# EU 'Global Player'

- The European Union (EU) has 36% of world GNP.
- EU exports 38% of the world market.
- The EU provides 51% of world Foreign Direct Investment outflows.
- The EU provides 56% of Official Development Assistance.
- EU member states make up 23% of the votes in the World Bank.
- EU member states make up 29% of the votes in the International Monetary Fund.
- The EU has the largest collective number of votes as a regional grouping in the World Trade Organisation.

# EU 'Global Player'

## THE NORTH – SOUTH POLICY OF THE EUROPEAN UNION

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# Foreword

When the European Union is publicly discussed, the focus of the debate is mostly on monetary union, the reform of EU financing, the Common Agricultural Policy in the context of Agenda 2000, the enlargement towards the East, or on criticisms of the European Commission. In comparison to these issues the European North-South policy is on the margins, and is rarely seriously considered outside groups of 'insiders'. Only a few spectacular cases, such as the dispute over bananas between the USA and the EU, are broadly and more profoundly debated and analysed.

Meanwhile the EU's North-South policies are increasingly important for countries in the South. If one totals the Official Development Assistance of the fifteen European member states and the European Community, the European Union is the largest financier of development co-operation. In addition the trade and agricultural policies of the European Union have a direct impact on the economic livelihoods of people living in poverty. The policies of the European Union matter for developing countries. They matter a great deal.

The European Union tends to argue that it is bound by the rules and regulations of the multilateral system. In this way it waves away responsibility for the detrimental effects of international policies on developing countries. Yet, this argument ignores the great influence that the European Union has in the International Financial Institutions and the World Trade Organisation, institutions that determine the overall economic framework for developing countries. The European Union determines either actively as one of the most important players, or passively (by not acting) the general framework for development in the South. Increasingly the European Union is a 'global player'.

With the introduction of the 'euro' the necessity for co-ordination within the European Union becomes even greater. This is certainly the case in the International Financial Institutions. At the same time greater consistency in policies is also required within the EU itself, whether they concern economic, financial or social matters.

It is in the light of these developments, in which the EU is increasingly becoming a single global player, that the meaning of reforms of the European Union's development policies can be better understood. It is well known that European aid policies are seriously incoherent, and that there is a profound lack of any unifying strategic concept on which policy can be built. The institutional and political responsibilities are split and the co-ordination between the Commission and the member states does not function satisfactorily. Often competition between member states and between member states and the Commission stand in the way of improving effective implementation of the EU's development policies.

Within member states there are many with political responsibility who complain about the lack of focus in european North-South policies and some argue for a re-nationalisation of development aid. Yet, it is the member states themselves who are first and foremost in charge of the direction of those policies. They are also responsible for the means and mechanisms for implementing the EU's development programme. The EU's co-operation under the Lomé Convention in particular remains under the substantial control of the member states. Implementation decisions require member state approval, and as it is funded from an intergovernmental agreement outside the normal EU budget it is excluded from the normal budgetary scrutiny of the European Parliament. Rather than floating options such as 're-nationalisation of European aid', the member states should place the objective of a coherent European North – South policy higher on the political agenda. It is in the interest of people living in poverty that European policies become more effective and more coherent.

A cynic might ask whether a coherent EU development policy is perceived by the member states as in their interest. Among the findings of the studies presented in this book the author calculates that € 3 billion is annually lost to development due to insufficient co-ordination of aid activities between member states and the European Commission. Such resources would be sufficient to resolve the debt problem of the Least Developed Countries. Equally the study demonstrates convincingly how the Common Agricultural Policy seriously hampers the realisation of fair and level deals which will promote economic opportunities for people living in poverty in the South.

Next year it is five years since the member states of the European Union pledged solemnly to implement commitments towards sustainable social development at the UN Summit for Social Development. Progress in implementing these commitments will be reviewed in the year 2000. In that year the EU will also conclude negotiations on a successor agreement with the countries of Africa, the Caribbean and Pacific. The findings of the studies presented in this publication raise questions as to whether European development policies will reflect the commitments made in Copenhagen in 1995.

This study has been produced by terre des hommes – Germany, the Transnational Institute, WEED and EUROSTEP in order to generate a broader debate on changes that are needed to achieve a fundamentally different and more coherent

European North – South policy framework. In March this year the German Minister for development, Ms. Heidemarie Wieczorek-Zeul, stated in the Bundestag that there was much need for a European "development policy from one watering can". This study aims to present practical recommendations on how this objective can be achieved.

On behalf of terre des hommes – Germany, the Transnational Institute and WEED,

*Simon Stocker*
Director Eurostep
Brussels, April 1999

## Acknowledgements

The preparation of this publication has been made possible with the cooperation from Eurostep in Brussels, terre des hommes – Germany, WEED in Bonn and the Transnational Institute (TNI) in Amsterdam. Some sections have been published earlier in the annual publications of Reality of Aid 1996, 1997/98 and 1998/99 editions (Earthscan, London) and in *"Europe-Asia Trade: The Real Costs of Greater Growth*", by TNI in Cooperation with Initiatives for International Dialogue, 1999. Most of the chapters have been published in German translation by terre des hommes Germany and WEED.[1] Some of the analysis presented in chapter 8 will also be included in a forthcoming publication by TNI.

I would like to sincerely thank Guggi Laryea, Policy Assistant in Eurostep, who kindly helped in the research undertaken for this publication. He is the co-author of the sections on the Trade Facilitation Action Plan of the Asia-Europe Meeting in chapter 7 as well as chapter 10 on political co-operation between the EU and the ACP. I am grateful to Eileen Sudworth for helping in research as well as for her editorial assistance. She assisted in the writing of chapter 8 on investment. I am also very thankful for the editorial support of Abrehet Goytom, who went meticulously through the manuscript during a 'holiday'.

Jens Martens, Director of WEED in Bonn, gave valuable suggestions on the content and editing. The title of this book springs from his mind. For research on Asia I heavily drew on the help and encouragement of the Asia Programme of the Transnational Institute in Amsterdam carried out by Pietje Vervest and Brid Brennan. Opa Kapijimpanga from Afrodad in Zimbabwe, Simon Maxwell, Director of the Overseas Development Institute in London, and Howard White from the Institute of Social Studies in The Hague gave useful suggestions to chapter 6. Christopher Stevens, Fellow at the Institute of Development Studies, Sussex, and Dot Keet, Senior Researcher at Cape Town University, gave useful advice in relation to chapter 7.

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concentrate my attention some time of the day on the matters discussed in this book without worrying.

This book is dedicated to Peter Bastogi, who died on the 10th of November 1998. He was a great inspiration for many 'observers' of EU North-South policy, not only for his professional accomplishments, but perhaps even more so for his personal qualities. Many of us living in Brussels working in the area of European development co-operation miss him dearly for his constant encouragement and his warm support.

Many close friends contributed to the thinking in this book, coming from all parts of Europe and from the rest of the world to visit Brussels as the 'European Capital'. Sharing their views and concerns is a constant reminder of the effects of European policies on the lives of other people elsewhere. The confrontation with other realities is always enlightening as well as thought provoking. The poem published in this book, written in Eritrea, is witness to this effect.

Continuous contacts with officials from within the European Commission, the European Parliament and the Council, from government diplomatic missions in Brussels and from different European capitals have been instructive and has allowed me to develop further in-depth analysis of EU policies. My supervisor for my Ph.D. research, Professor Jan van Deth from the University of Mannheim, Germany, has given me wonderful advice over many years in developing my work. My thesis is forthcoming under the title: *"The Logic of Coincidence. A reconstruction of EU agenda-setting on development aid (1990-1995).*" It will examine in more detail the factors that determine European policies towards the South and the East.

I am deeply indebted to Simon Stocker who has supported me on developing the content of this book and the ideas expressed in it. He has given me all the support that was needed to finish this book. And finally there are my children to acknowledge: Misha, Naomi and Joëlle. Joëlle was born just two weeks before I embarked upon the journey of writing this book in January 1999. The three of them are the source of my inspiration and fill my days with joy and happiness. I am so grateful that they have come into my life.

*Mirjam van Reisen*
La Hulpe, Belgium
June 1999

*Dedicated to Peter Bastogi † 10 November 1998*

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## List of Abbreviations

| | |
|---|---|
| ACP | African, Caribbean and Pacific |
| AIDS | Acquired Immune Deficiency Syndrome |
| ALA | Asia and Latin America |
| AFTA | Asean Free Trade Area |
| APEC | Asia Pacific Economic Cooperation |
| APRODEV | Association of Protestant Development Organisations in Europe |
| ASEAN | Association for South-East Asian Nations |
| ASEM | Asia Europe Meeting |
| AEBF | Asia Europe Business Forum |
| AUT | Autriche (Austria) |
| BNLS | Botswana, Namibia, Lesotho, Swaziland |
| BEL | Belgium |
| CA | Commitment Appropriations |
| CACM | Central American Common Market |
| CAP | Common Agricultural Policy |
| CARE | Co-operative Assistance for Relief Everywhere |
| CARICOM | Caribbean Common Market/Caribbean Community |
| CEC | Commission of the European Communities |
| CEECs | Central and Eastern European Countries |
| CEMAC | Communauté Economique et Monétaire de l'Afrique Central |
| CFP | Common Fisheries Policy |
| CFSP | Common Foreign and Security Policy |
| CGM | Consultative Group Meeting |
| CHE | Switzerland |
| CIS | Commonwealth of Independent States (ex-Soviet Union) |
| CLONG | Committée de Liaison des ONG EU or NGDO – EU Liaison Committee |
| COMESA | Common Market for Eastern and Southern Africa |
| COREPER | Committee of Permanent Representatives |
| CSC | Central Steering Committee |
| DAC | Development Assistance Committee |
| DEU | Deutschland (Germany) |
| DFID | Directorate for International Development (UK) |

