

EC COUNTRY STRATEGY PAPER INDIA

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SUMMARY

The Country Strategy Paper aims to chart out the course for development and economic co-operation between India and the European Commission for the period 2002 to 2006.

India is the world's largest democracy, ethnically and linguistically the most diverse nation state and, next to China, the only other population billionaire. India has made enormous strides since it achieved independence more than 50 years ago: Literacy, health and life expectancy have substantially improved, and poverty that once afflicted a majority of its citizens has been reduced dramatically.

India has developed the world's fourth largest economy with a growth rate that since 1980 ranks amongst the highest in the world, and a rapidly expanding global imprint in information technology. At the same time the challenges India faces are becoming more complex and urgent as the global village raises expectations and as people are demanding their fair share in improving their economic and social fortunes.

India's overriding challenge for the first decade of the new millennium is to lift between two to three hundred million of its citizens out of poverty. All of India's co-operation partners, including the EC, subscribe to this objective and are seeking to mobilise their particular strengths towards helping the Indian government to achieve this goal.

The EC's co-operation strategy will build on the experience of two decades of successful co-operation and adapt its interventions to the changing political and economic landscape in India. It will assist India to build its "human capital" by dedicating its resources to

- making elementary education universal
- improving health services in favour of the hitherto deprived population groups
- restoring and safeguarding a healthy environment

The EC will work with the Indian authorities to create an enabling economic environment. It will share its expertise, including in science and technology, to help India unlock the full potential of its economy, induce better returns on its vast economic assets through regulatory reform, privatisation and fiscal reform. It will also seek to facilitate the exchange of talented students, scholars and the collaboration of scientists from both sides.

The central cross-cutting themes for the EC's co-operation strategy will comprise improved governance, the devolution of decision making and management and the participation of stakeholders, in particular women and segments of the population traditionally disadvantaged in articulating their interests. The EC will assist communities at risk to be better prepared for natural disasters.

As political decentralisation in India is increasingly shifting the dynamics for change from the Centre to individual State governments, the EC will in the years to come invest resources in a "Partnership for Progress" with initially one Indian State that is committed to reducing poverty by pursuing a social and economic reform agenda. The first "Partnership" could be followed by second "Partnership" in due course.

In the pursuit of these objectives the EC will continue to work closely with and through Non Governmental Organisations, the Indian civil society and private sector.

It is expected that the Budget Authority will make available some **€ 225 Mio** for the forthcoming five year period for EC development and economic co-operation.

1. EU CO-OPERATION OBJECTIVES

Article 177 of the EC Treaty sets out the three **broad objectives for Community development co-operation**, namely (1) fostering sustainable economic and social development, (2) integration of the developing countries into the world economy, and (3) poverty eradication.

The priorities for the European Community's development policy are contained in the **statement by the Council and the Commission, issued in November 2000**. This policy is based on the principle of sustainable, equitable and participatory human and social development with its main objective being to reduce and eventually eradicate poverty. With this objective in mind, EC Development Policy emphasises the link between trade and development and support for the

- institutional capacity-building, particularly in the area of good governance, the rule of law and sound macro-economic policies
- regional integration and co-operation
- transport, food security and sustainable rural development

The EC Development Policy has further identified human rights and democratisation, gender and environment as cross cutting issues to be integrated in each of the priority areas.

These priority areas were selected because of their importance in contributing to poverty reduction, and because of the comparative advantage the EU has therein relative to other donors.

The 1994 **Co-operation Agreement**¹ between the EC and the Republic of India on partnership and development provides for respect of human rights and democratic principles as the basis for EC-India co-operation. Development co-operation shall focus on the poorer sections of the population. It also calls for mutually agreed priorities in pursuing project and programme efficiency, sustainability and respect for the environment. The agreement also puts considerable emphasis on economic co-operation "of the widest possible scope in order to contribute to the expansion of their respective economies and their developmental needs". The institutional basis for EU-India political dialogue is a **Joint Political Statement** signed simultaneously with the Co-operation Agreement.

The **Commission Communication on an "EU-India Enhanced Partnership"** of June 1996² sets the stage for a comprehensive relationship between equal partners and emphasises the need for greater mutual understanding with special focus on supporting the civil society dialogue. It advocates for pursuit of an equilibrium between economic growth, social progress and environmental conservation.

The **EU-India Summits** held in Lisbon and New Delhi in June 2000 and November 2001 respectively, have set out concrete action plans for the major policy areas of the EU-India relationship, including development co-operation and the broadening of our economic co-operation in a number of key areas such as transport, energy, IT, environment, science and technology and trade and investment development.

¹ OJ L. 223 of 27.8.1994 p.23

² COM(96) 275 final of 26.6.1996

2. THE INDIAN POLICY AGENDA

In the **Ninth Five Year Plan of 1997** the Indian Government has set itself the following development objectives in the run-up to and into the new millennium, namely:

- accelerating agricultural growth and ensuring food security;
- provision of basic services to all citizens – including clean drinking water, primary health care and education, housing, “power to all” by 2012 and access to a telephone within walking distance;
- reducing the population growth rate;
- promoting environmental sustainability;
- empowering disadvantaged groups in the population;
- promoting institutions of self-help and self-government and self-reliance.

Today these objectives remain essentially intact. They have since been refined in the **Tenth Five Year Plan covering 2002 to 2006**, that is currently before Parliament. For the remainder of the decade the aim is to:

- double the GDP;
- reduce poverty from 26% to 10%;
- raise literacy from 54% to 80%;
- halve infant mortality;
- provide potable water to all villages, and
- clean up all major polluted rivers

The budgets of 2000 and 2001 are important milestones spelling out how these ambitious objectives would be funded and how to address the endemic resource constraint. Government is committed to reducing the fiscal deficits by (1) containing non-productive expenditure such as interest payments, salaries and subsidies, (2) dis-investing several large public sector enterprises, and (3) encouraging the private sector to invest in areas of national priority especially in infrastructure, and also in health and education.

Government in 2001 introduced a “**Fiscal Responsibility Bill**” before Parliament that would legislate the elimination of the fiscal deficit within five years. The opening of new sectors for private and foreign investors, as pioneered for the insurance sector, will go in tandem with improved governance in the banking sector, including retiring of non-performing loans.

Rural credit is to be better targeted and boosted by 20% annually. **The Rural Infrastructure Development Fund** would receive increased resources and a wider scope, and a **Micro Finance Development Fund** would be set up to help segments of the population hitherto excluded from borrowing. On the administrative side, **28 separate agricultural support schemes** are being merged into one. Funding for the **social sector** has seen its share of GDP rise from 17% to 21% over the course of the last five years. **Energy**, which received the largest share of the development budget in recent budgets, has proved the most difficult sector to reform. For the last five years, a rise in demand by more than half was to be met by an increase of capacity of more than two thirds. Less than half

the target was achieved despite a major effort to attract private capital into power generation.

3. COUNTRY ANALYSIS

3.1 Political Situation

India justly holds the title of the **world's largest democracy**, differences in wealth, social divides, and its wide ethnic, linguistic and religious diversity notwithstanding. Elections take place regularly and the press is free. As a result, India has enjoyed considerable **domestic political stability** since it attained independence more than half a century ago. India is also home to the third largest Muslim population in the world. Muslims in India play a constructive role in all walks of life and largely benefit from the social, economic and political rights provided under India's constitution. All the same, communal tensions between Hindus and Muslims have regularly flared up since independence, particularly in the events leading to the destruction of the Babri Mosque in Ayodhya in 1992 and the recent outbursts of communal violence in Gujarat. Nevertheless, India's secularist tradition attracts strong popular support.

Deeply rooted cultural and religious traditions still influence **divisions along caste, religious and gender lines**. Poverty continues to weigh on large segments of the population, while economic opportunities and freedom of association remain elusive for the most underprivileged categories of the population.

India's democratic system is firmly rooted. Its system of governance is based on the **rule of law**, the separation of powers, an independent judiciary, and a highly developed legal framework. Enforcement of the law, however, still leaves considerable room for improvement. Sporadic armed uprisings, violence against minority groups and members of certain castes are a recurrent phenomenon confronting the Indian body politic. The **death penalty** is still applied. India has given itself broad legal means to deal with human rights violations: it ratified five major international human rights instruments and appointed a National Human Rights Commission. Effective implementation on the ground, however, still poses a challenge. The establishment of a **Central Vigilance Commission** in 1998 has put transparency and good governance on the national agenda, but corruption remains an important challenge.

Political fragmentation around caste and regional interests have become important elements driving the political process in India. For major parties to obtain a parliamentary majority they must form alliances with a host of regional parties. As regional parties enhance their leverage, the 'Centre's political control over the States, unquestioned for more than four decades, effectively decreases.

The current government, the **BJP-led National Democratic Alliance (NDA)** assumed power in early 1998 and was returned with a strengthened majority in October 1999. It comprises some 23 parties in a loose coalition with often widely diverging political, economic, caste-based and regional interests. The **Congress Party is still struggling to re-emerge as a credible alternative**. It nevertheless remains a powerful national symbol commanding an efficient political machinery and thus continues to be an important political actor and formidable opposition.

Following the nuclear tests of May 1998, India braved international condemnation and an array of economic and political sanctions. Pakistan responded with similar tests. These

developments substantially raised the risks for the region as a potential nuclear flash point. While India rejects the NPT and continues to seek “official” nuclear power status, it remains committed to a unilateral moratorium on nuclear testing and to seeking a “national consensus” on signing the CTBT.

India’s long term **foreign policy strategy** is focused on strategic partnerships in an emerging multi-polar world. **Relations with the EU** have received a strong boost since the first EU India Summit in Lisbon in June 2000, and were further strengthened at the 2nd EU India Summit in New Delhi in November 2001. The traditional friendship with Russia has been revived. Relations with the US have blossomed into a privileged partnership, and, in the post 11 September era, may well be extended to military co-operation. Contacts with China have multiplied as both sides are seeking a new climate of co-operation.

The events of 11 September 2001 prompted India to further emphasise its long-standing plea to step up the international fight against terrorism. While India has made efforts to develop closer economic relations with some neighbouring countries, such as Sri Lanka, Nepal and Bangladesh, prospects for invigorating the South Asian Association for Regional Co-operation (SAARC)¹ remain frail, despite some progress made at the Kathmandu SAARC Summit in January 2002.

The **Kashmir issue** remains the major threat to stability in South Asia. The conflict was aggravated dramatically by the terrorist attacks on the parliaments in Kashmir and New Delhi end 2001, bringing India and Pakistan within a sliver of a new war. After a number of peace initiatives that failed to deliver, including the **Agra Summit** of July 2001, India, a vocal member of the international coalition against terrorism, is demanding action by the Pakistani government to eliminate terrorist havens on its territory and put a stop to cross border infiltration into Jammu & Kashmir. It remains to be seen whether the two sides can generate the momentum for dialogue and high level consultations that would lead to the long-term normalisation of their relations from which the entire region could only benefit.

3.2 Economic and Social Situation

3.2.1 Economic Situation

The Indian economy is large by any measure: in terms of Purchasing Power Parity it is the world’s fourth largest economy, and the eleventh largest in GNI US Dollar terms. With a per capita income in 1999 of US\$ 2,250 in purchasing power parity terms, or about US\$ 450 in conventional 1995 US\$ measure, India falls into the category of “low income” countries.

The economic reforms of 1991, induced by the threat of a default on its international debt, propelled India into the ranks of the fastest growing economies with a growth rate averaging close to 6 % for the decade from 1990 to 2000. India rode out the 1998 Asian financial crisis almost unscathed on account of prudent financial management that had avoided exposure to short term debt.

This impressive record conceals certain downsides that hamper the realisation of India’s full economic potential. India’s growth rate is still far below the 10% needed to substantially reduce mass poverty within the decade. In a globalising world, where wealth

¹ Member states of SAARC are Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka

is increasingly generated through trade, India's half percentage point in global trade¹ reflects a continued relatively high degree of protection. FDI inflows linger at comparatively low levels², depriving India of extra impulses for growth and competitiveness on world markets.

Agriculture still contributes more than a quarter to GDP generated by the two thirds of its population living in the rural areas. Driven by post independence land reform and the green revolution of the 60s and 70s, India succeeded to turn a chronic food deficit into a surplus with a huge buffer stock of currently 60 Mio tons of grain. It has, however, been less successful in diversifying into high value crops. Agricultural growth averaged 3.5% since the early 90s. A quarter of all farmers produce 60% of total farm output, primarily in the irrigated areas of Punjab, Haryana and Uttar Pradesh. The majority of the rural population is still comprised of subsistence farmers on small plots, depending on the monsoon rains, or landless labourers.

