

COMMISSION STAFF WORKING PAPER

COMMUNITY CO-OPERATION: FRAMEWORK FOR COUNTRY STRATEGY PAPERS

Preamble

Country Strategy Papers (CSPs) are an instrument for guiding, managing and reviewing EC assistance programmes. The purpose of CSPs is to provide a framework for EU assistance programmes based on EU/EC objectives, the Partner Country government policy agenda, an analysis of the partner country's situation, and the activities of other major partners.

The CSP should point to where Community assistance should be directed and how it integrates with what other donors are doing. CSPs will thus contribute to the better planning of co-operation activities, improved donor co-ordination/complementarity, and to the overall coherence of external assistance policy with other EU policies.

This paper was prepared as a follow-up to the Council resolution on Complementarity between Community and Member States' Development Co-operation, May 21, 1999 (document no. 118/99/DEVGEN). It is divided into three parts:

- The first part (section A) summarises the policy background to the use and function of Community CSPs.
- The second part (section B) outlines the common elements to be included in future Community CSPs.
- The final part (section C) summarises the main procedural steps involved in the formulation of future Community CSPs with particular attention to improving complementarity at donor level.

Two points should be made at the outset.

- CSPs provide an appropriate mechanism for enhancing the complementarity of the external assistance of the Commission and the Member States, in accordance with the Council "Complementarity Resolution" of May 1999. Furthermore, as the preparation of CSPs involves co-ordination with other external partners, even better complementarity can be achieved at the global level. They should therefore link with the World Bank Comprehensive Development Framework (CDF) initiative and with the World Bank/IMF sponsored Poverty Reduction Strategy where appropriate.

Better complementarity will result because the CSP process should both encourage and reflect a sensible division of labour with partners, in line with EU/EC and partner country priorities, as well as the institutional capacity ("ad hoc comparative advantage") and particular interests of donors.

- Under section B, the paper sets out the main elements which should be included in all CSPs. The structure of this section is flexible since the nature of the relationship with the EU will vary from country to country and region to region.

A. POLICY BACKGROUND FOR CSP FRAMEWORK

A.1. PARTNERSHIP STRATEGIES WITH DEVELOPING COUNTRIES

Article 177 of the EU Treaty sets out the three (3) broad objectives for Community development co-operation. These are:

- the fostering of sustainable economic and social development,
- the smooth and gradual integration of the developing countries into the world economy and,
- the campaign against poverty .

Furthermore, Community policy should also contribute to the general objective of developing and consolidating democracy and the rule of law, and encouraging the respect of human rights and fundamental freedoms.

Beyond these overarching Treaty objectives, regulations and international agreements based on geographical regions (ACP, ALA, MED) determine the specific EU/EC co-operation objectives. Clearly, different weights are given to different elements in each geographical programme depending on the specific political and economic relationships the EU has with the different countries and regions concerned. Nonetheless, strategy documents of the CSP type are an important tool in all these programmes :

- Relations between the countries of Africa, the Caribbean and the Pacific (ACP) and the EC are set out in the comprehensive trade and development framework of the Lomé convention. The proposed post-Lomé agreement provides specifically for the development of Country Support Strategies by the EC and each ACP State on the basis of the country's own medium term development strategy.
- In Asia and Latin America (ALA) countries, the emphasis is on strengthening the co-operation framework and on making an effective contribution, through institutional dialogue, economic and financial co-operation, to sustainable development, security, stability and democracy. The ALA regulation (443/92) stipulates that indicative multi-annual guidelines should apply to the main partner countries and accordingly the EC introduced CSPs for the ALA recipient countries after 1992.
- With the Mediterranean (MED) countries, emphasis is on the establishment of a zone of peace, stability and prosperity, on supporting reform and transition with the aim of creating an EU-MED free trade zone, and on contributing to the Middle East Peace process. The MEDA regulation (1488/96) stipulates the preparation of

"Indicative programmes for three year periods." The Commission services use CSPs to form the basis for the preparation of these indicative programmes .

A. 2. ASSESSMENTS OF COMMUNITY CSPs

In past OECD-DAC reviews, the importance of CSPs as a tool for improving co-ordination, coherence and aid management has been emphasised. According to the most recent DAC Review of European Community Aid of 1998, progress has been made in developing country strategies and there is a move to link these strategies to the review of aid programmes. Further improvement in country strategies is nonetheless considered to be necessary as part of a more coherent use of the various EU instruments.