| | |
|---|---|
| DG | Directorate General of the Commission of the European Communities |
| DNK | Denmark |
| EAC | East African Cooperation |
| EAEC | East Asian Economic Caucus |
| EC | European Communities |
| ECB | European Central Bank |
| ECHO | European Community Humanitarian Office |
| ECU | European Currency Unit |
| EDF | European Development Fund |
| EE | Eastern Europe |
| EIB | European Investment Bank |
| EP | Parliament of the European Union |
| EPRD | European Programme for Reconstruction and Development for South Africa |
| EPZ | Export Processing Zone |
| ESCC | Education Sector Co-ordinating Committee |
| ESP | España (Spain) |
| EAGGF | European Agricultural Guidance and Guarantee Fund |
| EU | European Union |
| Euratom | European Atomic Energy Community |
| Eurostat | Statistical Office of the European Communities |
| EUROSTEP | European Solidarity Towards Equal Participation of People |
| FDI | Foreign Direct Investment |
| FIN | Finland |
| FPA | Framework Partnership Agreement |
| FPI | Foreign Portfolio Investment |
| FRA | France |
| FTA | Free Trade Area |
| FTAA | Free Trade Area for the Americas |
| G-7 | Group of seven most industrialised countries |
| G-8 | G-7 and Russia |
| GATT | General Agreement on Tariffs and Trade |
| GBR | Great Britain |
| GEIS | General Export Incentive Scheme |
| GDP | Gross Domestic Product |
| GNP | Gross National Product |
| GRC | Greece |
| GSP | General System of Preferences |

| | |
|---|---|
| HAC | Humanitarian Assistance Committee |
| HICS | High-income Countries (and territories) |
| HIPC | Heavily-indebted Poor Country |
| HIV | Human Immunodeficiency Virus |
| IBRD | International Bank for Reconstruction and Development (World Bank) |
| IDA | International Development Association |
| IFIS | International Financial Institutions |
| IMF | International Monetary Fund |
| IPAP | Investment Promotion Action Plan |
| IRL | Eire (Ireland) |
| ISCA | International Save the Children Alliance |
| ITA | Italy |
| LDC | Least Developed Country |
| LMICS | Lower Middle Income Countries (and territories) |
| LRRD | Linking Relief, Rehabilitation and Development |
| MAI | Multilateral Agreement on Investment |
| M&AS | Mergers and Acquisitions |
| MECU | Million ECU |
| MED | Mediterranean countries |
| MED | Mesures d'accompagnement en faveur des partenaires méditerranées |
| MEP | Member of the European Parliament |
| MERCOSUR | Southern Cone Common Market |
| MNC | Multinational Corporation |
| MP | Member of Parliament |
| MSF | Medecins Sans Frontières |
| n.a. | not available |
| NAFTA | North American Free Trade Agreement |
| NAO | National Authorising Officer |
| NGO | Non Governmental Organisation |
| NGDO | Non Governmental Development Organisation |
| NIC | Newly Industrialised country |
| NIP | National Indicative Programme |
| NIS | Newly Independent States (ex-URSS) |
| NLD | Netherlands |
| NOR | Norway |
| OA | Official Assistance |
| OCT | Overseas Countries and Territories |

| | |
|---|---|
| ODA | Official Development Assistance |
| OECD | Organisation for Economic Co-operation and Development |
| PA | Payment Appropriations |
| PACP | Pacific ACP |
| PHARE | Pologne-Hongrie Assistance à la restructuration des économies (includes all Central and Eastern European countries excluding former USSR members). |
| PRD | Programme for Reconstruction and Development |
| PRT | Portugal |
| RAO | Regional Authorising Officer |
| RELEX | Relations Extérieurs / External Relations |
| REPA | Regional Economic Partnership Agreement |
| RIP | Regional Indicative Programme |
| RSA | Republic of South Africa |
| SACU | Southern Africa Customs Union |
| SADC | Southern African Development Community |
| SAF | Structural Adjustment Facility |
| SAP | Structural Adjustment Support |
| SCE | Service Commun Exterieur; Joint Service for External Relations |
| SDP | Sectoral Development Programme |
| SME | Small and Medium sized Enterprise |
| SMP | Sector Management Group |
| SOM | Senior Officials Meeting |
| SOMTI | Senior Officials Meeting on Trade and Investment |
| SPD-Ed | Sectoral Development Programme in Education |
| SPS | Sanitary and Phyto-Sanitary trade measures under the WTO |
| STABEX | System of Stabilisation of Export Earnings |
| SWE | Sweden |
| SYSMIN | System for safeguarding and Developing Mineral Production |
| TACIS | Technical Assistance to the Commonwealth of Independent States |
| TEU | Treaty on European Union |
| TFAP | Trade Facilitation Action Plan |
| TNC | Trans National Corporation |
| TNI | Transnational Institute |
| UDEAC | Union Douanière et Economique de l'Afrique |
| UEMOA | Union Economique et Monétaire Ouest Africaine |
| UK | United Kingdom |
| UMICS | Upper Middle-income Countries ( and territories) |
| UN | United Nations |

| | |
|---|---|
| UNCTAD | United Nations Conference on Trade and Development |
| UNDP | United Nations Development Fund |
| US | United States |
| USA | United States of America |
| USAID | United States' Agency for International Development |
| VAT | Value Added Tax |
| WFP | World Food Programme |
| WID | Women in Development |
| WTO | World Trade Organisation |

## End of Year by the Sea

On the other side of the mountain
not too far
from this tranquil place
where we forget
good and bad,
where we learn
simply to be,
the young are dying.

The promise made to them
has been shattered.
It doesn't matter if by
another's hostility
and aggression,
or even, betrayal.

This is not the peace
for which the others
– too many of them –
gave their youth
and
– too many of them –
their life also.

This is the bitter truth
about our life today.

Did we not love them enough –
our young?
Did we not long
to build for them
a place of wisdom and laughter?
Each and every loss
is one too many.

It shatters
piece by piece
the hope which once
nurtured our dreams.
Is this to be our legacy,
the pain in their eyes
from seeing too much horror,
from inflicting pain on another?

War is evil.
Why should we hesitate
to say so?

This calm place cannot
heal our pain.
It too has known war,
and the sorrow of war.
It begs us not to forget.
It asks us to stop
before
madness engulfs
us all.

AGP

Massawa – Eritrea
December 26, 1998

## Notes on Terminology

The Treaty on European Union (TEU) established the European Union (EU). It was first signed in 1992 and ratified in 1993 as the Maastricht Treaty. It was amended in 1999 by the Amsterdam Treaty.

The TEU defined a legal basis for development co-operation to be a competence of the European Community (EC). Title XX, articles 177-181 of the Treaty in European Union amended by the Treaty of Amsterdam set out the objectives of European Community development co-operation, and the principles for implementing these. This includes the EU member states.

In this book the term EU will be used to refer to the EU in general, and EC in relation to specific competences, such as development, trade or agriculture.

In this book the terms 'developing countries' or 'the countries in the South' will be used to indicate the Least Developed (LDCs) and Middle Income Countries (MICs). Eastern Europe will be used as a generic term for the countries of Central and Eastern Europe and the former Soviet Union, unless it is specified in relation to other regions of the former Eastern Block. In the latter case it identifies the countries bordering the former Soviet Union of the former Eastern Block.

The euro (€) was introduced on 1 January 1999 and will be used in the text as of that date. Figures from before the introduction of the € will be indicated in ECU, or million ECU (MECU). One billion is equivalent to 1000 million.

**Is the EU a Global Player?**

The EU provides 51% of World FDI outflows;

EU exports of goods and services take a share of 38% of the world market;

The EU has a share of 36% of the World GNP;

The EU provides 56% of Official Development Assistance.

*and*

EU Member States make up the largest block in the Bretton Woods institutions with 23% of the votes in the World Bank and 29% of the votes in the IMF.

The EU has the largest collective number of votes as a regional grouping in the WTO.

CHAPTER I

# Introduction

The objective of this book is to explore how a more effective European North-South policy can be achieved. In the first chapters the effectiveness of the EU co-operation programme will be assessed in terms of the EC's capacity to implement its stated objectives. In this part we will examine the European Non-governmental Organisations (NGOs) as important non-state actors in development. In the second part of the book, we will look at the coherence between EU aid and other policies, notably in the area of trade and finance. It is argued that aid cannot be effective without a macro-economic and political environment that is conducive to poverty eradication. The EU, as a global player, can be of immense importance in ensuring that macro-economic and political conditions are improved to enable the eradication of poverty. In greater detail the book is structured according to the following outline.

Chapter 2 will set out the main objectives and principles of the EU North-South policy, and assess their relevance in the broader context of political and economic European policies. Within the overall framework of European developments the chapter examines the value of the EC programme.

In chapter 3 the current trends in development co-operation between the EU and the South will be discussed, including the consequences of the changes in Eastern Europe for the European aid programme. This chapter will look into the various elements that are part of the aid programme, the organisational set up, and the capacity for implementing co-operation programmes.

Chapter 4 will look at EU aid in a comprehensive manner, inclusive of the EU member states. It will examine the issue of co-ordination at the European level, both in terms of achievements and failures.

After having discussed the national and multilateral aid programmes in the EU, some attention must be given to another important channel of EU development co-operation: the Non-governmental Organisations. Chapter 5 will present the results of a survey, involving a hundred European NGOs. It examines characteristics of different strands of NGOs and the connection of these with policy formation in the context of expanding their activities to Eastern Europe.

In chapter 6 the issue of the financing of external relations programmes will be discussed in the context of the contributions of the member states. The chapter focuses on the cause of the significant under-spending in the Community, amounting to € 3 billion annually. The chapter will also examine the financial perspective for 2000-2006.

Having established the argument that development co-operation needs to deal with overall policy-making, chapter 7 will look at policy-based development approaches. In this chapter the coherence between co-operation programmes and financial policies will be discussed. This includes the debt problem. The chapter identifies what conditions should be met in order to move away from project support to more comprehensive policy approaches, which are more sustainable. It identifies the macro-economic and political environments that are required to facilitate and accelerate such an approach.