Industry continues to contribute just over a quarter to GDP. Industrial growth has dropped from between 7 to 8% to just above 5% as Indian companies continue to pay more for wages, power and capital than competitors in comparable economies. The global downturn is weighing on growth, as is the recent removal of the last set of quantitative import restrictions under WTO pressure that finds Indian industry as a whole poorly prepared to face competition from abroad. The informal sector still generates two thirds of Indian exports. It is the principal employer but also hosts some of the poorest working conditions, including child labour at a large scale.

Services have grown consistently above 8 % in the last five years. Information Technology Services alone grew between 30 and 50% since 1991 every year, generating exports in services worth \$ 6 bio in 2000. The export target for 2008 in IT and allied services is \$ 50 bio providing employment for 1.1 Mio.³ The global IT downturn in 2000 has dampened the euphoria, but may work to further sharpen India's competitive edge.

Brainpower, educated in India's elite institutions, especially the Indian Institutes of Technology, rank amongst the world's most highly priced. Until recently Indian IT professionals emigrated by the tens of thousands every year to work in western institutes and enterprises at the cutting edge of IT and related technology. The economic environment in India does not yet allow them to use their high end skills productively. While this "brain drain" appears as a prima face loss to the country's economy⁴, there are less tangible, though nonetheless real benefits that come from an increasing number of returnees who re-invest parts of their acquired fortunes and who bring with them their "networks" and, most importantly, their drive for reform and innovation.

Energy. India depends on *hydrocarbons* for close to 50% of its total energy demand. An increasing share is imported and accounts for 25% of India's total import bill. India is the world's third largest producer of coal, primarily low grade lignite, on which it relies to meet the other half of its energy demand. Government is gradually moving from a system of administered prices to market pricing, has opened the door for private investment in exploration, refining and distribution, and has cut out a key role for the private sector as the regulatory system matures.

¹ India's total trade with the EU amounts to 1.3% of the EU's trade with 3rd countries, roughly at par with EU trade with South Africa, Malaysia, Israel,

² Although the largest investor, India attracts just 1.3% of the EU's FDI flows into third countries

³ Estimates by NASSCOM, India's National Association of Software Companies of June 2001

⁴ The 2001 UN Human Development Report estimates the loss from brain drain to the Indian economy at some 2 bio US\$ annually

Power generation is the domain of the States, the State Electricity Boards (SEBs), whose losses are a major burden on State budgets. India's power sector faces severe capacity shortages, with poor reliability, frequent black outs, and low per capita consumption relative to other countries in the region. Commercial users, i.e. industry, cross-subsidise private users, where "losses" amount to 30%. Government offers the States incentives to unbundle the SEBs into independent sectors for generation, transmission and distribution. Progress is slow, but the fiscal implications and negative economic impact of delayed reforms have put up the pressure.¹

Transport infrastructure is a major constraint on economic growth. *India's rail network*, the largest in the world, fails to generate the resources needed to keep up with demand. High commercial rates cross-subsidise passenger rail traffic and displace freight to the road. *Construction of new highways* and maintenance of the existing road network, however, lags behind the double-digit growth of road traffic. The resulting congestion adds to costs through delays, higher fuel usage and pollution. **Ports** are ill-equipped to handle India's increasing international trade. Turn around time of between three and seven days contrasts with best regional practice of one day. The success of the Government's strategy to attract private, also foreign investment into transport infrastructure projects is linked to operationalising an independent regulatory body in each transport sector.

The **combined fiscal deficits** from central and State governments amount to 10% of GDP. Almost 30% of annual tax revenue goes to servicing debt. Subsidies and salaries take up another large share of budgetary spending. The 2001 federal budget sent an encouraging message to investors: It put subsidies on notice and initiated a dialogue with the States on linking future budgetary support to improved fiscal and financial performance.

Dis-investment: Public Service Units, state controlled enterprises, continue to tie up large amounts of assets and capital at poor rates of return. Government is committed to dis-investment and has started with insurance, telecoms and airlines. Dis-investment will continue to advance, despite resistance from labour unions and politicians.

Outlook: Higher growth rates are feasible if fiscal deficits are contained, structural reforms accelerated and private and public investment raised from currently one quarter to at least one third of GDP. Under these conditions India's economy could grow by the 10 % every year, needed to substantially reduce poverty within the decade. The Planning Commission postulates 8.7 % in order to double per capita income to close to 1,000 US\$ by 2010. The government's target is 8.0 % for the next year, while a realistic estimate would put it at just above 5%.

3.2.2 Social Situation

India covers almost the same land area as the EU with its 15 member states, equivalent to 2.5% of the global land mass. The country now supports a population of 1 billion, or 20 % of the world's population, more than two and a half times that of the EU. India's fertility rate has lowered significantly from six children per woman to three since the 1960s. The population growth rate has dipped below 2.0% to average 1.8% for the last 10 years. While the rate is expected to decline to a new ten year average of 1.2%, India will still add at least 160 Mio to its population by 2011.²

¹ According to the TATA Energy Research Institute electricity reform would add 1 to 2% to GDP almost instantly

² The Planning Commission's Tenth Plan sets a target of reducing the decadal rate of population growth to 16.1% between 2001 and 2011

Since the 1970s, India has achieved important improvements in a number of key development areas and has **significantly reduced the percentage of people living in poverty**. Poverty in India remains a predominantly rural phenomenon, with three out of every four poor persons living in rural areas. According to the Indian Planning Commission poverty fell from 36% to 26 % between 1993 and 1999, a period of high economic growth. This still leaves 44% that live on less than 1 US\$ a day, the international poverty standard.

There is a **growing disparity in the rate of poverty reduction amongst Indian states**, setting apart the economically vibrant south and west from the relatively stagnant north and east. While some states were able to turn reforms to their advantage, attract investment speed up growth and reduce poverty, others fell further behind, mainly due to poor governance, the inability to broach reforms and to invest in human development.

Over the last decade India has substantially improved **education**. The Government is committed to increase spending on education from 3.5% to 6% of GDP, and has set 2010 as target for universal elementary education. By 2007 all 6 to 11 years olds are to complete at least 5 years of primary schooling. Some of the poorest states, such as Uttar Pradesh, Rajasthan, and Bihar have registered significant progress in raising literacy rates, in particular for females.

However, with illiteracy rates of 58% for women and 34% for men, a major effort is still needed. With an adult literacy rate of barely above 50 %, India still lags behind other low-income countries such as Indonesia with 85% or Vietnam with 93%.

Health outcomes have improved but still face challenges. Since India attained independence some 50 years ago, **life expectancy** has doubled from 30 to 63 years, and infant mortality was reduced almost by half in 30 years. India has built up a pharmaceutical industry and medical profession that operate at the cutting edge of technology. Excellent health facilities exist, in particular in the urban areas, but **access is beyond the financial and physical reach of the poor**.

Government's limited investment in health of 1.3% of GDP remains largely inadequate to address the needs of the population, in particular that of the poor. India's poor are unlikely to live beyond the age of sixty, their children most likely to be below weight at birth, born from mothers that as a rule are anaemic and face a relatively high risk of maternal death.¹ While infant and "under five" mortality was reduced by half since the 1970s², malnutrition still affects more than half of the children under the age of 5. Without insurance cover and relegated to out-of-pocket-payment even a common illness or injury can easily turn into a catastrophe. According to the WHO Disability Adjusted Life Expectancy indicator **India with 53.2 years ranks 134th out of 191 countries**.

The numbers regarding major infectious diseases are alarming: official estimates of the number of persons living with **HIV** are 3.7 million. Prevention policy is still weak; the number of total cases of malaria and tuberculosis are 2.6 million and 1.8 million, respectively, although important progress has been made on the latter through a WHO sponsored Tuberculosis Control Strategy.

The Government has set up numerous anti-poverty schemes. However, outcomes have frequently suffered due to poor management, gaps in governance and leakage³. Large nationally sponsored social reform programmes such as the Sarva Shiksha Abhiyan

¹ Reported maternal mortality in 1990-1998: 410/100,000. Indonesia: 450/100,000. Vietnam: 160/100,000

² Infant mortality in 1998: 70/1000. Indonesia: 40/1000. Vietnam: 31/1000

³ India ranks 69 out of 90 countries on the Corruption Perception Index 2000 (Transparency International)

(“Education for All”) carry good prospects provided the States are fully involved, civil society is allowed to contribute and due attention paid to quality. The EC contribution to this programme is based on these objectives.

3.2.3 Assessing the Process of Reform

Economic reforms launched in 1991 succeeded in close to doubling India’s economic growth rate of just above 3 % of four decades to between 6 and 7 % for the ten years since. Sectors such as software and IT services have emerged as a new source of employment for the highly qualified, and of foreign exchange earnings, boosting India’s imprint on the world economy.

Social reforms have brought substantial overall improvement: average population growth across India has decelerated to 1.8 % per annum for the past decade, adult literacy has increased by 13 % during the same period and health indicators have improved. But India still needs to mobilise more financial and human resources in the social sector in order to reach the levels of many of its Asian neighbours. In 1999 government launched **the “second generation” of economic reforms** aimed at cracking the hard nut of structural reforms, including privatisation, deregulation and the phasing-out of indiscriminate subsidies. The deceleration of the Indian economy that has become apparent over the last year, makes new progress on the reform agenda all the more urgent.

At the core of the problem are **the persistent large fiscal deficits by the Central and State governments** and the substantial **public sector debt burden**. As a direct consequence spending levels in both human development and infrastructure have dropped well below the level of comparable countries. Progress in literacy levels, health, gender equality and environment has therefore been only modest on average.

The base for direct taxation continues to be very narrow. It is estimated that less than 20 mio out of a population of 1 bio actually pay taxes. Taxation laws are complex, a burden to small businesses while prone to affording loop holes to the landed and wealthy best positioned to pay taxes. Efforts to modernise the taxation systems are a major on-going effort.

Where reforms have cleared the political hurdle¹, implementation is frequently hampered by an unreformed civil service negating or watering down the intended benefits through red tape and outright corruption facilitated by a plethora of regulations and lack of accountability. The poor management capacity of some 220,000 local government bodies also weighs in heavily against the benefits of reform trickling down to the grass roots.

Performance in implementing an economic and social reform agenda varies amongst the States and has resulted in considerable gaps in economic growth, from between 7 to 8% in the southern and south western states against a low 2 to 3% in the more populous north central and eastern states. This has however not prevented some of the poorer states with a decided commitment to human resources development to make substantial progress.²

The **rural economy**, where 60% of the population and the majority of India’s poor make a living, is still constrained by a high degree government intervention. Extending liberalisation to agriculture is the key to accelerating agricultural growth, and to drawing

¹ insurance reform, banking reform, opening of sectors to foreign investment, de-regulation of telecommunications, dis-investment of public sector units, electricity reform, taxation, company laws, fiscal stability

² Rajasthan has raised literacy from 39 to 61 points in 10 years

excess labour into value added rural industries¹. Lifting restrictions on land consolidation is critical to reviving rural investment and to raising crops yields closer to international levels.² **Land and forest degradation** and **over-exploitation of groundwater** are seriously threatening the sustainability of agricultural production.

In conclusion, it can be stated that in the last half century since independence India has made huge progress in improving the living conditions for its population at large, yet continues to face formidable challenges. If past successes are taken as a measure, India can be expected to make even faster progress in the future, including meeting the needs of future generations, provided it can successfully mobilise the political will for reform.

3.2.4 Public Sector Finance

The Central Government and the Indian State Governments roughly spend the same amount of fiscal resources³. The combined public sector deficit is now in excess of 10% of GDP, raising the total debt burden to 85% of GDP. The pressure on the Central treasury is mounting as revenues still largely rely on excise and tariffs at a time when tariffs are coming down as India aligns with the global economy. The alternative of a central VAT system is only gradually emerging.

Central and States budgets strain under the **tripling of pay increases for the civil service**⁴ and interest payments, which represents the two largest expenditure items. A **Fiscal Responsibility Bill** due to be brought for a parliamentary vote in late 2001 seeks to rein in the deficit by 2007 and generate a surplus from thereon.