A number of recent **Evaluation reports referring to European Community Aid** also commented on CSPs.

A global evaluation of EC aid to ACP countries emphasised that donors' interventions needed to be more closely co-ordinated, and suggested that the CSP provided a possible tool to enable donors to act together. While each donor should act in areas where it has a comparative advantage or particular interest, all should try to ensure that their roles are complementary.

The ALA Evaluation recommended that a methodology, with guidelines, should be developed to improve the quality of CSPs. It concluded that the EC "will have to continue improving its dialogue with Governments about priority projects and programmes through joint preparation of the CSPs, which should conform to the country's development priorities".

The MED Evaluation emphasised the lead responsibility of partner countries for co-ordination activities vis-à-vis donors and indicated that the Commission might be well placed to assist the partner in the analysis of donor's comparative advantages.

The May 1999 Development Council conclusions concerning these Evaluations indicates support for most of the recommendations, and more specifically emphasised the importance of "close co-operation and collaboration of the Member States and the Commission based on the guidelines for strengthening operational co-ordination." The Council also emphasised that CSPs "are important tools for defining strategies and results to be achieved at the country level".

A. 3. INITIATIVES ON CO-ORDINATION AND COMPLEMENTARITY

Referring to **co-ordination in EU development co-operation**, Article 180 of the EU Treaty provides that:

"1. The Community and the Member States shall co-ordinate their policies on development co-operation and shall consult each other on their aid programmes... They may undertake joint action. Member States shall contribute if necessary to the implementation of Community aid programmes.

2. The Commission may take any useful initiative to promote the co-ordination referred to in paragraph 1."

The EU sought to operationalise this principle through specific guidelines adopted in March 1998, highlighting that these efforts must be linked to other mechanisms at the country level in order to ensure a coherent EU input in wider donor co-ordination. CSPs are increasingly seen as one of the most important ways of establishing these links.

The process of co-ordination at the EU level was carried forward further by the **Development Council Resolution concerning "Complementarity"** of May 1999.

In this Resolution the Council emphasised the increased importance of the CSP process for improving the overall effectiveness, impact and relevance of Community assistance, and for ensuring better complementarity between Member States and Community assistance in a pragmatic way.

The Council requested the Commission to develop a proposal for a standard framework, encompassing structure and procedure, for the Community's CSPs in early 2000. As part of the process, the Member States were asked to bring in their experience in the preparation of CSPs. The intention was that once the standard framework had been discussed and agreed, it would be used as a basis for the structure of Community CSPs and would inform those of Member States.

In the **multilateral context**, the World Bank launched a new initiative in January 1999, the *Comprehensive Development Framework (CDF)*, which seeks to provide a structured framework for donor co-ordination. In terms of this proposal, the beneficiary country is in the "driving seat", both "owning" and directing the development agenda. The Development Partners each define their support within a matrix, which links the known development actors on the one hand, and clearly defined objectives for sustainable growth and poverty alleviation on the other hand. The CDF aims to give all actors involved in a country's development, under the overall leadership of the Government, the information that provides a basis for each to contribute according to its comparative advantage or particular interest. The CDF is currently in a test phase in a dozen developing countries.

More recently and in the case of poorer countries, the IMF and the World Bank introduced the concept of *Poverty Reduction Strategy Papers (PRSP)* based on the same principles as the CDF. The aim is that these strategies must be genuinely country-owned and must reflect the outcome of an open participatory process involving governments, civil society, and relevant international institutions and donors. For this process to be successful it needs the active involvement of all donors and multilateral institutions. They have to participate in the dialogue on the PRSP, indicating their preferences, and then making medium term commitments in support of the strategy of the country agreed in the PRSP .

B. COMMON ELEMENTS FOR CSPs

The structure of an individual CSP needs to be adapted to the specific context of the country concerned and will therefore vary, but should include the following elements:

- 1 A description of the EU/EC co-operation objectives.
- 2 The policy agenda of the beneficiary country.
- 3 An analysis of the political situation, the economic and social situation, including the sustainability of current policies and medium term challenges.
- 4 An overview of past and ongoing EC co-operation (lessons and experience). Information on programmes of EU Member States and other donors.
- 5 The EC response strategy, coherence with EU policies, complementarity within the EU and with other donors.
- 6 The above elements lead into either a Work Programme or a National Indicative Programme.