In chapter 8 the consistency of co-operation with the South will be assessed in relation to EU trade policies. In this chapter the current negotiations on reforming the Common Agricultural Policy (CAP) will be discussed and the potential impact of such reform on developing countries. The negotiations between the EU and South Africa on a free trade agreement (FTA) are examined. Reviewing the chain of events of these negotiations gives an excellent example of the outcome one can expect from trade negotiations between the EU and other countries in the South, particularly the African, Caribbean and Pacific (ACP) countries. By way of comparison, we will look into the negotiations on trade and investment between the EU and the Asian countries in the ASEM process. We will finally assess the feasibility of proposed free trade agreements in the context of Regional Economic Partnership Agreements (REPAS) between the EU and ACP regions/countries.

Chapter 9 will analyse the European investment policies in the context of the financial crises in South-east Asia (1997), Russia and Brazil (1998). These financial crises are far from being remedied, as many a politician would like to argue, and will pose serious problems and challenges in the years ahead. It necessitates serious review of the direction of current international financial policies and puts in doubt the thesis that foreign direct investment is necessary for development. In the context of these policies the Investment Promotion Action Plan (IPAD), the financial instrument of Asia-Europe Meeting (ASEM), will be evaluated against the perspectives it offers for social development.

Chapter 10 addresses the question of political co-operation between the ACP and the EU. It examines how the political decision-making process can be made more accountable and transparent within the current structure of a contractual relationship between the EU and the ACP. The chapter also looks at ways in which greater participation and involvement of civil society can be achieved.

Finally in chapter 11 the conclusions of the different chapters will be presented, with recommendations for comprehensive and coherent European policies towards the South.

CHAPTER 2

# EU 'Global Player': EU North – South Policy Analysis

The changes in Central and Eastern Europe and the former Soviet Union as well as the subsequent reunification of Germany form the background to current EU foreign and domestic policy. The end of the division of Germany and of Europe has given the EU strength in the international arena that it did not have previously. The forthcoming enlargement of the EU will give added impetus. Moreover, the introduction of the Euro further advances the role of the EU as a global player. As Commissioner de Silguy stated:

> "[B]y giving itself a single currency, Europe is also giving itself <u>one</u> existence and <u>one</u> voice on the international stage."[2] (original emphasis)

However, although the EU is emerging as a global player in most policy areas, this is not the case with development co-operation. This is somewhat surprising since the EU contributes more than half of Official Development Assistance (ODA), and should thus have considerable influence in fostering policies conducive to developing countries. However, the EU is not operating with a single voice in development. On the contrary, many member states continue to prioritise the (re-)nationalisation of development aid.[3]

It is an important question as to why many member states continuously call for a reduction in the scope of the EC aid programme – in favour of national bilateral programmes – in an era in which the EU is increasingly becoming a global player. More and more policies are decided at European level and many of them directly affect the possibilities for sustainable and social development in the South.

## 2.1 Coherence with other policies

The Maastricht Treaty stipulated that all EU policies affecting developing countries must take development objectives into account. This is called 'coherence'. It means that all EU policies must consider the following objectives in relation to the South:

- promoting social and sustainable development;
- the campaign against poverty; and
- the integration of developing countries into the world economy.

People in developing countries are particularly affected by EU trading policies. As studies have repeatedly shown, many EU trade policies are not conducive to the needs of domestic producers in developing countries. The poorest producers, frequently women, are often the hardest hit by these policies. This is due to the fact that the EU trade policies are fundamentally contradictory. On the one hand, the EU is promoting trade liberalisation for the South and is pushing developing countries into negotiations to achieve further liberalisation. On the other hand, the EU is continuing to protect interests of European farmers and exporters, most particularly in agriculture through the Common Agricultural Policy (CAP).

The CAP favours large agricultural producers in the EU. It has protected EU markets through price-subsidies. This has distorted markets in developing countries where agricultural goods subsidised by Europe are dumped.[4] While the South is forced into liberalisation, EU protectionism is not dismantled. Rather than integrating developing economies into the world economy and combating poverty, producers in the South are forced out of the economy and these policies compound poverty. They do not contribute to social and sustainable development in the South.

The effect of EU policies on developing countries is the key issue of EU North-South co-operation. Unfortunately, the political debate regarding the effectiveness and usefulness of EC development co-operation is often merely focused on its aid programme. The political debate tends to focus on limited questions such as whether national aid programmes are more effective than EC aid; or whether national programmes are more poverty focused than EC aid. These questions are seldom put into an overall perspective.

In this book it is argued that an improvement to EU North – South co-operation requires:

- a comprehensive analysis of EU policies and their effects on the South;
- a critical assessment of the EC aid programme;
- an evaluation of the role of the different actors involved in EU North-South policies, particularly of the EU member states.

### *2.1.1 The interface between EU domestic and external policies*

In order to analyse how an EU North-South policy can be improved, current trends in the political and economic aspects of European policies need to be understood. In such an analysis it is difficult to divorce external policies from domestic policies – to a large extent external policies evolve from internal interests. The evolution of EU policy is also dependent on the decision-making process and the roles that various institutions play in this. In the next section an overview of the policy issues resulting from the parallel processes of deepening and broadening

European integration will be briefly discussed, with special attention for the institutional setting of European decision-making.

### *2.1.2 EU enlargement: deepening and broadening*

The economic and financial effectiveness of the EU at global level and in the context of European Monetary Union (EMU) demands a deepening of EU integration. It is not possible to create the macro-economic stability that will support the Euro, without creating further convergence in other policy areas. This will require further political integration, which may include employment policies, tax policies and a Common Foreign and Security Policy (CFSP), which should:

> "promote the Union's capacity to act as a more visible, unified and coherent, and hence stronger, entity on the international scene."[5] (original emphasis)

The process of 'deepening' EU integration goes hand-in-hand with 'broadening' the EU. In 1998 it was decided that negotiations on accession would begin with six candidate countries: Cyprus, Estonia, Hungary, Poland, the Czech Republic and Slovenia. An EU in which all the present 12 applicant countries were members would have more than 540 million citizens and a GDP of approximately 7 400 billion ECU. The enlarged EU would account for over 20% of world trade, the origin of 47% of Foreign Direct Investment (FDI) and the destination of 31% of FDI.[6]

### *2.1.3 Strengthening the Common Foreign and Security Policy*

The Treaty of Rome, signed in 1957, established the European Economic Community (EEC) and the European Atomic Energy Community (Euratom). The Treaty of Rome, signed for an indefinite period, established the European Parliament and the Court of Auditors. The aim of the EEC was to establish a Common Market.[7] The Common Market was created in 1986 with the Single European Act. It came into force in 1993 as a task of the European Community established by the Maastricht Treaty.

Due to a fear of losing national sovereignty within the EU, the face of the EU remains externally weak – even though it is a prerequisite for successful economic and financial integration. The Common Foreign and Security Policy remains within the competence of the member states and has been predominantly managed by the EU Presidency. The Commission has virtually no role in decisions concerning the Common Foreign and Security Policy.

In the Treaty of Amsterdam (1997) some measures were agreed upon to make the Common Foreign and Security Policy more effective. This includes a High Representative for Common Foreign and Security Policy, to be placed within the Council. Mr. Solana, the NATO Secretary General, has been appointed to this job.

The Treaty also foresaw the establishment of a Policy Planning and Early Warning Unit in the Council to develop and monitor policy initiatives. The Commission's role is to ensure the consistency of Common Foreign and Security Policy with existing EU relationships and agreements with third countries. A troika, consisting of the Presidency, the High Representative and the Commission will represent the EU. Voting rules in the Council on Common Foreign and Security Policy matters are now also on the basis of qualified majority voting. This could make EU Common Foreign and Security Policy more effective. Unfortunately, the role of the European Parliament in this regard remains limited to the right to be informed and consulted.

### *2.1.4 Agenda 2000: preparations for enlargement*

Agenda 2000 was a comprehensive negotiating package put forward to "prepare the EU for enlargement."[8] It included:

- pre-accession instruments;
- agricultural regulations;
- regulations relating to the structural funds and the Cohesion Fund;
- financial prospects for the EU in the years 2000-2006.

The financial perspective[9] integrated the anticipated first wave of accession of five countries from Central and Eastern Europe (CEEC) together with Cyprus in 2002.[10]

### *2.1.5 Economic Cooperation: liberalisation and protectionism*

When the EC was created, one of its key domestic interests was to secure and protect its agricultural production. This has not changed. While the EU has changed profoundly in recent years, agriculture still consumes half of the EU budget. It is not envisaged that this will change in the next decade. It is also expected that, for a number of decades to come, absolute amounts of spending on agriculture will further increase. This is despite reforms that may take place in order to render agricultural policies more consistent with WTO rules.[11]

While EU agricultural policies are predominantly based on the objectives of protecting EU producers and ensuring surplus food production, the EU has been promoting trade liberalisation as a policy in relation to third countries. The EU is engaged in negotiations on 'Free Trade Areas' with a number of countries and groups of countries. The EU has now also introduced regional Free Trade Agreements (FTAS) in the negotiations on a successor agreement to the Lomé Convention. These are called Regional Economic Partnership Agreement (REPAS).

The negotiations with South Africa on an FTA have demonstrated that, despite the neo-liberal rhetoric, 'free trade' in theory is not necessarily 'free trade' in reality. While liberalisation across the board could perhaps be beneficial to developing countries, particularly those heavily dependent on agriculture, agricultural products important to EU producers are excluded from negotiations on FTAs as 'sensitive products'. Whilst forcing the economies of the South to liberalise their economies, the EU has created market access for its products. Meanwhile it has continued to protect its own market from imports that it considers 'sensitive'.

### *2.1.6 EU integration with weak European institutions*

In order for member states to compete effectively in global markets, the EU provides an increasingly important framework. While, consequentially, the EU is increasingly perceived as a global player externally, internal divisions continue to stand in the way of comprehensive EU policy-making. This originates from the strength of the Council in the EU, which tends to resolve differences by negotiating 'give and take' deals. In the last decades the 'presidency' of the member states has become so important that policy initiative has been taken away from the Commission to a large extent. This has undermined the original purpose of the Commission as a broker for European policies.

The Maastricht Treaty paid scant attention to the political and administrative management required by the integration process. It did not fundamentally revise the role of the different institutions or redefine the relationship between the national and the European political and administrative institutions. The Amsterdam Treaty (1997) proved unable to bring these institutional questions much further.