All parties agree that **improvement in the economic and fiscal management of the states** is critical to sustaining economic growth and to accelerating the pace of poverty reduction. However, **competitive populism** has fostered short sighted policies at state level harming richer and poorer states alike. Especially poorer states are caught in a vicious cycle of low growth reducing revenues, which in turn leads to low public investment and cripples the states' efforts to reduce poverty.

As States claim an increasing share of the Centre's tax revenue⁵ and with the Centre holding some 60% of the States' accumulated liabilities⁶, it is using its leverage to nudge States towards improving their financial performance. In 2000 the Centre concluded **Memoranda of Understanding with 13 States**⁷ linking the transfer of resources to the States' readiness to implement fiscal reforms. States must commit to charge enhanced user charges, improve the targeting of subsidies, reform the tax system, the civil service and the power sector.

A Presidential Commission, the **Eleventh Finance Commission** in 2000 outlined a five year **national agenda of fiscal management** and recommended to (1) cap payments for interest and salaries and eliminate subsidies by 2011 (2) reallocate Central budgetary resources to the poorer and fiscally responsible States. This "fiscal agenda" amounts to a

¹ Current levels of value added in post harvest processing is 15% (100% in developed countries)

² Average yields of major agricultural crops in India reach only one third of international levels.

³ between 13 and 15% of GDP (each spent ca Rupees 2.700 bio in 1998/99)

⁴ In 1997 the Fifth Pay Commission recommended a three fold increase of civil service pay, linked to a 30% downsizing over ten years. Pays scales were raised, but downsizing ignored.

⁵ Current transfers from the Centre to the States are close to 30%

⁶ States are prevented under the Constitution to incur foreign debt. All ODA loan and grant funds must be routed through the central government treasury.

⁷ Andhra Pradesh, Assam, Himachal Pradesh, Jammu & Kashmir, Madhya Pradesh, Manipur, Mizoram, Nagaland, Orissa, Punjab, Rajasthan, Sikkim, and Uttar Pradesh

“fiscal” paradigm shift that, if seen through, would drastically improve India’s economic and poverty profile within the decade.

3.2.5 External Environment - Foreign Trade, FDI and SAARC

India’s foreign trade tripled since the launch of the economic reforms in 1991. Trade with the EU continues to take up well above a quarter of total India’s exports, ahead of the US with 20% and Japan with just above 10%. EU-India trade totals € 24 bio, is essentially balanced and showed a healthy increase of 13% and 14 % for the years 1999 and 2000 respectively, in line with trends in global trade. India ranks 19th amongst the EU’s trading partners¹, translating into a share of 1.3 % of the EU’s foreign trade. India’s share of global trade holds steady at 0.7%. Given the large size of India’s economy this reflects the relatively shallow integration, and low competitiveness of Indian exporters in global markets.

India, itself a founding member of GATT, continues to play a major role in WTO, and sees itself as the spokesman for the developing world at large. It has fiercely resisted the launching of a new round at DOHA, insisting that rich countries must first accord the special and differential treatment to which they had committed in the Uruguay Round, before introducing any new, much less non-trade issues. Indian chose in the end to embrace the development agenda agreed at DOHA, claiming instead credit for the paradigm shift at DOHA in favour of developing countries interests.

The composition of India’s export basket has changed little over the last ten years and is made up of relatively low value-added goods: Textiles, shoes and leather goods make up 45% of exports to the EU. Gems and jewellery, agricultural and marine products, chemicals and minerals, and engineering goods account for roughly equal shares of between 10 and 12%.

Exports in IT services have grown between 30 and 50% every year since 1991, and reached \$ 6 bio in 2000. Estimates for 2008 put IT exports at \$ 50 bio, equivalent to India’s entire current goods exports. India already commands 80% of the IT enabled out-source market, and looks set to scoop up white collar services, much in the same way as East Asia did with manufacturing.

Foreign direct invest flows into India are modest between \$ 2 and 3 bio a year. The EU is the largest source with just under one billion euro annually, accounting for less than half a percent of the EU’s total foreign investment. The aspects favouring foreign investment, such as highly qualified manpower pool, the rule of law and the lure of a huge dormant market are offset by poor infrastructure, high prices for power, inflexible labour laws, a complex tax regime and red tape. Investors will watch closely how successfully India manages to push through the “second generation” of reforms launched in 1999.

The **South Asian Association for Regional Co-operation – SAARC** – was set up in 1985. It groups the seven nations of South Asia around a loose economic co-operation agenda. Most of the SAARC countries have adopted economic liberalisation policies over the last years, creating the pre-conditions for enhanced economic integration of the region. Currently, trade across the SAARC region accounts for only 3.5% of SAARC members’ total external trade. Considerable progress has already been achieved through the South Asian Preferential Trading Agreement – SAPTA- that became operational in 1995.

¹ behind South Africa and ahead of Israel

In 1996 the EC has signed a **Memorandum of Understanding** with the SAARC secretariat offering technical assistance to the benefit of the institution as a whole. In 2000 SAARC countries were granted “regional cumulation” under the General System of Preferences – GSP – and requested the EC to provide expert assistance on the subject. **The EC is keen to explore ways of how it could share with SAARC its own expertise in region.**

3.3 Sustainability of Current Policies

Government continues to rally the political consensus needed to advance the “second generation” of economic reforms. The aim remains to unlock the inherent growth potential of the Indian economy and thereby give governments at the centre and in the States the resources necessary to achieve the objectives it has set for itself for the remainder of this decade: Double GDP, reduce poverty to 10%, raise literacy to 80%, halve infant mortality, provide potable water to all villages, and clean all major polluted rivers.¹

Governance

Streamlining the five million strong public service is high on the government’s agenda. Recurrent costs for the civil service salaries remain the third largest expense item in state budgets after debt servicing and subsidies. Current anti-corruption policies that rely on an over-stretched legal system are not very effective. Some States are pioneering various promising approaches to enhancing transparency.

Fiscal policy

The central Government and an increasing number of State governments are determined to rein in the fiscal deficit. The Union budget of 2001 emphasises the medium term objective of restoring the capacity for public investment in essential infrastructure and the social sector. Government has further taken steps to broaden the tax base, simplify the tax system and render it more transparent. There are many sensitive areas where central and State competencies overlap, but the process of arriving at a new revenue sharing arrangement between the Centre and States is on track.

Social Sector Policies

Government put universal elementary education by 2010 high on its agenda. At the same time higher education is favoured over basic education, a policy that on the surface is vindicated by India’s success in IT and biotechnology. It is uncertain whether the States with low literacy rates will succeed raising the extra resources needed to attain the 80% literacy target within this decade. This will have a major bearing on the incidence of child labour: Good elementary education is the key to raising the opportunity cost of child labour and thus a tool to reducing its incidence.

Government health policy emphasises good quality family health care that targets high infant and maternal mortality, with a positive impact on demography. However, as funding levels remain at a low 1% of GDP, performance still lags behind public expectations.

¹ The Planning Commission of India: Approach Paper to the Tenth Plan (2002-2007)

Environment

Civil society in India has pioneered “public interest litigation”. The Indian courts have thus become important players in environmental protection, partially filling the vacuum left by Government inaction. Segments of industry, itself a major source of harmful emissions, are keen to see more active enforcement environmental regulations across a level playing field.

Some State Governments have begun to address the root causes of India’s deteriorating rural environment by (1) reviewing subsidies on power and water that degrade soils and aquifers, (2) investing in potable water and sanitation, and (3) preserving and extending of what remains of the country’s forest cover.

3.4 Medium Term Challenges

India’s overriding challenge for the first decade of the new millennium is to lift between two to three hundred million of its citizens out of absolute poverty.¹

Conditions of poverty in India are as much linked to deprivation of material goods, and social services, such as adequate nutrition, education, health, transport, employment, as they are to social and gender discrimination, and uneven community-empowerment. Economic growth alone, relying on the “trickle down” effect, is therefore unlikely to achieve the results without a major improvement in governance that empowers the poor to participate in the allocation and management of resources. A successful poverty reduction strategy hinges on

building and safeguarding India’s “human capital” through

- increasing public investment in areas that protect the poor, especially women, and improve their productive capacity
- improving delivery of essential social services, including elementary education, health care services, to encompass all segments of the population
- investing in essential poverty oriented infrastructure such as rural roads, water, sanitation
- protecting the environment and promoting the sustainable use of natural resources
- elevating to the national policy agenda the fight against resurgent and new infectious diseases²

improving Governance through

- further decentralising decision-making and control from the Centre to the States, villages and communities
- streamlining the civil service through measures that enhance accountability and transparency

¹ The Indian Planning Commission estimates that in 2000 26% of India’s population of 1 billion lived below the official poverty line. The World Bank estimates that in 1999 44% of the Indian population lived on less than one dollar per day, the international criteria defining poverty.

² malaria, tuberculosis, HIV/AIDS

- rationalising the plethora of regulations that raise “transaction costs” for individuals and entrepreneurs
- promoting transparency in corporate governance, market orientation in the financial sector, and a more equitable simplified tax regime

creating an enabling economic environment through

- re-establishing sound fiscal practice by phasing out subsidies to the non-deserving¹, and ineffective poverty relief programmes
- allowing loss making public service providers, such as railways, irrigation authorities, power companies, universities, etc to charge realistic prices, while concentrating on quality and affordability for the poor.
- fostering research and S&T policies and activities in order to derive maximum benefit from the development of a knowledge-based economy
- using the proceeds from the privatisation of public sector enterprises towards reducing the public debt burden
- unlocking the potential of the rural economy to diversify and create new employment opportunities.

4. OVERVIEW OF PAST AND ONGOING EC CO-OPERATION

4.1 Past and Ongoing EC Co-operation

The strategy for development co-operation agreed by EC and India in 1994 as part of the overall EC-India co-operation agreement focuses on supporting poverty reduction projects that promote a more efficient and sustainable use of resources and sector programmes aimed at improving basic social services.

Rural development/natural resources development

EC-supported projects have introduced a range of innovative approaches to poverty alleviation including measures for participatory planning and beneficiary involvement. Minor irrigation projects have adopted water user groups and the concept of joint investment by Government and the communities in the long-term operation and maintenance of rehabilitated schemes. Forestry and natural resource management projects have developed joint management models where the beneficiaries are involved in decision-making. Organised and formal structures such as village committees, Panchayat committees, have been established to facilitate community participation. This experience extends to a range of minor irrigation, watershed and reforestation projects funded by the EC.

Although projects have largely achieved the objectives set out in the project agreements, their multiplicity and geographical dispersion tended to have limited and localised impact, with little influence over policy. While distinct new project structures with the support of national and international technical assistance were created during project implementation,

¹ Estimates attribute 20% of middle class buying power to direct or hidden subsidies

long term institution building proved much more difficult to achieve, given the predominantly technical focus of the interventions. Therefore, the sustainability of the new approaches is less than certain.¹

Sector development programmes

The early 1990s saw a significant change in the development co-operation portfolio with the introduction of Sector Support programmes. In response to the social safety net adjustment programmes underway in India free-floating budget support was provided by signing on to national reform initiatives with well-defined guidelines for planning and implementation, such as the selection of backward districts, the setting out of eligibility criteria for funding, cost-sharing arrangements, and the definition of individual programme components, etc.

Primary education was the first to be supported through a sector programme, with grant funds of € 150 m. The District Primary Education Programme (DPEP) was a new vehicle of the Government of India to bring about universal primary education.

The investment in primary health and family welfare followed, as the Government of India designed the *Reproductive and Child Health Programme* as India's response to the Cairo agenda. The two sector programmes provided an entry point for the EC's engagement with the country's macro policy agenda for two major social sectors.

In education the programme has targeted the most deprived districts in the country, with particular focus on girls' participation. The DPEP has demonstrated substantial ownership by the national administration whereby planning, appraisal and implementation have relied largely on indigenous expertise and knowledge.

The EC's support to the Reproductive and Child Health (RCH) programme is aimed at helping States to make a "paradigm shift" away from a target-oriented family planning approach to a more holistic health care system for families, focusing in particular on women and children. The EC contribution is starting to bring substantial results.

The EC is now moving towards another round of investment in elementary education, with a € 200 million contribution to the universal elementary education programme.

As the sectoral programmes move ahead, closer collaboration and dialogue at the State level is considered vital to implementing far-reaching systemic reform. Evaluation of the micro-level impact in quantitative and qualitative terms is the key to improving the administrative and management capacity at local government level. Working with and through NGOs and exploring public-private partnerships is critical to assuring quality of delivery in light of the growing trend towards private sector driven provision of education and health services.