The indicative length of the future EC CSPs should be 15 to 25 pages, excluding annexes and according to the importance of the co-operation programme.

Thus, an EC CSP should provide in one document an assessment of the EU/EC strategy, government priorities, the country situation, and major partner activities. This assessment should lead to a coherent framework for donor and partner country co-ordination and enable the elaboration of a transparent Community work programme or indicative programme.

Against the background of this proposed structure and elements, and taking into account major donors' experience, the following broad principles may be identified for elaborating the contents of Community CSPs.

Point 1.

“A description of the EU/EC co-operation objectives.”

Beyond the overarching EU Treaty objectives, regulations and international agreements based on geographical regions (ACP, ALA, MED) as well as relevant overall policy statements, determine specific EU/EC co-operation objectives, which should be set out in the CSP.

Point 2.

“The policy agenda of the beneficiary country.”

This section should provide a concise statement of the aims and objectives of the government, firstly as set down in official policy documents illustrating the range of policies implemented, and secondly in any medium or long-term national plan, reform

strategy or development programme. This statement should be supplemented by an indication on how the Government proposes to achieve these objectives.

In the case of poorer countries, IDA-eligible countries for example, and particularly those benefiting from the HIPC initiative, the country policy agenda may be linked with or subsumed in a poverty reduction strategy paper (PRSP) of the type currently under development by the Bretton Woods Institutions.

Where this basis exists, the objective would be for the EC and other donors to think less in terms of each having its own strategy and more in terms of jointly working within a relevant national policy framework to the maximum extent possible.

Point 3.

“An analysis of the political situation, the economic and social situation, including the sustainability of current policies and medium term challenges.”

All major domestic policy developments and issues and relevant features of the external environment should be included in the country analysis.

Political situation

A CSP should consider the political and security situation in a broad context, including the regional dimension, the human rights situation, and relevant cultural and social factors with direct impact on the political process. For example, it could include information on:

- Democratic participation (universal suffrage, free elections, multiparty structure, equality of access to political activity, participative decision making etc.)
- Human rights (adherence to and implementation of commitments under international human rights Treaties and Agreements, protection of civil liberties including freedom of speech and of assembly, effective operation of human rights monitoring etc.)
- Rule of law (independent and effective judiciary, transparent legal framework, equality of all citizens before the law, police and public administration subject to the law, enforcement of contractual obligations etc.)

In addition, the regional and international context (for example unresolved border disputes) and relevant cultural and social factors with a direct impact on the political process (e.g. racial tensions) should be taken into account.

In particular cases, where the country has not reached a situation of “structural stability”, or shows signs of becoming unstable, more emphasis should be given to the analysis of security and stability measures including conflict prevention and management, post-conflict strategies (demobilisation, reconstruction etc) and the introduction of the rule of law and democracy (including the wider participation of civil society and a more equitable distribution of power).

Economic and social situation

The CSP should include an analysis of macro-economic performance, covering both the public and the private sectors, an analysis of structural change and of important sectoral changes. It should also include an analysis of social developments.

Economic situation, structure and performance

This part should start with a description of the economy in a manner, which permits comparisons with other countries. The analysis of the structure and performance of the economy will provide the necessary underpinning for the planning of EC co-operation. Particular attention should be given to analysing the respective roles of the public and private sectors.

The analysis should also highlight the potential sources of macro-economic and social instability, so that the EC planning process has the required flexibility to deal with such instability if and when it occurs.

Social developments

Understanding the impact of social factors on the sustainability of development and how they influence growth and development is important for determining how Community external assistance can help. For example the question whether the benefits generated by growth and development are being distributed satisfactorily should be addressed.

As appropriate, the CSP may also cover issues such as education, health services for adults and children, as well as services for family health care and family planning, social safety nets and social programme support for disadvantaged and vulnerable layers of the population, employment opportunities and the terms of employment, as well as housing issues.

Assessing the process of reform

In many cases the partner country's policy agenda will include a programme of economic reforms, and in particular economic stabilisation and structural adjustment, the purpose of which is to secure the foundations for sound development. As a rule the aims of such programmes are to balance the economy, remove distortions and introduce appropriate incentives, and provide space for the private sector to develop, whilst allowing and ensuring an efficient and effective public sector. A key aspect of such programmes is the need to ensure that markets are open and that the economy is able to profit from, and manage successfully, external competitive forces (including those generated by regional integration initiatives).