As a result of the unresolved questions concerning the administrative and political management of the EU, European policies often lack consistency. The European institutions with limited decision-making power are hardly equipped to ensure that policy decisions are coherent. Moreover, the European Parliament is hampered in its task of exercising democratic control over the decisions made by the Council and the Commission. The current institutional structure accords considerable responsibility to national leaders assembled in the Council. They are accountable to a national electorate and hence they are inclined to prioritise national interests.

It is clear that the benefits of economic European integration for the national economies produce constant tension for national leaders. Economic integration creates a momentum towards greater political integration of the EU. This is not necessarily in the interest of national political leadership.

## 2.2 Changes in EU North – South assistance

How has the development assistance programme been affected by the changes caused by deepening and broadening of EU integration? The following sections address how changes in Eastern Europe have affected the EC aid programmes. It will further assess the impact of the Maastricht Treaty on EC programmes for development aid and humanitarian assistance.

### *2.2.1 Competition for aid to different regions*

After the end of the Cold War, the EU has done its utmost to assure the public that aid to Central and Eastern Europe would not be at the expense of the South. Yet, with Germany in the lead, the EU also wanted to ensure that the transformation taking place in the East would be successful. Meanwhile, the reunification of Germany proved very costly for Germany. The financial resources for this process had to be found in a climate where austerity measures in government expenditure were required in order to fulfil the strict criteria set for European Monetary Union.

Almost unavoidably, trying to reconcile all these different interests would lead to contradictions. Illustrative is the statement at the 1992 Rio Conference by the then Chancellor Helmut Kohl:

> "We have an obligation to our 17 million fellow countrymen (...). Great efforts on our part are needed to achieve this. (...)
>
> "Germany feels a special kind of responsibility towards its neighbours in Central, Eastern, and South-Eastern Europe. We support therefore the process of rebuilding democracy and the economy in these countries with an ambitious assistance programme.
>
> "(...) in spite of these great efforts we are firmly determined to live up to our responsibility towards the developing countries. We are aware that this is also a contribution to securing our own future.
>
> "We commit ourselves therefore to an increase in official development aid and expressly confirm the 0.7% target. As soon as possible, we want to see 0.7% of the GNP earmarked for official development aid. I should point out in this respect that Germany's assistance to its neighbours in the East should be given appropriate consideration."[12]

The objective of reaching 0.7% of GNP for Official Development Assistance (ODA) was not changed. However, former Chancellor Kohl's aim concerned the question of which countries might be included as recipients of ODA had changed by giving it 'appropriate consideration'.

In so doing Germany was not alone. Almost all the leaders of EU member states and the European Commission maintained that aid to Eastern Europe would not be at the expense of the South – nevertheless ODA flows to the South decreased.

### *2.2.2 Different priorities: EC aid grows*

While the EU agreed on the need to maintain co-operation with the South, member states had differing views as to how this should happen. While Northern countries argued for increased aid to Eastern Europe, Italy and Spain argued that aid to Eastern Europe could not be increased unless co-operation with the Mediterranean countries was also substantially increased. In addition, Spain wanted an intensification of co-operation with Latin America. France and the UK urged the maintenance of aid levels to African countries. Scandinavian countries prioritised aid to the Least Developed Countries (LDCs).

Hence, during the negotiations in Edinburgh on the financial perspective of the European Community programme for external relations for the years 1993-1999, the allocations for EC assistance to all the regions increased dramatically. This contradicted the general expectation that aid to the South would simply decrease. While aid in many of the member states did diminish, the European Community programme increased. The EC programme became the fifth largest ODA programme. However, aid to the poorest countries in the South did not increase.

### *2.2.3 Development assistance as an EC competence*

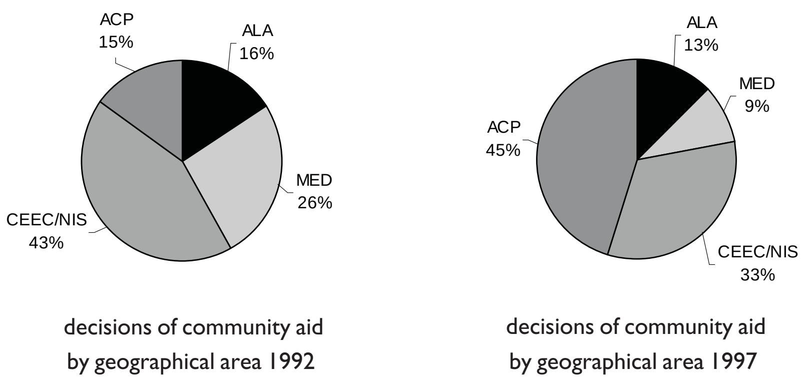
Only in 1992 was a legal basis for development co-operation in the EC created for the first time, within the Maastricht Treaty.[13] Development assistance became a competence of the EC. It was not defined as an exclusive competence but a competence shared with the member states. The Treaty does not define the specific competence of the European Community vis-á-vis the member states. It is, therefore, a matter of political interpretation to define what should be done by the Community and what should remain the responsibility of the member states.

The principal guideline which is used for this is the principle of 'subsidiarity'. Originally a Catholic concept emanating from fundamental changes agreed by the Second Vatican Council in the 1960s, subsidiarity means that one does not appropriate to the centre activities which are most effectively conducted at national or local level. To give a concrete example in EU aid terms: the wide-ranging Lomé Convention would be impossible under a single member state's bilateral programme. Conversely, member states have their own programmes at national or regional level in the South which the European Commission should not seek to appropriate or duplicate. The key principles here are complementarity and consistency.

### 2.2.4 *Less funding to the poorest regions*

The Maastricht Treaty established that the objectives of aid will be to promote the campaign against poverty through sustainable and social development, and subsequent resolutions of the Council elaborated these aims. In reality the programmes for the Least Developed Countries have steadily decreased both in proportional and in real terms. This has happened despite the overall growth of the EC aid programme.

GRAPH 1 *Commitments made under the EC ODA (EU budget and EDF) 1992-1997 (in million ECU)*[14]




It is difficult to identify how the priorities in the commitment appropriations relate to development objectives of the Maastricht Treaty and this raises further questions about the planning and consistency of the EU aid programme.

### 2.2.5 *Competition over resources*

The resources for the European Community programme come from member states' contributions. This creates competition over resources between the bilateral programmes of the member states and the EC development programme. Member states' concerns that the expansion of the EC budget reduces the size and scope of member states' bilateral programmes have further resulted in rivalry between financing the budget proper and the European Development Fund (EDF) – the financial envelope to fund the Lomé Convention, which requires additional contributions from member states. The former chairman of the DAC, Mr. James Michel, observed:

> "The Community's large aid program[me] is growing faster than the national program[me]s of its member states. Over 17 per cent of European Union member's total

ODA was channelled through the Community in 1994, a percentage that has grown from less than 7 per cent over the past 25 years.'[15]

The European Community programme has grown in the last 25 years – if only because so many more countries became members of the Community. In the last decade member states allocations to the EC programme have continued to rise. This growth has not been translated into a rise of actual payments. In real terms, therefore, the EC has not consumed resources at the expense of the bilateral programmes.

The call for the re-nationalisation of the EC aid programme is based on perceived competition between the EC and member states' programmes. What causes these perceptions? This competition has occurred because the relationship and function of the EC programme in relation to those of the member states is not clearly defined. In order to build a consistent interpretation of the various channels, the principles of the relationship between the EC and the member states' development aid programmes need to be better understood.

## 2.3 The four C's

The Maastricht Treaty (1992) defined three principles on which EC development policy should be based:

– Complementarity between development policies of the member states and the European Community development programme in order to avoid duplication and to maintain the relevance of member states' individual programmes;
– Co-ordination between the member states and the European Community administrations at headquarters and in recipient countries to ensure effective operational implementation and avoid contradictions of programmes implemented by the EU;
– Coherence of all the Community policies so that they take account of development objectives in the South;

The Amsterdam Treaty (1997) added a fourth principle:

– Consistency of all external activities of the European Union in the context of its external relations: security, economic and development policies.

### *2.3.1 Complementarity: 15 + 1 or 1 + 15 development policies?*

The concept of 'complementarity' is important to establish the 'added value' of the European Community programme. It helps to define how the EC programme is related to the programmes of the member states. This is not just an academic question. It is a key concept for analysing the distribution of funding between member states' bilateral programmes and EC aid channels.

THE 'ADDED VALUE' OF THE CEC PROGRAMME

The fact that the CEC programme is defined as 'complementary' to the member states implies that it is not simply a mirror image of the member states' programmes. The CEC programme should contribute to the implementation of member states' policy objectives as an effective channel; it should not copy the programmes of the member states as if it were a sixteenth donor.

Through the European Council, member states have regulated what constitutes the EC aid channel. The legal regulations adopted by the European Council have defined what the Council believes should be the areas of focus for the EC programme on the basis of adding specific elements to the member states' bilateral programmes. This involves, inter alia, the following programmes: humanitarian assistance, the programme for Asia and Latin America (ALA), Central and Eastern Europe (PHARE), countries of the former Soviet Union (TACIS), Non-EU Mediterranean countries (MED), the Programme for Development and Cooperation with South Africa, food aid and NGO Co-financing. It also includes the successor agreement to the Fourth Lomé Convention.

### *2.3.2 Co-ordination: the 'Horizon 2000' process*

In response to the Maastricht Treaty requirement to establish co-ordination and in response to the Commission's communication on this issue, the Development Council launched a group of co-ordination initiatives within a policy framework called: "Development co-operation policy in the run-up to 2000", more commonly known as "Horizon 2000". A number of resolutions aimed at enhancing European co-ordination were adopted in subsequent years (see annex 5).

Most resolutions adopted by the Council apply both to the European Community and the member states. While these resolutions are not legal instruments, they are an important expression of political intent. The Council has made efforts to translate the UN World Conference on Women, in Beijing 1995, and the UN World Summit on Social Development, held in Copenhagen 1995, into these resolutions, which have a particular emphasis on social development and gender.