Action through NGOs

The EC's NGO co-financing budget continues as a useful instrument to promote civil society actions in a range of sectors. The EC has financed a large number of projects through this budget line and there are about 150 NGO projects currently under implementation in different parts of the country.

¹ This assessment summarises the key findings of project monitoring reports, scheduled mid-term and post-project evaluation exercises carried out for each of the ongoing projects and projects concluded.

The EC also took up, in the 1990s, large NGO projects in the bilateral co-operation programme to explore alternative and innovative approaches to delivery of anti-poverty interventions. The EC provided grant funding totalling € 57 Mio to four projects, such as BAIF Development Research Foundation, Aga Khan Foundation and CARE.¹ These projects are expected to lead to the development of models for possible replication. The EC has also implemented projects through a number of special budget lines, such as food aid, emergency aid, disaster preparedness, drugs, HIV/AIDS, human rights and decentralised co-operation.

Economic co-operation

The EU-India Economic Cross Cultural Programme launched a first call for proposals in 1997 inviting proposals from business, the media and academia. Although the initial projects were encouraging, the entire programme stalled due to management problems. Re-launching the programme under simplified management remains the objective, since the project remains an important vehicle for deepening links between European and Indian civil societies, and therefore for strengthening EU Indian relations.

Large scale projects are underway in ports management and civil aviation. Industry participation has since energised these projects, improving prospects for upscaling outputs to national level. Smaller programmes on Intellectual Property, Standards and Quality meet with increased interest, especially as the private sector is invited to participate.

The bulk of resources available for economic co-operation with India lies with Asian regional programmes such as Asia Invest, Asia Urbs, Asia-IT&C, Asia Link and the new Asia ProEco. While such programmes offer a clear economy of scale, they lack focus on the specific problems a country such as India poses in terms of trade, investment, environment, business or university links.

More is needed to contribute to this vital aspect of the EU India relationship, in view of India's stake in the success of its economic reforms and India's demand for additional co-operation in new sectors such as research, higher education, environment technology, infrastructure development and FDI mobilisation.

Additionally, the EC, through the S&T cooperation agreement, will also work with Indian partners on S&T cooperation in order to underpin economic development.

4.2 Programmes of EU Member States and other Donors

EC programmes are designed and implemented in **close co-ordination with EU Member States** and the major multilateral donors. The Health sector programme in particular continues to benefit from a high degree of collaboration and joint action. Key donors are now focusing their development assistance efforts on reform-minded Indian states. In 2000 the **Asian Development Bank**, the **World Bank** and the **UK's** Department for International Development prepared new India Country Strategy Papers, shifting emphasis to State-level multi-sectoral reform programmes, including the restructuring of public finances.

¹ *BAIF*: Anti-poverty integrated rural development in several states; *Aga Khan*: PESLE - improving quality of elementary education, CMNR-Natural resource management in Gujarat, *CARE*: STEP- poverty reduction in tribal communities in Andhra Pradesh

Co-operation by some Member States was adversely affected following India's nuclear tests in May 1998. **Denmark, Germany and Sweden** froze, scaled down and in some cases withdrew from development projects. **Sweden** is in the process of preparing a new CSP, giving priority to supporting NGOs in the areas of health, education and the environment. **Germany** in the mean time has resumed co-operation without restrictions. Fresh commitments were made in November 2001 in the amount of DM 544 Mio (including commercial funds for mixed financing). In addition, both sides agreed to reprogramme earlier commitments in the amount of DM 120 MIO. Future core areas of co-operation are still under discussion. Spain, **Portugal** and **Finland** mainly support NGO actions. **Austria** extends support to education. **Greece** and Italy provide assistance on poverty alleviation. **Italy** further co-operates on health, education, urban poverty, infrastructure and SMEs. The **Netherlands** support programmes in a number of social sectors which are in consonance with those supported by the EC. Dutch assistance also focuses on selected Indian States, while collaborating closely with the WB¹ and the ADB.

The **UK's** development co-operation is the largest amongst EU Member States. Disbursements in 2001 amounted to £ 180 Mio and are set to reach £ 300 Mio per annum in two to three years, as it aims to deepen partnerships with selected Indian States², focusing on **sectoral reforms in education, health, water and sanitation, energy and power**. The UK has also very important rural livelihoods, urban development and enterprise development programmes. It furthermore has an important national programme, accounting for at least 25% of the disbursements in 2001. The cross-cutting themes that underlie the UK's programmes are good governance, decentralisation, empowerment of poor communities, gender and the environment.

The **World Bank and the Asian Development Bank are co-ordinating** their operations closely, particularly in infrastructure funding. The ADB has begun operations in the States of Gujarat and Madhya Pradesh and will soon also work in Kerala. The WB's power sector investments go to Haryana, Orissa and Rajasthan and comprehensive public finance reform programmes are underway with Andhra Pradesh and Uttar Pradesh.

The **EC consults closely with different agencies of the UN**, notably on HIV/AIDS, demand reduction in drugs, water and sanitation. The joint Government of India/UN initiative for education targets adolescents and adults in urban areas, complementing EC funded activities under the DPEP.

5. EC RESPONSE STRATEGY FOR THE YEARS 2002 TO 2006

India has the means and is committed to steering its economy towards a higher level of development and to tackle poverty, but the challenges are huge. The **overall objective** of EC co-operation with India is to **support the official policy aimed at reducing poverty** by half within the decade, with particular emphasis on social and economic reform, improved governance and sustainable development.

The EU co-operation strategy is politically rooted in the Commission's Communication of 1996 on an "**Enhanced EU India Partnership**"³ and the supporting resolution by the

¹ Dutch funding for the District Primary Education Programme has been routed through the WB

² Andhra Pradesh, Madhya Pradesh, West Bengal and Orissa are DFID's development co-operation partners.

³ COM(96) 275 final

European Parliament of April 1999.¹ The “third generation” EC India Agreement on Co-operation and Development of 1994 will continue to serve as the principal reference instrument.² The **Policy Statement on Development Co-operation** promulgated by the Commission and the EC Development Council in November 2000 provides overall orientations for all future co-operation actions.

EC co-operation aims at underpinning and catalysing Government’s efforts to improve **India’s human development** and the **performance of the Indian economy** to the benefit of all its citizens.

The EC co-operation strategy will take into account (1) **discrepancies** between the economically vibrant south and west and the less dynamic areas in the north, centre and east, (2) **gender imbalance** in terms of income, education and health indicators, (3) the continued **population pressure**, severest in the poor regions, and (4) the rapid **political and institutional transformation** that the Indian Union is undergoing.

It is expected that the Budget Authority will make available under Budget lines B7-300 and B7-301 about **€ 225 Mio** for the forthcoming five year period. While India remains the largest single recipient under the EC’s co-operation with Asia and Latin America, this amount, which represents less than € 0.05 per capita and year³, contrasts sharply with the challenge of achieving a **measurable impact** in a country with a population of one billion and the largest concentration of poor on the globe.

From 1991 to 1999 total ODA inflows amounted to less than half a percent of GDP, of which the EC’s share is only a small fraction. The choice of the co-operation partner, the thematic and geographic bundling of resources are important factors when aiming at a critical intervention mass.

Government development policy rests on the premise that continued, enhanced and sustainable economic growth is essential to reducing and finally eliminating poverty. For economic growth to be equitable and sustainable in the long term, massive social sector investment is needed to develop India’s vast reservoir of human resources. Furthermore, combating poverty is being perceived as going beyond providing physical facilities and services and to cover the wider **aspects of social exclusion** by empowering the target groups to participate in the design, implementation and monitoring of development programmes.⁴

5.1 Principles of Co-operation

The **elimination of poverty** is the *overall guiding principle* governing EC co-operation activities in India. Substantial resources have been invested and considerable progress was made during the last half century as reflected in much improved mass literacy and

¹ PE 226.781/fin Report on the Commission Communication on EU-India Enhanced Partnership by the EP Committee on Foreign Affairs, Security and Defence

² The key budgetary co-operation instruments comprise budget provisions for Technical and Financial Co-operation with Asia (B7-300/301), Co-Financing of NGO activities (B7-6000), Rehabilitation (B7-302), Human Rights actions (B7-70) and environmental co-operation with Asian countries (B7-620).

³ For 1998 EC aid disbursed per region was as follows (in €/capita) Asia 0.15, Latin America 0.74, CIS 1.94, MEDA 3.31, ACP 4.87. Source: ODI Data base 1999, EC Asia Strategy (Draft 2001)

⁴ The 73rd and 74th constitutional amendments are landmark instruments facilitating devolution of authority to the States, the Districts, down to the Village Councils. They provide for mandatory minimal representation of woman and minorities and direct funding. States must, however, adopt enabling legislation.

enhanced life expectancy starting from a very low base at the time of independence. Yet indicators still lag behind that of other developing countries in Asia and face deeply engrained socio-economic patterns, social fragmentation and gender discrimination.

Human rights, inseparable from the social and economic reality, are also measured how the most vulnerable are able to realise their social and economic rights. Hence an important criterion for any co-operation strategy is how it will empower the most vulnerable to better realise their social and economic rights and enhance human dignity.

Women shoulder an inordinate burden in maintaining the family, and are most directly affected by the absence of basic infrastructure such as access to safe water supply and lack of sanitation. As a rule, they also decide on the education of their children. Any action aimed at balancing the gender aspect of co-operation programmes is bound to carry good returns. The *second principle* governing future EC co-operation lies therefore in designing actions in a manner that would allow **women and the socially marginalised to participate in the design and execution of a programme.**

India's democratic traditions, the freedom of its press and the independence of its judiciary are unique to the larger region. However, important policy gaps remain, in particular in public resources management, the caseload burden on a stretched legal system and the pressure of patronage and vested interests on the political process. Therefore the *third principle* of future EC co-operation lies with promoting **good governance** through the **effective and transparent management of public resources.** This entails that designated beneficiaries are guaranteed stakeholder rights throughout the life of any EC supported co-operation programme, and that top-down decision making gives way to consultation, transparency and accountability.

Civil society, assisted by India's free press, has developed into the "social conscience" of Indian polity. It drives the development process in areas where government action is less effective. **Non governmental organisations** have tested new models for mobilising economically and socially deprived groups and have set benchmarks for the empowerment of the poor. They raised public awareness on the environment and harnessed the judiciary through highly visible public interest litigation. NGOs are frequently in the forefront of mitigating the worst consequences of natural and man-made disasters. Hence they have become an **increasingly important implementing partner** for the EC and government alike.

India's academic institutions, think tanks and social advocacy groups influence the formulation of policy and operate an informal system of social checks and balances. **Working with and through civil society and NGOs** constitutes therefore the *fourth principle* of EC co-operation.

EC co-operation in India is based on the **unity of purpose of development and economic co-operation.** Both are essential components of an effective strategy aimed at the elimination of poverty through equitable economic growth on the basis of sustainable development.

5.2 Strategic Areas of Co-operation

EC strategy for the forthcoming five year period will centre around "**elementary education**" and "**basic health**", the key factors in the Indian poverty equation. The

“**environment**” will be developed as a cross cutting component thus grounding the sectoral work on sustainable development parameters.

At the same time the EC will commit resources to **fostering an enabling economic environment** under an agenda of “**improved governance**”. This is essential in order to orient the EC’s sector work towards promoting equitable economic growth and long term sustainable development.

Elementary education denied, continues to depress India’s human development indicators¹, as it

- mirrors continued gender bias to the disadvantage of the girl child and contributes to the exclusion of the poorest and hardest-to reach children, such as migrant or disabled children.
- foregoes an effective tool to tackle population pressure at the root
- leaves poor children vulnerable to being trapped in premature and unhealthy labour situations

The EC will continue to assist with universalising elementary education through

- a large new sector programme in collaboration with the Central authorities starting in 2002
- incorporating “education” into a state-focussed intervention package under a “partnership for progress” to be negotiated in 2002 and 2003, with the aim of raising basic educational indicators in the selected partnership State to Indian best standards within a five year period

Basic Health Service delivery is critical to reducing the vulnerability of the poor. The EC’s efforts, especially under the “partnership for progress” will aim at

- restoring confidence in a quality local health service and targeting at financial sustainability through community involvement
- setting up standard facilities and a needs-based referral system
- promoting transparent, participatory management.

