure that developing countries, especially the most vulnerable ones, capture important benefits from their participation in the world trading system. Accordingly, the Commission has been working to improve coherence between new WTO trade rules and the goals of development policy. Sustainability Impact Assessments (SIAs) are now regularly used to assess the potential economic, social and environmental impact of trade agreements at multilateral and at bilateral or regional level.

1.2. Regional integration and co-operation

EU policy regards regional integration of developing countries as an important step towards their integration into the world economy. Regional integration was therefore a key feature of EU support for the Mercosur initiative, the Central America Common Market (CACM) and the Andean Community, while regional co-operation efforts were stepped up in South-East Asia.

The EC was active in 2003 in promoting the concept of greater regional co-operation in the African, Caribbean and Pacific (ACP) countries covered by the Cotonou Agreement. By mid-2003 support strategies for six regions within the ACP group had been agreed, all including regional integration and trade as a focal sector.

The European Neighbourhood Policy reflects a new emphasis on partnership between the EU and Russia, the Western NIS and ten Mediterranean countries. In 2003, the Commission developed the concept of Neighbourhood Programmes bringing together both internal and external funding in a newly harmonised way.

1.3. Support for macroeconomic policies and equitable access to social services

The principle of direct budget support to help countries implement their poverty reduction strategies has been applied with considerable success in 2003. Budget support and macro-economic assistance are two different methods essential to the reduction of poverty; to support public expenditure on vital health and education services and to measure their results in practice.

A total of € 770 million was committed and € 390 million were disbursed in budget support to 19 ACP countries during 2003, supporting the implementation of the partner country government's own poverty reduction strategies, ensuring progress with public financial management reform programmes, and encouraging governments to focus on results.

Work in 2003 on the education component of the EC's development policy followed the strategy defined in the March 2002 Communication *on Education and training in the context of poverty reduction in developing countries*. The Commission played an

² Policy proposal from the Commission to the EU Member States and the European Parliament. [KOM(2002)513]

active role in the planning and launching of the international partnership for the Education for All Fast-Track Initiative, which aims at accelerating progress towards universal primary education in developing countries. Commitments in 2003 for country-specific education programmes and projects is a total of approximately € 250 million, of which approximately € 135 million was for ACP countries. These country-specific education programmes and projects cover basic, vocational and higher education programmes, each incorporated in the partner country's development programmes, and monitored through a set of indicators agreed on with the partner government.

The European Commission has kept progress towards health-related Millennium Development Goals – such as child mortality, maternal health and communicable diseases - as a high priority in its policy. This is reflected in programmed support to developing countries. The EC has also pledged € 460 million into the Global Fund to Fight AIDS, Tuberculosis and Malaria. The EU contribution (EC plus Member States) represents so far more than half of all resources already disbursed to the Fund.

1.4. Transport

Transport is an essential service to improving access to health, education, water and food security. It is one of the six priorities of EC development co-operation and the focal sector of 32 ACP country programmes and three ACP regional programmes under the 9th EDF, under which commitments to transport programmes in ACP countries and regions in 2003 totalled approximately € 500 million to be used for supporting policy and strategy reforms and network investments, mainly in the road sector.

Transport is also one of the priorities in the TACIS³ and Central Asia and Western Balkans regional Programmes. Under the name of TRACECA, the Commission supports the creation of a common transport corridor from Europe to Central Asia: in 2003 eleven projects were identified with a total budget of € 12 million. A Regional Balkans Infrastructure Study and a needs assessment of Aviation Safety and Air Traffic Control in the five CARDS Countries were also completed in 2003.

1.5. Food security and sustainable rural development

Rural poverty remains the dominant feature in both the incidence and depth of poverty in developing countries. In 2003 the Commission chaired a Task Force of EU Member States to draft a new land policy in support of developing countries. This lays the foundations for sustainable, participatory and pro-poor land policies and land administration systems built on the recognition of existing rights in local cultures and societies.

During 2003 the Commission contributed to the establishment of a Global Donor Platform for rural development with the participation of key bilateral and multilateral donors. The EC also started work on the establishment of a Strategic Partnership

³ The TACIS programme provides grant-financed technical assistance to 12 countries of Eastern Europe and Central Asia (Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan).

with key UN agencies such as the Food and Agriculture Organisation and the World Food Programme.

The Commission provided € 440.6 million via a specific EU budget line for Food Security and Food Aid budget line to 32 priority countries, mainly in Africa as well as to support key international organisations.