### *2.3.3 Coherence and Consistency in the EU policies*

In June 1997 the Development Council adopted its resolution on Coherence.[16] This is one of the most crucial areas of European development policy. Though the Maastricht Treaty demands that all European policies that affect developing countries must take into account the objectives of EC development policy, the resolution only focused on four specific areas:

- peace building, conflict prevention and resolution;
- food security;
- fisheries; and
- migration.

The resolution noted that several delegations also specifically added the areas of agriculture, trade and the environment. This resolution was particularly important in its reference to the CAP, where it states that policy coherence must be enhanced by

> "[e]nsuring that agricultural exports and food aid in kind do not damage the production capacity and marketing of developing countries."

The principles of coherence and consistency create the basis for making community aid complementary to that of the member states since they ensure that EU policies are designed in ways that take development objectives into account. As an increasing number of policy areas are agreed and implemented at European level, it is critical for developing countries that coherence between development policies and other policies is achieved. In that sense the EC development programme has an added value over the development programmes of the member states.

### IMPLEMENTATION OF RESOLUTIONS BY MEMBER STATES

Frequently governments attempt to influence what might be in the resolution, but do not follow up on the approved resolution. This seems to be predicated on a view of the EC development co-operation as an extension of the country's priorities. Danida puts the lack of progress made in the 'three C's' (Complementarity, Co-ordination, Coherence) as follows:

> "[b]ehind the, at times theological, discussions of these topics lie genuine differences of attitude between the Commission and the member states and among the member states themselves, first and foremost on the interaction between the Community development assistance and the member states' national development programmes as regards extent, policy, geography, instruments and operation."[17]

The Commission is requested by the Council in several of the resolutions to report on the progress made in the resolutions by the Commission and the member states. Regrettably these reports have not been prepared – with the exception of the gender resolutions, and, consequentially it is very difficult to monitor progress in the implementation of the resolutions.

## 2.4 Relevance of the CEC programme

The doubt consistently cast by member states on the effectiveness of the CEC programme ultimately leads to questions about the relevance of an CEC programme. Is there a need for a European Community development programme? If the CEC programme is so inadequate, why do member states channel increasingly large amounts of aid through the European Community programme? What is the added value for the member states of such a policy? An official of a member states' administration once expressed the view that:

> "it is good when the programme of the European Commission is bad, because it makes the bilateral programme look good."[18]

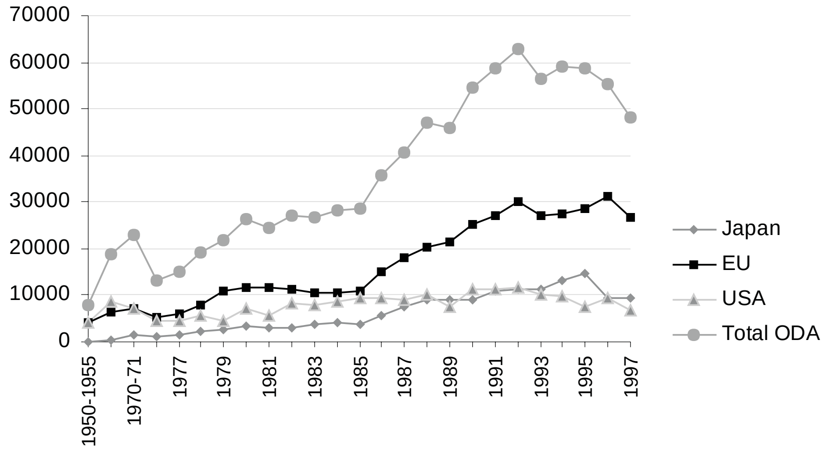
This statement may contain an element of truth. First, member states transfer to the CEC activities that they consider necessary but they do not wish to do themselves. Secondly, the member states can use the EC to influence policies of other member states. Nevertheless, as more and more policies are transferred to the European level, it is politically important to have a European Community programme that focuses on the policies to the South as a means of creating coherence between the objectives of European development activities and other policies. The key question at this stage is not whether or not there should be an CEC development programme. The crucial concern is how a more effective CEC programme can be devised and how the bilateral programmes of the member states can contribute to achieving this.

### *2.4.1 Global player EU: more international political influence*

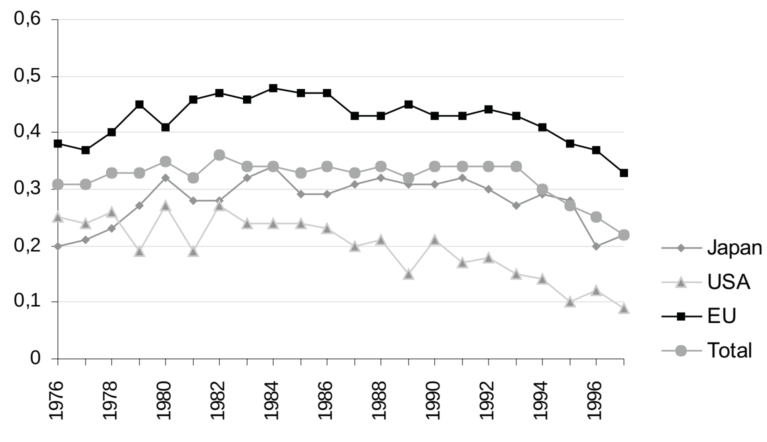
There is another reason why it is in the interest of the South to have an effective Community assistance programme. The EU, including the member states, provides by far the largest proportion of ODA. In 1996, 66% of total DAC ODA was provided directly by the Commission or the member states. Of the EC aid, almost 20% was channelled through the Commission. In Africa, not including its multilateral contributions, the EC provided 52% of the bilateral ODA. The EC also provided 54% of total humanitarian aid. The EC is the largest donor, and the European Commission the fifth largest single donor, after Japan, US, Germany and France.[19] In 1995, EC net total bilateral ODA comprised 48% of total DAC ODA. In 1996, EC net total bilateral ODA comprised 51% of total DAC ODA.

Equally, the ratio of ODA as a percentage of GNP is comparatively high for the European Community. In 1997 DAC donors provided 0.22% of ODA/GNP on average. The US spent only 0.09% of GNP and Japan 0.22% of GNP. Conversely, the European Community, including the member states, provided 0.33%. While this is only halfway to the international standard of 0.7% of GNP, it is far beyond efforts of the other major donors.

GRAPH 2 *ODA net flows 1950-1997, US$ million*[20]




GRAPH 3 *ODA as a percentage of GNP 1976-1997*[21]




The level of ODA provided by the EU does not provide the EU with greater authority to determine multilateral policies towards the South. On the contrary, European co-ordination within the multilateral institutions such as the World Bank

(IBRD), the International Monetary Fund (IMF) and the World Trade Organisation (WTO) – extremely important for developing countries – is poor and in some of these fora the role of the European Community is limited. The previous Commission President, Jacques Santer noted just before the introduction of the Euro that:

> "we do not have sufficient common positions in, for example the IMF, where the ECB's [European Central Bank, MvR] observer status will be decided by default. (...) our voice is disparate, at times contradictory."[22]

The EU is now beginning to increasingly co-ordinate in the multilateral fora because its economic trade and monetary policies demand it. Conversely, re-nationalisation of development assistance will stand in the way of achieving more consistent and coherent external policies that are conducive to the South. This can only be achieved by an effective and comprehensive European approach.

## 2.5 Conclusions

EC development co-operation will only be effective if external and domestic policies are conducive to the eradication of poverty in the South. The European development programme must function as an anchor for accomplishing coherence. The re-nationalisation of development aid in the European Union is not desirable, as increasingly more policies are becoming an EC competence.

The EU is a global player and should thus assume its responsibility in development co-operation. As the proportion of EC aid has steadily increased and comprises around half of total ODA it is essential that the EU acquires and exercises more political influence in multilateral organisations. It is important that the co-ordination between the EC and the member states is intensified in order to play a consistent role at the global level. The modalities of EU aid set out in the Maastricht Treaty – (1) complementarity, (2) co-ordination, (3) coherence and (4) consistency – are therefore crucial pre-conditions for effective aid. In the following chapters the difficulties of an implementation of policies based on these principles will be addressed.

CHAPTER 3

# Trends in Development Co-operation between the European Community and the South

This chapter analyses the overall structure, organisation and main characteristics of the EC aid programme implemented by the European Commission (CEC). The CEC Community aid programme is complex and its organisation has become increasingly fragmented. Political and administrative responsibilities are shared between a number of Commissioners. Furthermore the member states play a significant role in the decision-making process at all levels. The capacity of the Commission is limited both in staffing levels and in the quality of staff in comparison to other donors. The complexity of the programme and the very limited staff capacity has consequences for the quality and effectiveness of the EC programme.

The EC external relations programme can be divided in two main categories:

- Development co-operation programmes implemented directly by the member states – including bilateral and multilateral contributions;[23] and
- The programme implemented for the European Community by the European Commission, referred to here in short as the CEC programme.

This chapter focuses on the CEC programme, and particularly the way in which it is organised.

## 3.1 Overall structure of the CEC aid programme

As part of the CEC programme implemented by the European Commission, the European Community Humanitarian Office (ECHO) was established in 1992, making a distinction between development aid and humanitarian assistance. Many would argue that this is something of a false dichotomy and would maintain that, for emergency aid/humanitarian assistance to be effective beyond the immediate term, it needs to incorporate a long-term development perspective. However, given that this distinction is made in the CEC, we shall, in the interests of clarity, also adopt this distinction throughout this chapter.

In the next section CEC development co-operation will be discussed, followed by a presentation of Community humanitarian aid in section 3.3. In section 3.4 the overall organisation of the aid programmes is discussed.

## 3.2 The expansion and broadening of the geographic scope of European Community development activity

Originally the external relations programme for developing countries of the EC was arranged in subsequent Conventions between the EU and the African, Caribbean and Pacific (ACP). Additionally, food aid is one of the oldest programmes of EC aid. It originates from food exports of surpluses produced under the CAP. The food aid programme is part of the EC budget, unlike the funding of the EU's co-operation with the ACP, which is through a separate inter-governmental agreement of member states. In the last two decades an increasing number of programmes have been established within the Community budget, all of which are managed according to specific principles and guidelines.