The EC will continue to assist in the area of “basic health” through

- the large ongoing sector programme in collaboration with the Central authorities that aims at integrating family, maternal and child health care in line with the recommendations of the 1994 UN Conference on Population and Development of Cairo
- incorporating “basic health” into a State-focussed intervention package under a “partnership for progress” to be negotiated in 2002 and 2003. “Health” will dovetail with elementary education, and branch out to include water supply and sanitation, quintessential to reducing morbidity.

The Protection and Management of the Environment will be developed as a cross cutting intervention that reinforces the educational and health components in the State-focussed “partnership for progress”, by

- promoting environmental awareness in schools, local authorities and local industry

¹ The UNDP Human Development Report of 2001 ranks India 115th out of 162 countries. Ranks 49 and 126 define the category of the countries with “medium human development” as distinct from the countries of “low human development” (127 to 162)

- establishing the link between the pollution of water bodies, the atmosphere and public health and testing financial options to widen access to safe water and sanitation

The state-focussed “partnership” programme could eventually widen its environmental remit to address

- state level economic reforms with environmental implications, such as the power sector, and subsidy regimes for water, fertiliser, etc.
- private sector partnership in environmentally-oriented infrastructure, including investment in “green” production projects and the development of local Agendas 21.

Strengthening EU India Ties

Promoting an enabling economic environment.

This objective will be pursued with the Centre and also within the State-focussed “partnership for progress”. The EU, being India’s largest trading partner and most important source of foreign investment has a special responsibility to assist India tackling the “second generation” of **economic reforms**. The EC is ready to

- share experience in improving systems of economic governance
- assist India’s efforts to integrate its economy regionally and with the global economy.

The EC will therefore bring on stream a special **Trade and Investment Development Programme**. The **Trade and Investment Development Programme** builds on the industry driven “EU India investment and trade enhancement initiative” and offers to

- assist India with mainstreaming its tariff, tax and regulatory infrastructure with international practice, including standardisation, conformity assessment, safety inspection as well as sanitary and phyto-sanitary systems
- facilitate training for officials and industry on multilateral trade and WTO
- promote industry driven studies on improving the trade and investment environment in key industrial and service sectors.
- encourage the involvement as much as possible of the main stakeholders through dialogue stimulated by relevant think-tanks, civil society groups and private sector.

The EC will be open to support a future sector-specific economic co-operation programme, including co-operation in the area of statistics, provided it is driven by the private sector and addresses the underlying policy environment.

Promoting Cultural Understanding and the Meeting of Minds

A common history, shared respect for human rights and ethnic, religious and cultural diversity generate an increasing demand **for cultural interaction and the meeting of minds**, driven by civil society from both sides.

- The EC will respond by (1) revitalising the EU-India Economic Cross Cultural Programme¹, (2) sponsoring the EU India Think Tank Network and (3) putting resources at the disposal of civil society through a “small project facility”.
- On the governmental level the EC will seek to develop a suitably sized programme enabling **outstanding undergraduate and post-graduate students** and scholars to study in EU universities and centres of excellence and vice versa.

Humanitarian Co-operation

The EC, through ECHO, will continue to stand by the Indian people in the case of **natural disasters**, as exemplified in the case of the 1999 cyclone in Orissa State, and the catastrophic earthquake that hit Gujarat State in January 2001. ECHO responded to the earthquake with a € 13 Mio humanitarian package. Over the course of the next five years the EC is committed to a multi-layered rehabilitation programme in Gujarat worth some € 80 Mio. South Asia, including India, will continue to be amongst the main areas of implementation of ECHO’s disaster preparedness programme. This programme aims at strengthening capacities of local communities to better face natural disasters.

- Further to ECHO’s disaster preparedness programme, the EC is ready to co-operate on a **bilateral disaster preparedness project** with the GOI for the benefit of States and communities that face a heightened risk and that are eager to strengthen their capacity of dealing with the impact of natural and man-made disasters.

5.3 Levels of Intervention

5.3.1 Co-operation with the Central Authorities

The EC will continue its co-operation with the Centre in the **sectoral support programmes in health and elementary education**

- The health sector programme² has begun to assemble authorities at the central, state and local level, the private sector and non-governmental organisations around a common agenda in health. This work will continue throughout the current strategic planning period.
- A € 200 Mio contribution to India’s ‘Sarva Shiksha Abhiyan’ programme for elementary education was committed in 2000 and programme activities are starting in line with India’s education priorities under the tenth Five Year Plan. Currently the sole foreign donor, the EC will promote actions that encourage districts with the lowest literacy rates to meet the national objective of universalising elementary education by 2010.

The EC will also engage the Centre in a comprehensive programme aimed at **an enabling macro-economic environment**, through policy dialogue and the exchange of technology and expertise in the regulatory sphere.

Downstream, the EC will consider **fresh sector-specific economic co-operation actions** provided they are sustained by appropriate policy parameters and are supported by

¹ The EU India Cross Cultural Programme of 1998 promotes co-operation between civil society in the EU and India, especially between the media, academic institutions and enterprises. EC share: € 30 Mio

² € 200 Mio

industry. In this vein the EC is ready to explore the feasibility of assisting with setting up an **environmental technology centre**, provided it is sustained by industry.

The **EC India Accord on Science and Technology** of 2001 offers Indian researchers equal access under EC funded scientific co-operation instruments. The EC will promote the use of this instrument through regular consultation, including in the area of Information Technology¹. In response to increasing demand from Universities and academia, the EC will explore with the Central government a programme facilitating the **exchange of talented students and scholars**.

Devastating natural disasters afflict India frequently. The EC, an emergency aid donor of the first hour, will explore with the Centre and concerned States a **disaster preparedness assistance program** for the benefit of some of the communities most at risk.

5.3.2 A “Partnership for Progress”

The key question for all external donors, the EC included, remains how to **achieve a significant impact on poverty** given India’s vastness and administrative and political complexity. While the Central government continues to set the overall policy parameters for economic and social development, it is now the States, in control of 90% of development resources, that determine how policies are implemented on the ground. This reflects the process of accelerating political decentralisation that India has undergone in the last decade.

States’ finances are under enormous strain from recurrent and politically sensitive expenditure, crippling the capacity to invest in poverty sensitive infrastructure and human capital development. State governments thus find it ever harder to defer fundamental reforms. A small number of States have pioneered policies that are conducive to economic growth, including fiscal and civil service reform, domestic and foreign investment facilitation and overall improved governance. This has unleashed a healthy rush to be counted amongst the so-called “reforming” states. Ten out of India’s 29 states have populations exceeding 50 million. Reforms broached by individual state governments have an important ripple effect on other states and drive the national debate on reform. This relatively recent scenario offers new opportunities for co-operation, especially for small donors like the EC, perceived locally as a “quality donor”.

The EC will therefore bundle the bulk of the remaining resources for the next five years in a comprehensive “partnership for progress” with one Indian State. As the dialogue on the “partnership” with one State matures, as programme structures are tested and the viability of the “partnership” is proven, a “partnership” with a second State may be explored.

In a “Partnership for Progress” the traditional sector-wide approach will be moulded into a **single “partnership package” under an overarching agenda of improved governance**. “elementary education”, “basic health” will remain the core areas, while “environment” will be developed as a cross cutting component and “glue”.

The “partnership package” will

- draw synergy from the on-going sectoral work at national level in health and education
- amplify pro-poor policies initiated by the State government and implemented by local governments

¹ An EU India Vision Statement on IT was adopted at the Second EU India Summit in 2001

- open the door to policy dialogue and enhanced visibility, albeit at State level first
- lend weight and credibility to the EC's voice in the debate on poverty at the national level
- establish a direct link of policy with outcomes at the grass roots level¹
- aim at measurable impact in the selected geographic area.

The three constituent elements will be balanced in light of the needs, local conditions, geographic focus and absorptive capacity within the State prepared to negotiate such a partnership with the EC.

The “partnership package” approach will facilitate dialogue on vital cross-cutting issues of **governance**, including **fiscal and economic reform, transparency** in decision making and **devolution** of powers to the stakeholders.

An Indian State ready to enter into a dialogue with the EC on a future “partnership for progress” would respond to the following **criteria**:

- welcome co-operation with the EC as part and parcel of its development strategy
- be situated in the lower half of the GDP ranking of Indian states and show a deficit in the balance of social indicators
- embrace a strategy to tackle gender and discrimination issues
- show commitment to reducing poverty at the centre of a strategy to improve public finances and service delivery.

This would imply that a future “Partner State” would be committed to reducing red tape, enhancing transparency in the administrative process, confronting corruption, elements that favour enhanced local and foreign investment.

- In case a State is already engaged in a partnership with one or several donors, it would show that the partnership with the EC would either considerably enhance the impact of existing partnership programmes, or cover new geographic or thematic terrain.
- The decision as to which State would be a suitable partner will be made jointly with the Indian government and interested State governments that respond to the above preliminary criteria. It will be based on a comprehensive expert study that will duly consider the views of affected communities, of civil society representatives and development workers.
- A first partnership package will be programmed for identification, design, and agreement by the end of 2003. It may be followed by preparatory activities for a second “State partnership” starting with 2005, depending on the availability of resources and on progress under the first “State Partnership”.

5.3.3 Engaging Civil Society and Working with NGOs

Engaging civil society is an increasingly important pillar in the architecture of the EU India relationship: EU India Round table, Think Tank network, a revitalised EC India Cross Cultural programme will be the instruments to drive this process.

¹ The experience of other donors, including the World Bank, the Asian Development Bank, the UK's Department for International Development, and the Dutch aid would indicate that long term efforts at partnership building at State level improve local ownership and boost the commitment to broaching difficult policy reforms at the State level and beyond.

The EC will continue to support the many Indian **non-governmental organisations**¹ as well as international NGOs that work directly with the communities most in need. NGOs remain vital partners in the delivery of humanitarian aid.

5.4 Coherence

The co-operation strategy outlined in this paper builds on the **lessons drawn from two decades of co-operation** with India and carries it forward into **a new phase** that takes due account of the **changing economic and political environment** prevailing inside and outside India. The paper elaborates on the key perspective outlined in the Commissions' Communication on "an EU India Enhanced Partnership". It further addresses the key issues highlighted at the EU India Summits of Lisbon in June 2000 and New Delhi in November 2001, such as universalising elementary education, promoting basic health services, seeking a common approach on the environment, developing trade and investment, co-operating on strengthening the multilateral trading system, as well as facilitating cross-cultural, academic and scientific exchanges.

The co-operation strategy outlined links the issues of poverty, sustainable economic growth and enhanced trade and is thus in line with the most recent general and specific political guidelines for development co-operation outlined in the **Statement by the Commission and the European Council of November 2000**.

On questions linked to economic reform the actions proposed are in line with the key objective of EC trade policy of promoting the **integration of developing countries into the multi-lateral trading system**, especially of a developing country as large as India, and the need to open markets.

The proposed actions are designed to facilitate **mutual benefit accruing** to both sides under existing instruments, such as the Co-operation Agreement on Science and Technology signed in November 2001, and instruments still in the making such as possible future Agreements on Maritime Transport and Customs Co-operation. The paper also assigns resources to promoting and sustaining the "exchange of minds", such as think tanks, policy makers, academics and scholars, development activists and the culturally creative.

The paper further identifies Indian **civil society as a motor of social and economic reform** and accords it a key role in the design and implementation across the entire range of actions proposed. It is thus coherent with the positive experience of ten years of decentralised co-operation through co-financing the work of Indian and European NGOs, and seeks to harness their expertise, commitment and creativity in experimenting with and applying approach that match the constantly changing challenges of our co-operation with a rapidly evolving India.

5.5 Complementarity within the EU and with other Donors

¹ The EC is currently co-funding more than 150 NGO projects in India. EU and Indian Civil Society interface in the Cross Cultural programme, the EU India Round Table and the EU India Think Tank Network.

The matrix of EU donor orientation shows that the actions proposed by the EC complement the approaches and strategies of Member States. There is basic **convergence on the analysis of the major challenges** facing India, as well as on **effective response strategies**. The approach to concentrate efforts in selected “reform minded” Indian States is shared by major donors such as the UK, the World Bank and the Asian Development Bank and developed through careful weighing of the options vis-à-vis the challenges posed by the sheer size and diversity of India.