The purpose of this section would be to assess this reform process and the progress being made.

Specific reference should be made to requirements concerning economic transition and convergence, for example those necessary to achieve trade integration objectives. The assessment of reform should take such undertakings or obligations into account.

Structure of public sector finances and main sectoral policies

In the light of the assessment of the reform process, the aim of this section is to examine the public sector finances, highlight any imbalances, indicating whether and if so how these are being addressed, and link this examination to the macro-economic and sectoral policies being pursued.

The analysis should address the overall consistency of the policy stance and point out inconsistencies. Understanding the impact of main sectoral reforms and their sustainability (including the question of institutional capacity), and how they are likely to influence growth and development, is important for determining how Community external assistance can best position itself.

External Environment including regional co-operation agreements

All CSPs should include a discussion of the country's external environment. Among the most important issues to be addressed are external trade arrangements including customs provisions, shifts in the terms of trade, external debt burdens and degree of diversification of export earnings.

The country's trade policy should be analysed, particularly the country's degree of openness and its coherence with the country's development objectives and multilateral commitments. This analysis could use, where available, the results of Trade Policy Reviews in the WTO framework.

In addition, there should be an analysis of regional integration initiatives in which the country is participating and their impact on the country's economy.

Sustainability of current policies

Under this section, and depending on the objectives of the assistance, issues such as the incidence of poverty and poverty alleviation, income distribution and equity, the roles of men and women and gender equity, access to education and health services, and the protection and maintenance of the natural environment may be included. Issues such as effective and accountable administration should also be included.

As appropriate, the nature and incidence of poverty and the government's programmes to address it should be analysed and the aim should be to identify how the EC can contribute to reducing poverty. Wherever possible, CSPs should include a review of the country's progress towards the elimination of poverty in relation to the IDTs (International Development Targets). This analysis should include the relevance and reasons for poverty as well as its influence on growth, trade, democracy and human rights.

Good governance issues are of increasing importance in planning co-operation with developing countries since mal-administration, corruption or a simple lack of sufficient institutional capacity can be significant obstacles to development. This might require measures being proposed regarding institution building to improve administrative capacity, effective and accountable administration, and promotion of the rule of law. In specific cases this may require a special emphasis on anti-corruption measures.

In terms of sustainability of current policies, migration could be given special attention.

The section on the environment should analyse key issues, trends and pressure and the Government responses, the status of regulatory reforms and the institutions involved.

Where the country analysis indicates a major disparity of treatment between men and women, the CSP should demonstrate how further progress can be made towards gender equality and the empowerment of women.

Medium term challenges

Building on the understanding of the country policy agenda, of EU co-operation objectives, and the various elements of the country analysis outlined above, this section should present a critical synthetic view of the medium-term outlook for the country, highlighting the major strengths and weaknesses.

This summing-up should facilitate the clear identification of the most promising areas for future partner country-EC co-operation: i.e., those areas where the national priorities coincide in a realistic and viable way with EU/EC objectives and the EC's ad hoc comparative advantages vis-à-vis other donors.

Point 4.

“An overview of past and ongoing EC co-operation (lessons and experience). Information on programmes of EU Member States and other donors.”

Past or ongoing EC co-operation: Results analysis, lessons and experience

A CSP should summarise briefly the results of past EC co-operation with a country as well as the «lessons learnt» to ensure that the latest knowledge and best practice are incorporated. Account should be taken of the overall recommendations of Country Strategy Evaluations, if available, as well as major sectoral and project evaluations

Programmes of EU Member States and other donors

This section should identify as accurately and comprehensively as possible details of Member States programmes, indicating their relevance to the EC Strategy.

CSPs should also make explicit reference to programmes of major non-EU donors. In particular they should identify to what extent multilateral donor co-ordination initiatives are in place or proposed.

The section should also discuss what type of instruments the donors are using in their co-operation and whether there is a sectoral or regional focus to their efforts.