---

**Box 1 – Distinctions in aid implemented by the CEC**

1 Co-operation outside the budget:
Co-operation between the EC and the ACP through Conventions that cover a broad range of activities, including trade agreements and special protocols. Funding is arranged outside the EC budget and on a purely voluntary basis. Therefore the European Council of Ministers has the sole decision-making power without the de jure involvement of the European Parliament and the European Commission.

2 Co-operation inside the budget:
Decisions are made with the involvement of the European Council, European Parliament and Commission (co-decision procedure). It is important to note that the European Parliament has the ultimate budgetary power. However, since there is an inter-institutional agreement, their power only extends to the limits/ceilings agreed in the financial perspective. Two types of budget lines can be distinguished:

2.1 Co-operation programmes with specific regions, such as ALA (programme with Asia and Latin America), South Africa, MED (Mediterranean), PHARE (Central and Eastern Europe) and TACIS (former USSR).

2.2 Sectoral or thematic co-operation programmes, focusing on specific areas such as food aid; democracy and human rights; gender; children; the environment and sustainable development; tropical forests; and co-operation programmes for specific channels, for instance, the budget line for Non-governmental Organisations; humanitarian assistance; and others, such as the budget line for evaluation.

---

Co-operation between the EC and third countries is arranged in bilateral or regional co-operation agreements. These agreements can contain special measures agreed with a specific country or group of countries. Additionally, special policy arrangements exist for particular groups of countries. This includes, for instance, the General System of Preferences for trade arrangements with non-ACP countries (see chapter 8).

### *3.2.1 Co-operation between the EC and the ACP*

Originally the European Community aid to developing countries was arranged through separate Conventions with associated countries – the Yaoundé and Lomé Conventions. In the European Economic Community Treaty of 1957 provisions had been made for the association of non-European countries and territories with which EEC member states had special relations – colonies, former colonies and overseas territories. This provision originated from a French insistence on access for its colonies and overseas territories to the European market. In 1963 the Yaoundé I Convention was signed between six EEC member states and 18 associated countries. In 1975, when the UK became a member of the EEC, the number of associated countries increased to 46, and the first Lomé Convention was signed. The co-operation with these countries was a comprehensive package that encompassed both aid and trade (as well as political dialogue), and obliged the European partners to open up their markets to African, Caribbean and Pacific country (ACP) products.

At present there are 71 ACP countries although one country's participation, South Africa, is largely limited to political dialogue. The Republic of South Africa (RSA) acceded to the Lomé Convention during the meeting of ACP-EC Council of Ministers on 24 April 1997. However, South Africa, apart from some trade provisions relating to cumulation and rules of origin, plays little part in trade co-operation agreed under Lomé IV, since this is covered by a bilateral agreement.[24] It is not party to co-operation on commodities (STABEX, SYSMIN) and the trade protocols (e.g. sugar). A bilateral framework of aid was provided for the period 1996-1999.[25] The membership of South Africa in the Lomé Convention is therefore primarily of political significance.

Funding for the implementation of the Yaoundé and subsequent Lomé agreements was established outside the regular EC budget, in a separate inter-governmental arrangement called the European Development Fund (EDF). The fund was, and still is, managed by the European Commission. A committee of member states representatives, the EDF Committee, approves projects over € 2 million. In the ACP countries National and Regional Authorising Officers (NAOs/RAOs), in most instances the Ministers of Finance, are in charge of the approval of programmes for the country or region respectively.

The EDFs consist of several envelopes. 'Programmed Aid' is a package of projects negotiated between the European delegation, the NAO/RAO, with policy support from DG 8. The plans, and projects encompassed within are ultimately approved by the EDF committee. Non-programmed aid and structural adjustment are financial allocations to the budget for specific purposes, and includes financial co-operation on commodities (SYSMIN and STABEX). The envelopes of the subsequent EDFs are split out in the following table.

TABLE 1 *European Development Fund 6, 7, and 8 (in million ECU)*[26]

| | *EDF 6* | *EDF 7* | *EDF 8* |
|---|---|---|---|
| Programmed aid | 5 053 | 6 251 | 7 562 |
| Non-programmed aid | 2 600 | 3 770 | 4 005 |
| Structural adjustment | - | 1 153 | 1 400 |
| Total | 7 653 | 11 138 | 12 967 |

### NEGOTIATIONS ON A NEW EU-ACP AGREEMENT

The Fourth Lomé Convention, expiring in February 2000, required for official negotiations to start in 1998. Prior to these, the European Commission had presented a discussion document, a Green Paper on the future relations between the EU and the ACP.[27] The objective of the Green Paper was to identify areas in the Treaty that might need to be changed and to offer proposals for consideration.

An important question raised in the Green Paper was the composition of the ACP group, and particularly whether the ACP should include other LDC's and exclude those countries which have or are moving up the development ladder. Some argued that this would help to ensure a poverty focus in the Convention. However there are also problems associated with this position. First, all EU development programmes should have a poverty focus. Secondly, the Lomé Convention is unique in its integration of policy areas like aid and trade. This feature should be included in other co-operation agreements rather than limited to the poorest countries. For trade to be an effective aid instrument, regional linkages are important and it would be counter-productive if some countries in certain regions were excluded from trade preferences. Also, non-ACP LDCs, or the Latin American countries, did not express the wish to become part of the ACP group and it is properly a matter for the ACP itself to decide on the composition of its grouping.

The ACP Group took a position that it did not want a fundamental change in the composition of the ACP.[28] Finally, transforming the ACP into an LDC grouping carries the risk of further marginalising and ghettoising the LDCs. This runs counter to the EU's stated aim in the Maastricht Treaty of integrating developing countries into the world economy. The ACP Group has an established political identity and is a long-standing political dialogue partner of the European Union. The political identity of such a diverse group of countries is, of course, both a strength and a weakness. However, to ignore the importance of the political dialogue component of the Lomé Convention would limit it to a purely economic arrangement devoid of political content. If this were to happen the concept of partnership would have a distinctly hollow ring.

The EU eventually dropped the idea of pushing for a change in the composition of the ACP group. The other main areas identified for negotiation were trade co-operation; aid to social sectors; and co-operation in financial assistance. These areas will be addressed in more detail in subsequent chapters.

### *3.2.2 Development co-operation within the EC budget*

The aid programme under the EC budget developed without a legal basis for the development co-operation of the European Community. This was only agreed in the Maastricht Treaty adopted in 1992. Prior to this, aid disbursed through the budget was based on the regulation on financial and technical aid to non-associated countries adopted by the Council in 1981.

#### PROGRAMMES TO SPECIFIC REGIONS

The enlargement of the European Community to include Spain and Portugal in 1987 increased the profile of Latin America in the Community. While a few countries were admitted as members of the ACP, most countries of Latin America (and Asia) were given more aid through budget lines specifically established for Asia and Latin America (ALA). As a consequence the ALA budget increased from 582 million ECU in 1992 to 808 million ECU 1998 in commitment appropriations.[29] This also includes 137 million ECU aid to South Africa. The ALA programme (title B7-3 in the budget) is governed by Council Regulation No. 443 of February 1992, in which it is agreed that "the Community shall continue and broaden Community co-operation with the Asian and Latin American developing countries."[30] Aid to South Africa is arranged in a Regulation of November 1996 on development co-operation with South Africa.[31]

The political upheavals in Eastern Europe of 1989 had a considerable impact on the Community budget for external relations because, by and large, member states decided to channel their aid efforts to this region through the Community programme, rather than opting for a bilateral approach.[32] The effect was that, in proportional terms, an ever-increasing amount of external aid from the EC went to

Eastern Europe: from 1 billion ECU of commitment appropriations in 1992 to 2 billion in 1997 and almost 1.8 billion ECU in 1998.[33] Aid to Eastern Europe is managed through two programmes. The PHARE programme for aid to Central and Eastern Europe (CEEC) and the TACIS programme for aid to the Newly Independent States (NIS) of the Former Soviet Union.

As part of the agreement on aid to Eastern Europe, the southern member states of the European Community demanded that attention also be given to their neighbouring countries. Negotiations between EU Heads of States in Edinburgh (1992) and Cannes (1995) agreed how the necessary additional resources should be allocated to the CEC programme, as well as the division of these new resources. As a consequence of the subsequent agreement reached on this issue, the aid programme to Mediterranean countries outside the EU (MED) increased dramatically from 337 million ECU commitment appropriations in 1992 to 1 billion ECU in 1997 and 1998.[34]

A very substantial sectoral budget line is one on food-aid policy and food-aid management. Even though this is one of the oldest and largest programmes of EC aid from the regular budget, the first regulation for this budget line was only adopted in 1988. It was renewed in 1996, with a stipulation that more emphasis be placed on food security.[35] Food aid strategies should aim at alleviating poverty and food aid should not have adverse effects on the normal production and commercial import structure of the recipient country.[36] In the 1998 budget 0.5 billion ECU of commitment appropriations were allocated to the food aid programme.

Apart from the large food aid programme and the regional specific programmes a myriad of other, mostly smaller, budget lines exist. Some of these are of critical importance to advancing participatory, social and sustainable approaches to development. This includes the budget line on gender policies that, with few resources, has advanced gender specific methodologies in EC aid. It also includes the budget line for NGO co-financing, which has enabled financing of programmes by European Non-governmental Organisations.

The primary reason for the proliferation of budget lines is that, whilst the European Parliament has relatively few powers, it does exercise budgetary control. Therefore one of the ways in which the European Parliament has influenced development programmes and policy is through creating specific budget lines for policy areas/issues that it considers important. The weight of budget lines is, therefore, a clear indication of the political importance that has attached to certain policies.

The ever-increasing number of budget lines has, of course, added to the complexity of the EC programme and they are time-consuming to manage properly. Moreover, the budget lines have been a poor instrument for integrating policies into the main programmes.

In 1992 the European Community Humanitarian Office (ECHO) was established. ECHO is an office that organises humanitarian operations in third countries in response to emergency situations – natural or man-made. It also carries out rehabilitation and reconstruction. Moreover, it has the task of coping with the consequences of population movements (refugees, displaced people and returnees). ECHO has, in addition, a small programme on risk preparedness.