Duplication of activities will be avoided through close **consultation and co-ordination on the ground**, and the very nature of the participatory process through which programmes will be identified and designed. The issues addressed in the framework of economic co-operation are of common concern to most EU Member States. Member States value the **EC as a credible partner** to broach issues linked to economic reform and trade policy.

Amongst the international donors the EC will continue to draw on the detailed sector- and State-specific **analytical resources made available by the World Bank and the Asian Development Bank**. The EC shall work closely with the World Bank and the Asian Development Bank in policy areas where their leverage is instrumental to inducing change. This is especially significant in areas that touch upon economic reform, such as the development of the regulatory environment, power sector reform and the design of an environmental and resource management programme.

Annex1

Socio-economic Indicators, India 1999¹

Poverty and social	
GNP per capita (Atlas method, USD)	440
GNP (Atlas method, USD billions)	441.8
GDP (USD billions)	447.3
GDP (average annual growth 1999-03)	6.4
Consumer prices (% of change)	4.6
Population, 2000 (millions)	1,000
Population (% annual growth, 1999)	1.8
Population (% of average annual growth, 1993-99)	1.7
Labour force (% of average annual growth, 1993-99)	2.1
Poverty (% of population below national poverty line)	35
Urban population (% of total population)	28
Life expectancy at birth (years)	63
Infant mortality (per 1000 live births)	70
Child malnutrition (% of children under 5)	53
Access to improved water source (% of population)	81
Illiteracy (% of population age 15+)	44
Illiteracy, male (% of male population age 15+)	34
Illiteracy, female (% of female population age 15+)	58
Government finance (<i>% of GDP, includes current grants</i>)	
Current revenue	23.6
Current budget balance	-0.01
Overall surplus/deficit	-11.4
Structure of economy (<i>average annual growth %</i>)	
Agriculture	1.3
Industry	8.8
Services	7.8
Trade (<i>USD millions</i>)	
Total exports (fob)	38,326
Food	564
Fuel	374
Manufactures	31,314
Total imports (cif)	55,385
Food	2,459
Fuel and Energy	10,682
Capital Goods	10,192
Balance of payments (<i>USD millions</i>)	
Exports of goods and services	54,047
Imports of goods and services	67,250
Resource balance	-13,203
Net income	-3,133
Net current transfers	12,638
Current account balance	-3,699
External debt and resource flows (<i>USD millions</i>)	
Total debt outstanding and disbursed	102,626
IBRD	7,879
IDA	18,984

¹ Source: World Bank

SECTORAL MATRIX / DONORS CO-ORDINATION

Annex 2

Sector	EC	Member States	Other donors	Comments
Agriculture and food security	X	D, DK, UK	WB US, JAP, UNDP	Projects in this area are linked with rural development
Social sector Child labour Gender issues Family welfare Water Social safety for workers Sustainable financing for social services	X X X	EL, UK UK, NL, D, S UK D UK	WB, CAN WB, US, ADB, UNDP, CAN, WB ADB ADB	Poverty reduction is the target common to all donors. The gender issue is considered as a priority crosscutting issue for education and health.
Health Primary level Reproductive and child health AIDS and other infectious diseases control Drugs	X X X	I, NL, D, DK, UK UK, NL, DK, S UK, DK, S	WB, JAP, UNDP WB, US, JAP WB, JAP, UNDP, AUS UNDP	Women (reproductive) and child health is considered crucial by most donors.
Education Primary education Higher education Technical/vocational education & training	X	UK, NL, S D I, D	WB, UNDP, AUS WB, AUS	Primary education is a key sector for many donors.
Economy sector Financial sector Power & energy Telecom Transport Technology SMEs	X X	S, UK D, UK I, UK	CAN WB, US, ADB WB, ADB, JAP, UNDP WB, ADB WB, ADB, JAP US US, UNDP	Most donors strongly support the reform process.

Sector	EC	Member States	Other donors	Comments
Environment Bio-diversity protection Forestry Water conservation Environmental standards and policy Efficient and renewable energy Industrial pollution prevention	X X	NL UK S, UK D UK, D, DK D, DK, S	CAN WB, US, WWF-India, UNDP WB, JAP, WWF-India WB, JAP WB US, ADB, CAN, UNDP WB, US, ADB, JAP, UNDP	Environment is considered a priority sector linked to others by a number of donors. Important sub-sectors include air pollution and waste treatment.
Urban sector Water Infrastructure	X	UK I	WB, JAP, AUS ADB	Access to safe water and sanitation is considered vital.
Rural development Water Rural banking	X	UK, DK, S D, UK	WB, JAP	See above
Human rights and similar Human rights Democratic governance	X	S S, DK	CAN	Politically sensitive
Support NGOs	X	FIN, P, E, S, UK	AUS	Many donors support NGOs initiatives
State focus Gujarat Orissa Andhra Pradesh Uttar Pradesh Karnataka Madhya Pradesh West Bengal Tamil Nadu Kerala		D, NL UK UK NL DK, S, UK DK, S, UK S DK, S	ADB WB WB WB ADB	Specific state partnerships are increasingly part of donor strategy. A wide multi-sectoral approach focusing on few states is being adopted by several donors.

Summary of Ongoing EC Projects

Annex 3-1

Project/Sector	Year*	EC cost € million	Total cost € million
Development co-operation			
Sector programme of support for primary education	1993	150	531
Transfer of technologies for sustainable development (BAIF)	1994	19.5	20.5
Orissa minor irrigation	1994	10.7	12.07
Saline land reclamation in Maharastra II	1994	15.5	18.1
Ravine stabilisation in Uttar Pradesh	1995	7.9	9.9
Pondicherry tank rehabilitation project	1995	6.65	8.21
Haryana Community forestry project	1995	23.3	30.1
Support to health and family welfare sector development	1996	240	3500
Programme of enrichment of school level education (PESLE)	1998	11	16.19
Sustainable tribal empowerment project (STEP)	1998	13	21.216
Sarva Shiksha Abhiyan – Education for all	2000	200	
Sustainable Community-based Approaches for Livelihoods Enhancement (SCALE) – Aga Khan Foundation	2001	25.8	37.8
Economic co-operation (only financed by EC)			
	YEAR **		
EU-India economic cross cultural programme	1996	30	
EU-India IPR programme	2001	0.95	
Maritime transport project	2000	8	
Jawaharlal Nehru University European Union Studies Programme	2002	0.59	0.59
EU-India Civil aviation Project	2000	18	
ECHO (only financed by EC)			
Floods in the eastern states of India (9 projects)	2000	5.830	
Floods in Orissa (6 projects)	2001	2.15	
Dipecho (2 projects)	2001	0.65	
Gujarat earthquake (17 projects)	2001	13	
NGOs (171 projects)			
Rural development (51 projects)		16.035	36.864
Support of women (14 projects)		3.782	7.257
Support of children (13 projects)		3.095	7.677
Education and professional formation (14 projects)		3.409	8.123
Construction of housing (6 projects)		1.273	3.271
Health (16 projects in total– 8 co-financed)		11.088	13.291

Water supplying & water management (6 projects)		1.575	3.502
Tibetan refugees (7 projects)		1.681	2.814
Environment (6 projects in total– 3 co-financed)		3.334	3.802
Human rights (13 projects in total – 6 co-financed)		3.702	5.351
Others (25 projects)		7.868	16.411

* Commitment year

** Signature FA or starting year

Overview of Ongoing EC India Development Co-operation

Poverty alleviation/natural resourcesALA/94/21 – Orissa Minor Irrigation

- **Objective: to develop farmer-based Water Users Associations capable of managing maintenance and water distribution**
- **EC Cost: € 10.7 million**

ALA/94/27 – Saline Land Reclamation in Maharashtra – Phase II

- **Objective: to uplift the living conditions of poor farmers cultivating saline lands in coastal areas.**
- **EC Cost: 15.5 million**

ALA/95/10 – Ravine Stabilisation in Uttar Pradesh

- **Objective: to improve the living standard of rural communities living in ravinous areas through prevention and stabilisation of ravines.**
- **EC Cost: € 7.90 million**

ALA/95/15 – Haryana Community Forestry Project

- **Objective: to improve the natural environment and preserve land fertility**
- **EC Cost: € 23.30 million**

ALA/95/16 – Pondicherry Tank Rehabilitation Project

- **Objective: to aim at more equitable water distribution and use, improvement in water management.**
- **EC Cost: € 6.65 million**

Sector developmentEducationALA/93/14 – Sector Programme of Support for Primary Education

- **Objective: to contribute to economic and social upliftment, particularly of women, through education, thereby leading to increase in family welfare (near completion)**
- **EC Cost: € 150 million**

Support to Universal Elementary Education (Sarva Shiksha Abhiyan)

- **Objective: to support the government of India Programme for universalising elementary education with adequate facilities for 8 years of elementary schooling (programme to be launched before end 2001)**
- **EC Cost: € 200 million**

Health

ALA/96/09 – Support to Health and Family Welfare Sector Programme

- **Objective: to improve the quality and accessibility of health services with particular focus on women's and child health status**
- **EC Cost: € 240 million**

Action through NGO's

ALA/94/32 – Transfer of Technologies for Sustainable Development, BAIF

- **Objective: to achieve sustainable development for small and marginal farmers and landless families in 11 districts in 5 States of India**
- **EC Cost: € 19.5 million**

ALA/98/0123 – Programme for Enrichment of School Level Education, Aga Khan Foundation

- **Objective: to improve the quality of school level education in selected states of India.**
- **EC Cost: € 11 million**

ALA/98/0174 – Sustainable Tribal Empowerment Project

- **Objective: to improve the quality of life of the poorest and most disadvantaged members of tribal society in Northern Andhra Pradesh.**
- **EC Cost: € 13 million**

ALA/01/85 – Sustainable Community-based Approaches for Livelihoods Enhancement (SCALE)

- **Objective: to develop community-based approaches to natural resource management for enhancing sustainable rural livelihoods at the local, state and national level.**
- **EC Cost: € 25.5 million**

ANNEX 4: EC - INDIA NATIONAL INDICATIVE PROGRAMME, 2002 – 2006

Year ¹	Programme Title	Budget ²	Budget Line	Summary
2002	Trade and Investment Development	15	B7-301	3 years - supporting economic reform, regulatory systems incl fin. Sector, economic management infrastructure, WTO related capacity building, improved SPS facilities
2003	EU India Think Tank Network	3	B7-301	3 years - Facilitating think tank partnerships through competitive project funding and networking activities
	Disaster Preparedness Programme	10	B7-300	5 years – Technical assistance to improve disaster preparedness assets in selected Indian States
2004	First State “Partnership for Progress” Programme	158	B7-300	7 years - Partnership for development with semi-rural geographic focus in a “reforming” partner state supporting actions in the areas of Elementary Education, Basic Health Services, Natural Resource Management and Environmental Protection. Cross cutting issues: Governance and financial management/reform.
	EC India Scholarship Programme	31	B7-301	5 years - Exchange of scholars and students
	Small Projects Facility – Phase II	8	B7-301	4 years - Small scale activities in strategic multi/bilateral policy areas

¹ Year in which Financing Agreement is signed and/or EC funds are Committed

² EC Contribution in Mio Euro

NATIONAL INDICATIVE PROGRAMME

(2002 – 2003)

INDIA

Country/Region:	India
Budget Years:	2002 - 2003
Budget Line:	B7-300, B7-301
Legal Base:	ALA Regulation (Council Regulation 443/92 of 25/02/92)
Cost of Order:	€28 million
Programming Service:	DG RELEX.H.3
Head of unit:	L. Argimon-Pistre
Co-ordinator:	R. Teerink/U. Eckle/C. Sorensen

NB: The scope of this National Indicative Programme is limited to budget years 2002 – 2003. It is part of the Country Strategy Paper, which sets out the co-operation framework for 2002–2006.

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1. EC-INDIA COUNTRY STRATEGY PAPER

India has developed the world's fourth largest economy. It has a growth rate that since 1980 is among the highest in the world, and a rapidly expanding global imprint in information technology. India's pace of reform is impressive, but the process remains incomplete and fragile. The overriding challenge is still to lift some three hundred million of its citizens out of poverty.