1.6. Governance, institutional capacity building and the rule of law

Good governance and the promotion of democracy have been identified by the international community, including the European Union, as critical factors in reaching the Millennium Development Goals. EC policy on governance, institutional capacity building and the rule of law has been addressed in a recent Communication on Governance and Development. The approach is a practical one and focuses on different types of situations, i.e. difficult partnerships, post-conflict situations and effective partnerships.

While continuing in 2003 to target its support to ‘good performers’ as a means of increasing aid effectiveness, the EC also takes the policy line that the populations in less performing countries should not pay the price for bad leaders. For reasons of solidarity, security, and long-term aid effectiveness, and instead of totally withdrawing from these countries, the Communication proposes to find alternative entry points and approaches to co-operation.

1.7. Scientific and Technological Co-operation in support of development

The 6th RTD Framework Programme (2002-2006) includes a component of research for development, entirely based on cooperation with Developing Countries.

1.8. Other EC Co-operation activities

Highlights of the year include the EC’s contributions to global initiatives and progress on commitments made at the Monterrey and Johannesburg conferences on sustainable and equitable development, as well as on the Doha Development Agenda of the WTO. The effects of the recent European Union enlargement - in terms of expansion of the donor community and the role of the new neighbours - are described in the annexes to this document.

2003 saw the completion of Mid-Term Reviews (MTRs) of Strategy Papers for the Mediterranean, Asian, Latin America, TACIS (Eastern Europe and Central Asia) and CARDS (Western Balkans) regions and the start of the process for the ACP countries. The aim of these MTRs is to maintain relevance and enhance responsiveness to evolving situations.

2. EFFICIENCY OF EC CO-OPERATION

Implementation of the external assistance reform process, which started in year 2000, continued in 2003. The transfer of management responsibilities to the EC Delegations in the recipient countries is well advanced, focus has shifted from inputs to results, and the reform has resulted in a simplification of procedures and a greater emphasis on the strategic planning and programming of external assistance. The

management capacity of the EuropeAid Co-operation Office has continued to improve, with particular emphasis on quality improvement and the enhancement of management information systems.

Co-ordinating development activities between partners, harmonising policies, programmes, procedures and practices, and maximising the development effectiveness of aid resources are all essential parts of the reform process. The Community has been actively promoting the implementation of the concept of “the Three Cs”: Co-ordination, Complementarity and Coherence.

3. THE EC’S GLOBAL REACH: ACHIEVEMENTS IN 2003 REGION BY REGION

The European Community is active in 140 countries and six regions of the world within the domain of the delivery of assistance: the Western Balkans; Eastern Europe and Central Asia; the Mediterranean countries; the Africa, Caribbean and Pacific (ACP) countries and Overseas Countries and Territories (OCTs); Asia; and Latin America. Full details including financial execution figures and commitments in 2003 can be found in the annexes.

Western Balkans

The strategic objective of Community actions in the Western Balkans, delivered via the CARDS programme, remains support for the Stabilisation and Association Process (SAP). The year 2003 confirmed a further shift in Community assistance from reconstruction and democratic stabilisation to other sectors more closely linked to the SAP reform agenda, i.e. administrative and institution capacity building, economic and social development, justice and home affairs, and closer alignment with EU acquis.

A total of € 620 million was committed and € 425 million disbursed in the Western Balkans region in 2003.

Eastern Europe and Central Asia

A key priority for 2003, with the prospect of enlargement of the Union in May 2004, was closer co-operation across the external borders of the Union. A new Strategy and Indicative Programme 2004-2006 for the TACIS Cross Border Co-operation programme, adopted in November 2003, sets out how this policy will be implemented on both sides of the eastern borders of the enlarged EU: in late-2003, the Commission started work on revision of the TACIS Regulation. It is important to accommodate the social consequences of transition, address the need for greater security in the nuclear industry, and ensure that the TACIS programme is well adapted to the emerging priorities of the European Neighbourhood Policy.

A total of € 504 million was committed and € 420 million disbursed in the Eastern Europe and Central Asia region in 2003.

Mediterranean and Near and Middle East

Activities in this region, implemented via the MEDA Programme, reflected the Barcelona process and the Neighbourhood Policy of the EC.

In 2003 the Community continued to support initiatives aimed at reinforcing sub-regional integration in areas such as trade, infrastructure networks and migration policy, along the lines of the Maghreb Arab Union (UMA) and the Agadir process. Promoting investment in the countries of the Mediterranean South is also a major challenge: in this respect, the ECOFIN Council of November 2003 proposed further development of the European Facility for Euro-Mediterranean Investment and Partnership (FEMIP).