Confusion has arisen on the demarcation lines between development aid and humanitarian assistance. In 1996 the Commission addressed a Communication to the Council and the European Parliament on linking relief, rehabilitation and development (LRRD).[37] It stated that humanitarian assistance had a more short-term perspective, while development aimed at long-term objectives.

The document also set out ways in which development actions at the macroeconomic level should take account of the risk of emergencies:

- Economic reform programmes to take account of countries' susceptibility to natural or man-made disaster;
- Systematic provision of resources and capacities to improve disaster preparedness, which should be reflected in the government budget and taken into account in economic reform programmes;
- Ensure that basic social services (health, education, water supply and sanitation) continue to receive adequate funding.[38]

As a result of the LRRD process, task forces are now established consisting of representatives of relevant Directorates General and ECHO to co-ordinate work in countries with emergencies, and to ensure that a smooth integration of humanitarian assistance, rehabilitation and development programmes can take place.

In 1996 the Council of Development Ministers adopted a Regulation for humanitarian aid[39] in which the objectives, conditions and methodologies for assistance are stated. It was, *inter alia*, agreed that:

- All decisions under 10 million ECU shall be taken by the Commission (ECHO), in so far as they concern "emergency" situations (defined as "unforeseeable") and operations limited to the duration of the emergency for a period of no longer than six months. A Committee of Member States Representatives will take decisions valued at over 10 million ECU.[40]
- Issues concerning the management of instruments shall be subject to consultation with the member states. The Committee of Member State Representatives shall give its opinion before a Commission decision.
- The choice of priorities in global plans, which enable the continuation of humanitarian actions in complex circumstances that seem likely to continue, have to be approved by the member states.

- ECHO's direct actions (like the European Community Task Force operating in former Yugoslavia) and the use of military force shall be approved by the member states.
- Once a year the member states' Committee discusses the guidelines for humanitarian aid and examines the co-ordination of Community and national humanitarian aid.
- In 1999 the Commission will submit an overall assessment of the humanitarian operations to the European Parliament and to the Council with suggestions for the future of the Regulations and any proposals to amend them.

ECHO draws its resources from the budget line for humanitarian assistance, as well from budget lines within others programmes, such as the Lomé Convention and the PHARE and TACIS programmes. Its budget has grown rapidly, and commitments have grown even more, so that the reserve established for emergencies has been utilised as part of the budget since it was established. The amount of aid disbursed at present makes ECHO a donor of a similar size to the programmes of all member states combined. Financial decisions for EC humanitarian aid reached their highest level in 1994 with 764 million ECU. In 1996 the financial decisions amounted to 441 million ECU. The EU, including the member states, is the largest single donor of humanitarian assistance.[41]

ECHO's objective is to ensure that humanitarian assistance is delivered by operational organisations. These include Non-governmental Organisations, intergovernmental organisations such as the International Red Cross Movement, and UN specialised agencies, such as the World Food Programme (WFP) or UNHCR. These 'partners' sign a Framework Partnership Agreement (FPA); so far more than 170 have been signed. The FPA was revised in 1998 with a view to creating a greater degree of flexibility in the length of operations. It also provided clearer specification of conditions defining rules for financing humanitarian operations (examination procedures, reporting, purchasing, follow-up, payment and liquidation) and definition of the list of eligible expenditure. It also contains clear rules for co-ordination.[42]

## 3.3 Organisation of the CEC external relations programme

In 1995 a new Commission – the College of Commissioners – was established with the approval of the European Parliament as the Maastricht Treaty stipulated. Previously the development programme was under one commissioner with responsibilities in DG VIII and DGI, as well as the newly created European Community

Humanitarian Office (ECHO). DGI also dealt with trade and relations with non-developing countries overseen by two other Commissioners. In the new Commission this was now divided between four Directorates General (DGs) and ECHO, each with a separate Commissioner.

### 3.3.1 *Fragmentation of development co-operation policy*

DGI was given responsibility for the relations of the Community with, *inter alia,* the USA, Japan, South Korea, Taiwan and China. Trade and commercial policies were also placed within this directorate. DGIA was put in charge of Central and Eastern European Countries and those of the former Soviet Union, Mongolia, Turkey, Cyprus, Malta and other European countries outside the European Union. It was also responsible for the Common Foreign and Security Policy. DGIB was given the countries in the Mediterranean region, the Middle East and the Far East, Latin America and Asia. DG8 was left to manage relations with ACP countries and the implementation of the Lomé Convention and relations with South Africa. ECHO remained responsible for the humanitarian assistance of the EC. Co-ordination of external relations was established with the President of the Commission in the chair.

### 3.3.2 *Linking policies to regions*

Formally, the DGs' tasks were to implement all policies towards specific regions; it was now no longer their responsibility to implement specific policies for all regions. Under this new arrangement the responsibility of DGs for specific regions was seemingly coupled with responsibility for specific areas of policy. Thus, DG8 was in charge of ACP countries and development; DGI dealt with, *inter alia*, Japan and China, and commercial policies; and DGIA was in charge of Central and Eastern European countries and Common Foreign and Security Policy and enlargement. In other words, this arrangement linked particular areas of policy more closely to specific regions. This does not necessarily encourage more balanced approaches of various policies towards respective regions. Therefore regions could be stigmatised as relevant only for particular areas of policy.

Reorganisations have also taken place inside the DGs. This was partly to incorporate civil servants from new member states: Finland, Sweden and Austria. But the reorganisations inside the DGs also seemed to underline the new arrangement for the external policies in the Commission. The Directorates General were set up in such a way that they would independently be able to fulfil all relevant tasks within the DGs for external relations. In DG8, for instance, a Foreign Policy Unit was established. Project evaluation, policy and support units, previously confined to DG8, were also established in all other DGs.

### 3.3.3 *Staffing*

It is complex to compare different aid administrations in proportion to others, given the differences in set up and scope of aid agencies. Measuring the amount of financial resources handled coupled with the scope of the programme of the European Community, the administration has a very low ratio between number of staff and amount of resources handled. Adding this to the other problems in the organisation of aid identified above, one can conclude that the administration of the Commission on development aid is badly organised as well as understaffed.

Figures of staff capacity of the Commission in comparison to other donors show astounding differences. While USAID had a total staff of 7 488 in headquarters and overseas for a budget of $6.9 billion, the Commission had only 1 947 people for a budget of a similar size.[43] A survey by the Overseas Development Institute over a three-year period demonstrated a similar trend, in which the EC staff capacity in development co-operation appeared to be very limited compared to that of member states.

The European Community Delegations, which represent the Community in other countries, are equally constrained by limited staffing. Delegation staff are often expected to control programmes with twice or even ten times the size of those of other donors, who are working with the same number of people or more. Undoubtedly this affects the quality of the programmes.

#### CORE TASKS CONTRACTED OUT

In general the limited number of staff has resulted in a large proportion of core tasks being carried out by consultants outside the Commission. Temporary, external, contractual staff occupies many positions within DGs for external relations in the Commission. In 1996 it was estimated that 40% of the total staff of line functions in headquarters of DGI, IA and IB and ECHO were externally contracted personnel. In 1996 examples included sub-contracting the advising and training of delegation staff in ACP countries on gender policies; the approval or rejection of projects; handling of humanitarian projects, and co-ordination of relief programmes on the ground, as well as approving or rejecting projects for disaster preparedness; creating profiles for gender policies in Asian and Latin American countries, etc. In recent years consultants have been involved in the design and implementation of projects and programmes as well as for country programming. Also key support areas in information and communications have been contracted out. Under PHARE and TACIS – the programmes for Eastern Europe and the Commonwealth of Independent States – the whole cycle of monitoring, assessment and evaluation of programmes depended on the use of sub-contractors.[44] The DGs I, IA and IB are allowed to spend 2.5-3% of their budget lines on administrative costs related to contracting out some of their functions. For DG 8 it is more difficult to contract out part of its work because the EDF places restrictions on the use of consultants by the Commission.[45]

Contracting out essential elements of the preparatory, implementation and evaluation processes has caused incoherence in the work, and has severely restricted skill acquisition in the Commission. It is clearly not a sound policy for ensuring a competent development administration.

### SCARCITY OF STAFF

The competence of the Commission in development is limited to specific areas. The number of staff in the European Commission covering social development areas is especially limited. As the DAC Review (1996) concludes:

> "[F]rom a qualitative point of view, for social aspects, Women in Development (WID), population, environment, and more generally sectoral or cross-cutting issues, there is a shortage of specialised staff."[46]

This has proved hard to change. The Commission has limited flexibility in recruitment policy: recruitment takes place for the Commission as a whole and individual DGs cannot independently recruit professional staff. For five years competitive recruitment has not taken place.[47]

In 1998 DG8 established a Directorate for sustainable development strategies, with special responsibility for poverty eradication. This was a means of strengthening the Commission's policy capacity in social development areas. While the unit dealing with social, human and cultural development and gender has increased, this is the result of merging the social areas of health and education into the unit. Unfortunately, in DG8 only one person was, and still remains, dealing with poverty eradication strategies and one person with gender policy.[48] Both specialists are seconded by member states and, therefore, stay for periods of three years at most. Moreover, the continuation of these posts always remains uncertain.

Member states have maintained a rigid ceiling on staff levels, and the Commission has accepted to operate in an austerity programme with minimal staff increases that are not linked to increases of resources that it has accepted responsibility for. The member states, for their part, defend the view that the issue is rather the internal division of staff within the Commission and places emphasis on the question of efficiency. The Commission has undertaken a number of initiatives, to identify how staff management can be reformed and how the administration can be modernised. The European Parliament, for its part, has stressed that staff capacity must evolve in keeping with the responsibilities of the Commission. As the budget has more than doubled since 1989, and staff capacity has increased only minimally, it has argued that the adequacy of the Commissions' operations is now in serious difficulty.[49]

In 1997 the European Court of Auditors drew attention to the severe weaknesses in the management of the programmes to all regions and pointed out that 45% or more of commitments were made in December for most budget lines as a result of the working practices of the Commission.[50] It found that 73% of the budget for Asia and Latin America was committed in December, as was more than 45% of the Mediterranean budget. There were also high commitments for food aid and humanitarian aid in that month. The Court of Auditors concluded that part of the problem was that the growth in the scope and financial resources' allocations to programmes implemented by the Commission has not been matched by an adequate increase in human resources.