The EC's co-operation strategy will build on the experience of two decades of successful co-operation and adapt its activities to the changing political and economic landscape in India. It will address the following priority aims:

- Priority 1: To assist India in eliminating poverty and building its "human capital" by: (a) dedicating its resources to making elementary education universal, (b) improving health services in favour of hitherto deprived population groups, (c) restoring and safeguarding a healthy environment, and (d) helping communities at risk to be better prepared for disasters.
- Priority 2: To assist India in creating an enabling economic environment by sharing its expertise, including in science and technology, so as to help India unlock the full potential of its economy, and obtain better returns on its vast economic assets through regulatory reform, privatisation and fiscal reform.
- Priority 3: To contribute to good governance by supporting India's academic institutions, think-tanks and social advocacy groups.

The present NIP, covering the years 2002 and 2003, takes on board the priorities spelt out in the above three bullets. The Disaster Preparedness Programme responds to the aim of helping communities to better cope with disasters. A first step towards creating an enabling economic environment (priority 2) is made by launching the Trade and Investment Development Programme, while the EU-India Think-Tank Programme responds to good governance (priority 3) by supporting India's think-tanks. The important strategic priority of contributing to poverty reduction and building India's human capital through support to health and education will be addressed in the second NIP, covering the period 2004-2006. This NIP will focus extensively on the future 'Partnership for Progress' with one or two reform-minded Indian States.

2. Indicative Budget

During the period covered by the National Indicative Programme, from 2002 to 2003, a total EC grant of €28 million can be committed. The breakdown of this grant amount is as follows:

- 2.1 Priority 1:** Contributing to the elimination of poverty by helping communities at risk to be better prepared for natural disasters.
Action: EC Disaster Preparedness Support Programme in India, €10m
- 2.2 Priority 2:** Creating an enabling economic environment.
Action: EC-India Trade and Investment Development Programme, €15m
- 2.3 Priority 3:** Supporting civil society.
Action: EU-India Think-Tank Network, €3m

3. PRIORITY 1: DISASTER PREPAREDNESS

3.1 PROJECT TITLE

EC Disaster Preparedness Support Programme in India.

3.2 STRATEGIC CONTEXT/JUSTIFICATION

More than 50 million people are affected by disasters each year in India. The country is highly vulnerable to drought, floods, cyclones and earthquakes: 22 of its 31 States/Union Territories are disaster-prone. The earthquake that struck Gujarat in January 2001, which came in the wake of successive natural disasters, has helped to strengthen the resolve of the Government of India (GoI) and State Governments, as well as various NGOs and other civil-society groups, to recognise the need to concentrate their efforts to improve countrywide disaster management (DM) and disaster preparedness (DP) systems. The international community has an unprecedented opportunity to help maintain this momentum and assist India to develop forward plans to strengthen indigenous disaster preparedness and management systems.

For more than 20 years the Commission has supported DP actions (shelters), and since 1994 the Commission has focused its DP and DM support and assistance to India through ECHO and DIPECHO operations in response to the requests of NGOs and international organisations. With this newly planned €10 million programme, the Commission is expected to make a significant strategic contribution to the policy-formation and capacity-building efforts made at national level by the GoI, and at international level by UN agencies, EU Member States and civil society initiatives in the area of disaster preparedness.

Since the programme will especially address the policy framework and capacity building, it is not necessary to distinguish between natural and man-made disasters. If the programme is successful, the Indian authorities should be able to better cope with all types of disasters.

3.3 OBJECTIVES

Building on the earlier DIPECHO experience, the Programme will help India to cope better with disasters through mitigation, preparedness and a well co-ordinated efficient response system. Policy formation and capacity building in disaster management will constitute the major focal point of the programme. The specific objectives of the Programme are:

- To assist the Government of India in improving, strengthening and streamlining its disaster management regulatory framework.
- To co-ordinate the various stakeholders in the field of disaster management: government, NGOs, public and private sector and international organisations.

- To establish an exhaustive national information base on disaster policies, prevention mechanisms and mitigation measures, with details for each region of preparedness and response plans and of resources spent on mitigation and response to various types of disasters.
- To forge, promote and sustain international and regional partnerships for launching joint synergistic projects.
- To assist a number of States in strengthening their disaster management systems and capacities.

3.4 EXPECTED RESULTS

The National Disaster Management Authority and Union Home Ministry and relevant agencies at Central, State and local level will become better prepared for and better able to manage disasters through improved early warning and prevention mechanisms, surveillance systems and improved co-ordination and information sharing.

There will be increased awareness of DP/DM at community level thus ensuring active local participation in disaster mitigation activities.

The regulatory framework for disaster management in India will be improved, strengthened and streamlined.

3.5 ACTIVITIES

- Fostering policy dialogue and capacity-building between the different tiers of the disaster management system in India (central, state, district and local level).
- Training programmes, workshops, seminars and exchanges of experts covering fundamentals of disaster preparedness and disaster management.
- Equipping and training search and rescue teams to be set up at national and state levels.
- Establishing microzoning systems and a nation-wide GIS system.
- Establishing a GIS-based web-enabled information system for disaster management and setting up the links between district, State and central levels.
- Providing technical assistance at national level to improve, strengthen and streamline India's regulatory framework for disaster management.

3.6 IMPLEMENTATION

An identification mission will be launched in 2002 to outline and formulate the Programme. Once the Programme is approved and a financing decision adopted, a Financing Agreement would be signed with the Government of India in 2003.

3.7 RISKS/CONDITIONALITIES

DM/DP is a multidisciplinary field, covering a large number of subjects ranging from preparedness, forecasting and warning to evacuation, search and rescue, relief, reconstruction and rehabilitation. It is also multi-sectoral: administrators, scientists, planners, volunteers and communities, all have important roles to play. These roles and activities span the pre-disaster, during-disaster and post-disaster phases. Since these activities are complementary as well as supplementary to each other, a first critical conditionality is **co-ordination**.

State Governments have the lead in managing disaster response in India. As a result, developing DP/DM (disaster preparedness and management) capabilities is seen to be largely their responsibility. However, national level organisation and guidance are equally important because if DP/DM reform is taken forward only at State level it risks being piecemeal and ultimately less effective. Furthermore, the reliance of States on Federal Government for funding in the event of emergencies of any magnitude means that the Centre is a major stakeholder in DM.

The Central Government, with its physical and financial resources, does provide the assistance to buttress relief efforts in the wake of major natural disasters. The dimensions of the response at Central Government level are determined in accordance with the existing policy of financing relief expenditure and keeping in view factors like:

- (i) the gravity of a natural calamity,
- (ii) the scale of the relief operation necessary, and
- (iii) the need for Central funding to augment the financial resources of State Governments.

However, DM in India is complicated by a complex legal framework. Instead of a streamlined set of regulations, there is a mishmash of laws, some of which have existed since colonial times.

A second important conditionality, therefore, is the **willingness** of the GoI to reform and strengthen DM systems.

3.8 PERFORMANCE/OUTCOMES INDICATORS

- Existence of a new integrated Disaster Management strategy incorporating a top-down policy framework and a bottom-up capacity-building approach, empowering communities through local disaster responsive initiatives and building on the existing indigenous capacity and knowledge.
- Strengthened and streamlined national disaster management regulations.
- Operational response capacity increased

3.9 FINANCIAL ENVELOPPE

The total commitment envisaged is €10 million for 5 years.

3.10 INDICATIVE TIMEFRAME

Finalise project preparation:	first half 2003
Presentation to ALA Committee:	second half 2003
Commitment:	second half 2003
Implementation:	second half 2003

4. PRIORITY 2: CREATING AN ENABLING ECONOMIC ENVIRONMENT

4.1 PROJECT TITLE

EC–India Trade and Investment Development Programme

4.2 STRATEGIC CONTEXT/JUSTIFICATION

Since their first bilateral summit in Lisbon in 2000, India and the EU are committed to joint efforts towards tapping the potential of their economic relations by creating a climate conducive to substantially increasing bilateral trade and investment flows. Industry has since taken the lead under the “EU-India Joint Initiative for Enhancing Trade and Investment” and has put to policy-makers a number of sector-specific “recommendations” for action.

The Trade and Investment Development Programme is the co-operation tool of choice that will facilitate actions and policies to foster trade and investment. It will also promote India’s influence in implementing the DOHA Declaration, in particular where it aims at integrating developing countries in a strengthened multilateral trading system.

4.3 OBJECTIVES

The T&IDP is the key co-operation instrument for fostering an enabling economic environment and for helping to improve economic governance with a view to significantly enhancing trade and inward investment flows.

The T&IDP will provide the tools for promoting awareness of the key economic reform challenges India faces, strengthening administrative capacity and building confidence in the private sector and among the general public. It will also underpin India’s contribution to implementing the decisions adopted at the WTO Ministerial conference of DOHA.

It will further facilitate the implementation of the “joint recommendations” that business generated under the “EC-India Joint Initiative for Enhancing Trade and Investment”.

4.4 EXPECTED RESULTS

The T&IDP will:

- help to increase India's share of world trade;
- accelerate India's international trade through improved access to imported inputs, a balanced import liberalisation regime, and optimised integration of proactive trade, competition and investment policies;
- inform the public discussion in India concerning the impact of fiscal reform, increased public investment and aggressive infrastructure development on the flow and performance of investment, including FDI, and on the generation of employment and growth;
- help to facilitate trade, in particular by promoting transparency and the removal of unnecessary technical barriers to trade, to the immediate benefit of traders and investors;
- bring about enhanced awareness, and help promote the preparation, adoption and application of improved technical regulations and standards; and help upgrade testing facilities and accredit them by internationally recognised accreditation bodies;
- provide practical support to the simplification and modernisation of India's import, export and customs procedures ("trade facilitation"), thus reducing costs for Indian traders, assisting the customs in improving controls and revenue collection;
- help upgrade testing facilities and accredit them by internationally recognised accreditation bodies;
- provide practical support to foreign and local investors in relation to authorities at the local, state and central level, and thereby enhance the EU's role as the largest source of FDI;
- synergise and reinforce the outcomes of the private-sector-driven "EC-India Joint Initiative for Enhancing Trade and Investment".

4.5 ACTIVITIES

T&IDP activities are grouped under four broad themes as follows:

(1) Facilitating EU-India trade

Activities under this heading aim at improving operating conditions for Indian and European traders. Key components comprise gathering - and ensuring free and easy access to - trade information, devising a special problem-solving mechanism for traders, upgrading trade-related testing capacity for sanitary and phytosanitary (SPS) measures and other technical regulations, modernising customs procedures and assisting with mutual recognition arrangements.

Economic operators have articulated the demand for action on the following issues:

- the setting up of a web-based “EU-India Trade Portal”, including a WTO-TBT entry point for im/exporters, and the posting of constantly updated information on EU and Indian SPS measures and other technical regulations with an impact on trade;
- establishing a problem-solving call and assistance facility to assist traders whose goods are held for inspection;
- capacity-building at Indian laboratories with a focus on food industry and engineering goods through technical assistance, including training and the selective upgrading of equipment and accreditation of these laboratories by internationally recognised accreditation bodies;
- technical assistance towards improved trade efficiency, within the framework of WTO principles, addressing, in particular the simplification of transactions and the modernisation of customs procedures, aligned to international standards, greater transparency and business access to customs rules and procedures, single windows for trade documentation and customs release, more widespread use of modern techniques based on risk assessment and fast track facilities for compliant traders, and the introduction or improvement of computerised systems to replace paper-based procedures, for customs and other agencies.

(2) Enhancing India’s Trade Performance

Technical assistance in focal areas linked to trade facilitation and development would make up the core of this component, including

- the exchange of expertise and training with a view to bringing Indian technical regulations and standards into line with international standards and European systems of technical regulations, standards and certification. This may include creating a data base on the regime of standards and regulations as it evolves and as it compares with other trading nations;
- exchange of expertise and long and short term training and infrastructure development. This would aim at simplification, standardisation and modernisation of import, export and customs procedures in line with international standards and best practices, which will bring particular benefits for Indian SMEs as well as larger traders.;
- studies on international competitiveness in selected sectors with potential for increased two-way trade and partnering with EU investors.

(3) Integrating India’s economy with global markets

The thrust of activities would comprise

- the financing of up to ten in-depth research studies carried forward by five or six reputed Indian economic think-tanks that as a rule maintain working links with government departments; the subjects covered will be central to the domestic economic reform

programme, bilateral trade and the multilateral process, particularly the Doha Development Agenda, such as - but not limited to - tariff structure, policies on international trade, investment, competition, taxation, IPR, environment, labour standards, etc.