Point 5.**“The EC response strategy, coherence with EU policies, complementarity within the EU and with other donors.”***Principles and objectives for co-operation*

The relevant EU Treaty objectives and those of specific Council declarations and regulations or the ACP Agreement should be recalled, as should any specific objectives for the country concerned laid down by the EU Institutions.

Priorities for co-operation

This section should set out the strategic choices for EC co-operation, on the basis of the EU's and the country's priorities, making possible the setting of priorities within and across sectors and by instrument according to an assessment of:

- the relative magnitude of the financial and administrative resources to be made available and their likely impact (for example, in terms of improved country economic performance and poverty reduction);
- sustainability, given the political, economic, social and institutional situation;
- the EC's ad hoc “comparative advantage” vis-à-vis others based on lessons learnt from the past.

The underlying aim should be to concentrate on a relatively limited number of priorities and move wherever possible from a project to a policy based programme linked to structural/sectoral support.

Coherence

The principle of coherence or consistency with other EU policies requires attention. The linkages between external assistance and other Community policies in such fields as fishery, agriculture, commerce, conflict prevention, food security and migration should, as appropriate, be examined and dealt within this section. Account needs to be taken of any future negotiations on regional economic partnership agreements and the need for trade aspects to be dealt with in an appropriate way in this context.

Complementarity within EU

The aim is to ensure that the proposed EC strategy is complementary to the strategies of Member States active in the country concerned and vice versa. To achieve this, it should relate the assistance from both Member States and the Commission to the partner country's own development strategy, and to EU co-operation objectives.

Complementarity should begin with the process of ascertaining that there is no overlap between donors in a specific sector. Moving on from there, a more advanced form of complementarity will be for individual donors to take the “lead” in co-ordinating donor involvement in a specific operation, based on comparative advantages determined on a

case by case and country by country basis. This process could also be extended to include discussion of different types of collaborative financing between the EC and Member States where either the EC or the Member State concerned has an ad hoc comparative advantage and a shared interest in pooling resources. The move towards sector support programmes should facilitate this approach.

Complementarity with other donors

The aim is to ensure that the proposed EC strategy fits in with and does not duplicate the strategies of interested donors or multilateral agencies and vice versa.

The above objectives of sectoral complementarity should also be extended where possible in a similar manner to other donor initiatives. The wider CDF/PRSP initiative could provide the role model in this context particularly for countries where the system is being tested in practice.

Point 6.

The above elements lead into either a Work Programme or a National Indicative Programme

The Work programme or National Indicative Programme (NIP) is essentially a management tool covering a period of several years (from 3-5 years) to identify and define, in a transparent manner, the selected areas/sectors of co-operation for financing, and appropriate measures and actions for attaining the objectives set down. Where appropriate, the work programme should also provide indicative resource allocations¹.

Structured framework for EU donor co-ordination (matrix to be annexed)

For information and for maximum transparency, a matrix should be included in the annex tabulating the known interventions of other donors, including MS and multilateral donors. This may not be complete, but would at least reflect in a transparent way the results of the local co-ordination outlined above. This matrix will also be a useful contribution to the CDF/PRSP exercise if that is being developed in the partner country. In fact, where a CDF or PRSP approach has been tested and is operationally proven, the CDF/PRSP matrix should be substituted for a specific EU matrix to avoid duplicating the efforts of other donors, and to encourage a further movement towards complementary interventions by all major donors.

C. PROCEDURE FOR DEVELOPING A CSP

This section illustrates steps involved in the formulation of a CSP.

C.1. PARTNERSHIP WITH THE BENEFICIARY COUNTRY

A CSP should be drafted on the basis of discussions with the partner country ensuring sufficient ownership to facilitate successful implementation. In this context, policy dialogues should be encouraged and should lead, if possible, to mutual understanding and consensus. Any divergences between the country's own analysis and perception, and that

¹ The CSPs should not however pre-empt the budgetary authorities decision-making procedures

of the Commission and associated donors, should be noted. The analysis and assessments will be discussed with the partner country, but not negotiated.

It is therefore essential to know and understand the overall thrust of policy in the beneficiary country, what its aims and objectives are and whether a national policy statement (national development strategy/PRSP) exists. The process of developing the national development strategy is important, as strategies which are not "owned" by the country are generally less effective in the long term than those developed with the full participation of the country itself. As part of the process, and where this is possible, the government should involve civil society in elaborating the national development strategy. Civil society is by its nature somewhat disparate, ranging from Chambers of Commerce and municipal organisations to churches and human rights NGOs. However, civil society is probably the most important single factor in development in terms of human contribution and experience. An effective dialogue between public and private actors will not only help to generate consensus on priorities, but will also help identify who is best placed to deliver services.