The Naples Conference of December 2003 approved the creation of a Euro-Mediterranean Foundation to promote a dialogue between the cultures. In the educational field, the extension of the Tempus Programme to the Mediterranean countries will reinforce co-operation in the higher education and professional training fields. Finally, a co-operation programme in the justice and home affairs domain has been launched and specific projects on police training and cooperation, judicial training and cooperation as well as gathering and analysing information on migration flows in the Mediterranean area are being implemented.

A total of € 600 million was committed and € 498 million disbursed in the Mediterranean and Near and Middle East region in 2003.

African Caribbean Pacific Countries/Overseas Countries and Territories

The EU-ACP political dialogue set out in the Cotonou Agreement reflected issues of common concern including developments in Human Rights and democratic principles. The EC contributed to the peace-keeping efforts of the African Union and the Economic Community of West African States (ECOWAS).

The main sectors of intervention in bilateral co-operation programmes were transport, regional integration, rural development, macroeconomic and social sector support and other focal areas mentioned in section I. EC contributions to global initiatives such as the Heavily Indebted Poor Countries (HIPC) and the Global Fund for AIDS, TB and Malaria particularly benefited poor countries in sub-Saharan Africa.

On the trade front, negotiations for the conclusions of Economic Partnership Agreements (EPAs) started with regional groups – Central and Western Africa being the first. The objective is the establishment of a new trade regime with ACP countries after 2008. Another major EC initiative launched in 2003 – in response to the fact that almost 40% of people in sub-Saharan Africa lack access to safe water or adequate sanitation – is the € 500 million European Union Water Facility.

The year 2003 also provided an opportunity to reflect on the future development of the OCT-EC association. Twelve of the Overseas Countries and Territories which have been granted individual budget support for the period up to 2007 had submitted their draft programming documents by the end of the year.

Performance figures for the European Development Fund were especially strong, with an upsurge in primary commitments (€ 3.7 billion in total) and record levels of contracts signed (€ 3 billion) and payments effected (€ 2.5 billion).

Asia

In line with the European Union's co-operation strategy for Asia, practical co-operation was stepped up in the following fields: trade and investment, sector approaches for poverty reduction, good governance, Human Rights and democracy and conflict management. Economic relations with Asia were strengthened through regular dialogue at regional and bilateral level and were backed by co-operation programmes on an Asia-wide basis, as well as support for Trade Related Assistance (TRA).

EC strategy has increasingly focused on institutional capacity development through the delivery of trade-related assistance in line with the WTO Doha Development agenda, including assistance on public finance management. Good examples of practical co-operation are the five Asia-Wide programmes, targeting key areas of business investment and trade facilitation, urban development, higher education linkages and scholarships, accelerated use of information and communications technology, and promotion of environmentally friendly technological solutions.

A total of € 558 million was committed and € 470 million disbursed in the Asia region in 2003.

Latin America

The EC's co-operation with Latin America in 2003 follows on the conclusions of the 2002 Madrid Summit. This co-operation privileged three main activities during 2003: institutional and democratic reinforcement, modernisation of the state and human rights; social development, and development of the less prosperous regions; and trade-related assistance and regional integration.

The European Commission continued negotiations with the Mercosur countries in 2003, signed Political Dialogue and Co-operation Agreements with the six Central American countries and the Andean Community, and implemented an Economic Partnership, Political Coordination and Co-operation Agreement with Mexico and an Association Agreement with Chile.

A total of € 329 million was committed and € 280 million disbursed in the Latin America region in 2003.

4. SPECIAL FEATURE: PEACE AS A PRIORITY

The annex to this report accords special attention to an issue that has gained increased recognition within the development community, namely the link between governance, peace and security and development. It presents a thorough analysis of this interdependency and describes the steps the EC is taking to enhance standards of governance and security and, thereby, ensure a stable and peaceful environment for effective development.

5. ANNEXES (COMMISSION STAFF WORKING PAPER SEC(2004)1027)

The annexes conclude with analysis of progress on the MDGs, progress made in harmonisation of financial procedures and administration and a list of

Communications on development policy and external assistance prepared by the EC during the year.

Finally, in the financial annexes, DAC tables show the breakdown of commitments and payments in 2003. Moreover, all 2003 commitments are listed per region, in accordance with geographical and thematic budget lines.