- conferences and seminars over a period of three years bringing together Indian and European trade analysts, facilitated by economic think-tanks and leading economic editors of the printed and electronic media that drive the debate on economic reform in India;
- promoting awareness by:
 - ⇒ specific training programmes aimed at some 6,000 officials at the operational level – in the areas of taxation, customs, health, statistics, company affairs, investment etc.
 - ⇒ highlighting the results of the studies and conferences in a special permanent editors’ forum and dissemination by the media, including the non-English-speaking media;

(4) Improving the climate for investment, including FDI

The two distinct elements of this component would comprise: (1) setting up a Permanent EU-India Investors Forum (PIF), and (2) “soft” technical support for one or two selected state-based “model industrial zones” with focus on providing state-of-the-art infrastructure packages, single-window procedures and WTO-compatible “attraction conditions”.

- The PIF would take up investors’ interests by interfacing with the authorities at all levels - central, state and local - throughout all stages of the investment process. The PIF would ideally consist of representatives of European and Indian business, and of central and state level administrations, involved in investment-related decisions. The PIF would initially start with on-the-ground presence and activities in four of the most investor-friendly states. It may operate flexibly in response to actual demand and on the basis of co-funding with the host states, and gradually extend its presence to more and more states in line with the available human and financial resources.
- The T&IDP would further contribute resources towards the feasibility investigation and the preparation of business plans for one or more “industrial zones”, in support of efforts by progressive Indian states to offer an efficient mix of infrastructure development/funding and best administrative “single-window” and management practices in order to attract investors. The medium-term aim is to develop, test and promote models that may have a significant “signalling” effect throughout India.

4.6 IMPLEMENTATION

The programme orientations and topics have since been agreed at the 12th EC-India Joint Commission on 10 July 2002.

The programme management structure should ensure that the energies and creativity mobilised by key non-governmental stakeholders in India's economic reform process - the private sector, reputed economic think-tanks, civil society - are harnessed to the maximum for optimal inclusiveness, impact, and sustainability.

For three of the four programme topics – (1) *Trade facilitation*, (2) *Enhancing India's trade performance* and (3) *Integrating India's economy with global markets* – this objective would be met by forming **support groups**, made up of representatives of the major stakeholders. The *support groups* would be consulted regularly on the design and monitoring of activities, and, as first-line multipliers, play a key role in disseminating the results.

Membership of the *support groups* may be flexible but should be open to the major stakeholder groups, including the administration, the private sector, leading think-tanks, civil society/NGOs, eminent academics and the economic editors of India's major print and electronic media. Costs related to convoking members, networking and disseminating results may be funded under each programme component.

The T&IDP will be established on the basis of a financing agreement between the EC and the GoI. The duration of the programme is estimated at three years to four years as from the adoption of the first work programme.

4.7 RISKS

The major risks perceived are:

1. Fragmentation of the programme into a series of isolated “projects” that cater for the needs of a relatively small number of governmental bodies and agencies, in particular those linked to exports in the agri-food sector. This could weaken the programme's thrust towards addressing broader trade- and investor-related and multilateral issues.
2. Shifting public sentiment regarding the pace of India's greater global integration, in particular the multilateral trading system as embodied by the WTO.
3. Pressure by business interests to narrow down the parameters of the studies.
4. Loss of ownership by potential beneficiaries of the programme due to administrative rigidity and lack of involvement.

The first risk was already addressed during the programming phase. It aimed at involving - at the conceptual stage already - those actors and sectors likely to “gain” from the programme as either future implementing partners or beneficiaries, such as respected economic think-tanks, the private sector, economic editors of major Indian media and “grass-roots” administrative agencies.

The other risks are best countered by ensuring that actions are open, transparent and visible, with a flexible programme and a coherent message intended to turn stakeholders into first-line “multipliers”. All this is over and above normal “givens” such as the timely delivery of high-quality technical assistance, training and the upgrading of strategic facilities. The component-specific *support groups* are designed to minimise and manage these risks throughout the programme.

4.8 PERFORMANCE/OUTCOME INDICATORS

The following indicators relate to the actions identified under the four headings:

(1) Facilitating EU-India trade, (2) Enhancing India's trade performance

- Lower overall transaction costs for Indian and EU-based traders – sectoral survey amongst the trading community. including Indian SMEs.
- Improved competitiveness and market response of Indian exports in EU markets and vice-versa – enhanced trading flows and widened export basket, trade statistics (Eurostat).
- Opening of new markets and diversification of the basket of traded goods into higher added-value categories, trade statistics (Eurostat).
- Return to the growth rates in bilateral trade of the early 1990s, trade statistics (Eurostat).
- Better rates of revenue collection by customs and improved control functions while reducing the regulatory burden on traders.
- Improved Indian standing in comparison with the average in the ten largest developing countries (ongoing benchmarking exercise).
- Narrowing the gap in growth between the rapidly expanding export market in services and the much less dynamic export market in goods (statistics in trade in services).

(3) Integrating India's economy with global markets

- A set of studies, readily accessible to the public on the “net”, covering domestic economic reforms, bilateral trade and the multilateral process; the number of “hits” can be measured and feed-back given to the authors.
- Enlarged circle of participants and contributors to the discussion on the economic reform policy, the Doha Development Agenda and EU-India co-operation in promoting the Doha Development Agenda, which can be measured by the number of participants in conferences and seminars sponsored by the T&IDP.
- Increased coverage in Indian dailies, including the major local-language publications of economic issues linking the EU and India, and of the Doha process; the increase can be measured by the number of articles, TV and radio programmes inspired by the T&IDP.
- Enhanced level of skills conducive to trade efficiency amongst officials at local operational level in the areas of taxation, customs, SPS, statistics, etc.; progress can be measured by the number of participants in, and feed-back from, class-room and long-distance internet supported training courses, and finally by surveying the key and long-standing traders.

(4) Improving the climate for investment, including FDI

- Effective interface between investors, including small ones, and the authorities at all levels, especially in the states, with a say in investment-related decisions so as to anticipate and/or resolve any problems - survey of actual and potential investors.

- Regulatory predictability for potential investors and drastically shortened investment realisation periods. – survey of actual and potential investors.
- Improved ratio of approved to actual investment – statistics by RBI and future “EC India investment observatory”.
- Increased overall investment inflows, in particular from Europe. Survey sponsored by future “EC India investment observatory”.

4.9 FINANCIAL ENVELOPE

The total contribution envisaged from the EC is €15 million for 3 years, with an **indicative** breakdown as follows:

(1) <i>Integrating India’s economy with the global markets</i>	€ 1.5 mio
(2) <i>Facilitating EU-India trade</i>	€ 6.0 mio
(3) <i>Enhancing India’s trade performance</i>	€ 2.0 mio
(4) <i>Improving the climate for investment, including FDI</i>	€ 3.0 mio
(5) <i>Contingency</i>	€ 1.0 mio
(6) <i>Costs for co-ordination, technical backstopping/support</i>	€ 1.5 mio

4.10 INDICATIVE TIMEFRAME

Finalise Programme preparation/formulation:	4 th quarter 2002
Presentation to ALA Committee:	2 nd quarter 2003
Commitment:	3 rd quarter 2003
Implementation:	from 3 rd quarter 2003

5. PRIORITY 3: SUPPORTING CIVIL SOCIETY

5.1 PROJECT TITLE

EU–India Think-Tank Network

5.2 OBJECTIVES

To contribute significantly towards bringing together Indian and European civil society. The Network should be a cornerstone in building stronger links between civil societies, as decided at the June 2000 Lisbon Summit and reinforced at the New Delhi 2001 Summit. The Think-Tank

Network should be an additional and complementary instrument to the present Round Table of eminent personalities, which functions well.

To extend the number of policy thinkers (academics, researchers, NGOs, etc.) in the EU and India who carry out exchange of views on various priority issues, and increase the awareness and sensitivity of key policy actors on both sides.

To increase knowledge of 'the other side': India-EU relations suffer from a lack of comprehension and understanding of the partner country/entity. In India for instance, there is still very little understanding of the importance of the EU and of its functioning, and of the European perspective on global issues. Similarly, many Europeans have little understanding of India. The Think-Tank Network should thus help narrow the 'information gap' which still exists between both sides.

5.3 EXPECTED RESULTS

An EU-India Think-Tank Network Programme, which will become operational in late 2002, should help participating think-tanks from India and the EU to conceptualise, elaborate and organise joint projects, meetings and seminars and exchanges of personnel between network partners.

More in-depth thinking and better understanding of strategic issues in fields like:

- (i) international relations/strategic/political issues,
- (ii) economic/trade/development questions,
- (iii) social/cultural/environmental matters, by influencing mutual long-term political approaches from a second-track perspective.

5.4 ACTIVITIES

Providing a framework for interaction between EU and Indian think-tanks and providing stimulus for research on EU-India relations and possible co-operation and strategic interests, etc.

Supporting their involvement in activities such as an annual meeting of network participants; organising joint research activities focussing on contemporary issues; organising joint projects and ad hoc meetings between network partners; organising joint seminars; exchanging personnel.

Joint publications, and particularly a regular Think-Tank Network Journal/Magazine, could be important in motivating participation and improving the visibility of the initiative. Exchange of ideas/communication through a permanent virtual link, i.e. a web site, would be an additional valuable element in that sense.

This could take the following shape:

Annual network meeting: All partners involved could be invited once a year to a formal and official meeting which aims primarily to allow all involved to meet and network. This could be held alternately in Europe and India. Additional ad hoc meetings could be held when required.

Preparation of co-operation: Creation of a database helping to identify possible partner institutions.

Organisation of joint projects between network partners: Think-tanks would prepare proposals for joint projects, using both electronic and face-to-face contacts to prepare these proposals. Think-tanks could also elaborate proposals for an event, or a joint study project, with other partners on topics of mutual interest.

Organisation of joint seminars: Indian and EU think-tanks could prepare proposals for joint seminars on topics of mutual interest. These seminars could be held either in India or the EU, and be open to a wide public outside the Think-Tank Network.

Exchanges of personnel: EU and Indian think-tanks could elaborate initiatives for exchanging personnel for short periods. These should serve to exchange views and to gain better knowledge and experience of the working environment of the other. Joint projects could also be better prepared through such exchanges.

Dissemination of results: Think-Tanks could be encouraged to draft articles/publish results of joint initiatives in a Think-Tank Network Magazine. Together with a web site and other media, this should help communicate the findings and achievements of the Think-Tank Network.

Exchange of ideas/communication through a permanent virtual link: A web site on key topics should be used to ensure a continuous dialogue between think-tanks.

Inclusion of think-tanks from as many EU Member States and Indian regions/states as possible should be encouraged, each with at least three participants for each project/activity: one from India and two from the EU (from two different Member States).

Given that think-tanks are usually small, procedural constraints/obligations should be kept to the absolute minimum in order to allow for numerous and successful participation. Concrete guidance material on procedures for application and participation should be made available (brochure, web, etc.). Selection criteria should be clear and publicised, and it should be considered whether to allow exploratory missions to identify ideal partners for co-operation. It is essential to obtain a maximum EC co-financing percentage.

5.5 IMPLEMENTATION

A project design mission should be sent to New Delhi to evaluate how best to organise the setting up and running/functioning of the Think-Tank Network with the Government of India in terms of administrative procedures, independence, etc.

Serious consideration should be given to the central role of the Commission Delegation in operating the Network – and this should be spelt out in detail. The programme should be managed from Delhi, preferably by the Delegation.

5.6 RISKS/CONDITIONALITIES

- Interest of Indian think-tanks in co-operating with EU partners and vice-versa.

- Co-financing aspect :
 - financial means of think-tanks;
 - complementarity with other EC civil society relevant programmes (e.g. small project facility, cross-cultural programme, etc.);
 - complementarity with Member States' programmes.

5.7 MAIN INDICATORS

Quantitative:

Number of:

- participating think-tanks;
- projects submitted in response to the call for proposals;
- activities organised;
- participants in these activities;
- projects completed successfully.

Qualitative:

- Better understanding of EU in India and vice versa;
- Press coverage;
- Reference to Think-Tank Network in official EU-India documents.

5.8 FINANCIAL ENVELOPE

The total commitment envisaged is €3 million for 3 years.

5.9 INDICATIVE TIME FRAME

Finalise project preparation:	second half 2002
Presentation to ALA Committee:	first half 2003
Commitment:	first half 2003
Implementation:	from second half of 2003