It has to be recognised that in some cases, a country's institutions are either not functioning well or have become dysfunctional. This means that the structured approach to "country-owned" policy formulation outlined above will simply not provide a realistic starting point. In such cases the CSP will be based on the Community's own analysis of the development needs of the country (in co-ordination with the views of MS and other donors). In countries affected by emergencies, CSPs should focus on linking relief, rehabilitation and development (LRRD) to manage the transition from the emergency to the development phase.

Where an overarching EU/EC- country or region policy agenda exists, the CSP will take account of this agenda in assessing the process of reform and the government priorities.

C.2. CO-ORDINATION/COMPLEMENTARITY WITH MEMBER STATES

Joint consultation between the European Institutions (the Commission and the EIB) and the Member States concerning country analysis should be strengthened as CSPs are seen as a major tool to ensure the complementarity of the co-operation activities of the Community and the Member States.

Therefore, the Commission, together with MS, should share their analysis of the political, social and economic context of the country at an early stage. This is a labour-intensive process and its success will depend on good initial planning, maximised exchange of information, of expertise and labour input, and rapid and relevant on the spot feedback. Active data sharing with multilateral agencies will also be an essential part of the process.

C. 3. BUILDING THE EC RESPONSE STRATEGY

This step in the process will identify the areas where the Community might focus its assistance, and involves the setting the goals and objectives of the selected areas of co-operation, taking account of the relative degree of sectoral policy development, and the

ad hoc comparative advantage and interests of the Community, MS and other donors. It should be considered whether for certain sectors, complementarity can be promoted at this level through specialist or sector working groups, through the discussion on co-financing or parallel financing of bilateral projects, and through participation in sector support programmes.

This process must take account of the need to focus on a limited number of areas of intervention falling within the specific development assistance priorities laid down by the Commission and the Council in relation to the country policy agenda. These will vary from region to region but will include crosscutting issues such as capacity building, environmental protection, and gender equality. A particular emphasis should be given to the state of preparation and implementation of macro-economic, structural, sectoral and sub-sectoral policies.

Both the sector assessment and identification process will be key issues for discussion with locally represented or interested MS. MS must provide the Commission with solid, detailed operational feed-back on their own intentions and input at this stage, if complementarity is to be made to work at all effectively.

The definition of the Community's proposed strategies will lead to:

- A Work Programme or National Indicative Programme (NIP)
- A matrix tabulating the known interventions of other donors, including MS and multilateral donors.

C.4. QUALITY AND COHERENCE SCREENING PROCESS

The draft CSP will be reviewed in a quality support group within the Commission responsible for ensuring overall coherence of the CSP approach and, as appropriate, be presented to the relevant management Committee.

C.5. IMPLEMENTATION MECHANISMS

CSPs will only be a successful tool for programming if accompanied by an appropriate implementation and review mechanism. This mechanism should ensure continuity in the programming process while allowing the CSP to reflect on-going developments in needs and performance in the country concerned. In this context, and in order to make CSPs operational, the following principles should be given emphasis:

- Work Programmes or, where they exist, NIPs will be at the core of the implementation mechanism. They should indicate all activities in a sub-sectoral context to be carried out during the period covered.
- CSPs and more regularly Work Programmes or, where they exist, NIPs will be reviewed jointly by the Commission and the National Authorities.

- A key element of this process will be the development of suitable indicators. It is possible to measure and review progress towards the expected results, and to monitor and evaluate the achievement of strategic goals only with the aid of reliable, jointly agreed benchmarks and indicators, including the national or sectoral performance targets to be attained by the Government. Where ever possible existing indicators will be used such as those of the country itself, MS and other donors.
- The procedures and reporting requirements should not increase the overall administrative burden on the parties concerned. It will be necessary to determine to what extent the increased burden on upstream 'programming' tasks can be compensated by administrative savings downstream. This includes both the beneficiary country and the Commission and Member States in the operation of the respective Management Committees.

Variations in programming procedures, as between different regions, may arise given the differing legal and policy basis of the co-operation agreements with third countries.