In order to resolve the current staff deficiency the problem of staff deficiency causing gaps in organigrammes has to be recognised by both the member states and the Commission. The trend to compensate for the shortfalls in the organigrammes by external collaborators is undesirable, for the activities of subcontractors are difficult to control and account for. The Commission should make detailed proposals on the organigrammes that would ensure adequate implementation of the programmes it has accepted responsibility for.

### COMITOLOGY

The limitations on Commission staff are exacerbated by the committee structure and procedures utilised in implementing EU legislation. Whilst most Community legislation provides for the Commission, as an executive arm of the European Community, to implement, execute and adapt its provisions, over the years the Council has subordinated Commission powers to increased scrutiny by and approval of committees comprised of national civil servants of EU member states. As a result of Council discussions in 1995 on the legal bases of a number of budget lines (including humanitarian aid and many development assistance programmes), these committee structures have both been extended and their procedures made more bureaucratic:

> "1 918 pages (...) describe the activities of 424 committees that prepared 4 679 'acts' in total during 1994 – either in the form of decisions (199), opinions (4 193) or absence of opinions (287). The sectors on which these committees work covers almost all areas in the Community budget... The activities of these committees cost 17.98 million ECU, or an average of about 3 480 ECU per 'act', or about 42 400 ECU per Committee."[51]

As mentioned above, these procedures have been expanded and made more stringent. As a result, considerable time is spent by already short-staffed Directorates in servicing these costly, bureaucratic committees (see annex 1).[52]

### *3.3.4 The 1998 reorganisation of Commission Services*

In order to address some of the most glaring problems of aid management, a profound reorganisation was implemented in mid-1998. A Common Service, the Joint Service for External Relations (SCE) was set up. Its aims were to simplify aid management, create greater coherence and transparency in project execution, make Community aid more visible, have greater presence in the field, and generate more efficient management of human resources.

The service is structured according to geographic areas. Financial matters relating to the execution and monitoring of programme implementation, tendering and contractual arrangements, as well as evaluation and information are tasks of the new service. The external relations DGs retained responsibility for policy and planning. The new service has around 640 staff, all of whom were drawn from the external relations DGs: 2% of DGI; 30% of DGIA; 34% of DG IB; and 34% of DG8. This left DG8 with 408 staff, DGIA with 563, and DGIB with 286.[53]

Following the establishment of the Common Service, DG8 was reorganised to fulfil two objectives: to manage the Commission's external relations with ACP countries, and to contribute to the definition and implementation of all EU development policies. A number of key issues emerged from this reorganisation of external Directorates General. The roles and responsibilities of DG8 in co-ordinating development policy with the other DGs and the Common Service remained unclear, still leading to further duplication. Capacity in policy areas in the external relations Directorates General did not increase.

### *3.3.5 The 1999 re-organisation*

This 1995 Commission resigned in March 1999 after the release of a report by the "Group of the Wise", appointed by the European Parliament, to investigate a number of allegations of fraud within the Commission.[54] The new President of the Commission, Romano Prodi, reorganised the portfolios of external relations, breaking them down on the basis of policy themes, rather than regions (see annex 2). Mr. Chris Patten is overseeing the external relations, with Mr. Poul Nielson being in charge of development and ECHO, Mr. Günther Verheugen for enlargement and Mr. Pascal Lamy for trade. The main problem with the division of portfolios is that policy and implementation has been split. Patten has been put in charge of the Common Service for External Relations (SCE), the office set-up to streamline the implementation of the development programmes, with Nielson being in charge of policy. The danger is that the policies prepared by the Directorate General for development do no match with the implementation procedures set out by the SCE in the DG for external relations.

## 3.4 Conclusions

The increases in the aid programmes have lead to a fragmentation of the administration of external relations' policies. From two Directorates General in 1992, four Directorates General became involved in external relations policy. In addition, the European Community Humanitarian Office (ECHO) was established in 1992 in order to speed up actions in emergency situations. The Joint Service for External Relations (SCE) was established in 1998 in order to streamline procedures for implementing external actions. The political and administrative fragmentation of the management of external relations over various Directorates General, ECHO and the SCE has hampered the development of consistent and integrated aid approaches. The separation of aid policy from the implementation of aid programmes has further marginalised the role of policy in development aid.

While increasingly more tasks have been given to the Commission in development assistance and budgets have increased, the Commission's capacity to manage these programmes has not increased. The number of staff per unit expenditure of aid by the Commission is very low compared to other donors. The capacity to manage the EC's programme no longer matches the current size of its programmes. A large number of personnel have, in recent years, been moved from DG8 to new Directorates General established for the management of new aid programmes. The limitations on Commission staff are exacerbated by the 'comitology' of the EC, the committee structure and procedures utilised in implementing EU legislation. The implementation rate of the Lomé Convention has subsequently decreased dramatically.

While policy development and budget support are increasingly regarded as important, the Commission's capacity has remained extremely limited in this area. The reorganisation in 1998 and the establishment of the SCE do not help to clarify the role of policy formulation in the implementation process. On the contrary, the SCE has further compounded the problem of fragmentation of aid policies in the Commission. It has to be reunited with the DG for development, with the Commissioner also being in charge of the implementation of development cooperation.

The SCE has also taken capacity away from DG8 – responsible for dealing with the poorest countries – in order to improve the capacity of other external DGs with similar capacity problems. To improve the quality of the programme, a significant increase of staff capacity is needed, with the promotion of expertise in social areas and an integration of Directorates General dealing with external relations being a *condition sine qua non.*

# Co-ordination in the European Union

The Maastricht Treaty stipulated that development assistance is an area of competence of the European Community (EC) that is shared with the member states. One can basically speak of an EC programme with the member states and an EC programme without the member states, implemented by the Commission. There is no specification of tasks that fall within the competence of the Community and of the member states.

While there are no guidelines for dividing responsibilities between the European Commission and the member states, the EC operations are guided by four general principles. These are (i) complementarity of activities to avoid duplication as well as (ii) co-ordination of efforts between the Commission and the member states; (iii) coherence expressing the guideline that policies in other areas than development assistance that affect developing countries should take into account the objectives of the European Community development programme;[55] and (iv) consistency referring to the entirety of the external activities of the European Union, and which includes the area of foreign and security policy. Prior to the Maastricht Treaty the European member states had no mechanisms for co-ordinating their aid policies and activities. There were no European guidelines that member states should take into account in their own policies and operations, though there was ad-hoc co-ordination between some groups of countries.

In response to the Maastricht Treaty requirement to establish co-ordination and in response to the Commission's communication on this issue, the Development Council launched a group of co-ordination initiatives relating to the "policy of development co-operation in the run-up to 2000", more commonly known as "Horizon 2000". A number of resolutions with the objective to enhance European co-ordination were adopted within this process in subsequent years.

Despite these efforts, the views expressed by the member states reflect a general low commitment to the implementation of resolutions by the member states – even if in some cases the principles set out in the resolutions have their support (see annex 6). When asked the question to whom the resolutions were addressed most member states expressed the opinion that the EU resolutions were useful for the Commission and for other member states that they perceived as less involved in "the right kind of" development co-operation than themselves. Illustrative in this respect is the comment of a government representative, asked whether the government believed one of the resolutions was valuable:

> "Maybe the Commission feels more obliged to implement Council resolutions than UN resolutions. For member states this should not be the case. The only added value in the resolution is the consultation and co-ordination between the Community and MS [member states, MVR]. To what extent this is useful I do not know."[56]

Notwithstanding the somewhat skeptical views, the resolutions adopted in the Horizon 2000 process had the intention of strengthening European co-ordination in providing development assistance. This chapter will examine what efforts have been taken to strengthen co-ordination at the European level.

## 4.1 EC Co-ordination between the Commission and member states

The development administrations of most member states believe that co-ordination is a key requisite for achieving common targets. While recipient countries have not always participated in the processes that set development targets such as the collection adopted by the DAC in the "Shaping the 21st Century", many member states stress that recipient governments should be leading co-ordination in their own countries and that their 'ownership' must be enhanced. Many Member States state also that co-ordination in the EC context is imperative for achieving the DAC targets as set out, and for making development aid more effective. It would also make the work of recipient countries easier, where they are now facing "15+1" different methodologies and policies from the European Union. Priority should be given to co-ordination at operational level.

A pilot exercise on 'co-ordination' between the Commission and the member states was initiated in October 1994 with six countries. The selection of countries was based on an assessment of the capacity of the Community. The pilot exercises were estimated as successful in Peru and Côte d'Ivoire. Some success was achieved in Ethiopia and Mozambique. In Bangladesh and Costa Rica the exercise failed. It was concluded that the success of co-ordination depends largely on the willingness and capacity of recipient countries. However, lack of political will and lack of capacity are two distinct and different issues. Not all recipient countries believe that co-ordination of donors is in their interest, so that they can play one donor against the other. It was also found that the EC could play a role in helping recipient countries take the lead in their own development programming.

In its conclusions of 5 June 1997, the Council considered that operational co-ordination in the EC should be extended to all developing countries. In April 1998 the Council approved more detailed guidelines.[57] These set out some important principles:

– Co-ordination activities should be carried out in close co-operation with the recipient country, to strengthen its capacity to assume responsibility for and ownership of its development strategies and programmes and to reinforce the government's lead role in general aid co-ordination;
– EC co-ordination should be linked to other existing donor co-ordination mechanisms at the country level;
– Co-ordination activities should ensure a coherent EC input in wider donor co-ordination mechanisms and consistency with common policy guidelines adopted by the European Council.

In principle the delegation of the European Commission initiates and monitors this process, in close collaboration with the Presidency; by common accord the tasks of monitoring the operational co-ordination can be entrusted to a member state or the Commission. The modalities defined for operational co-ordination are: meetings between representatives of the member states and the EC delegation; exchange of information, joint studies and evaluations, joint programmes and adaptation of aid programmes and harmonisation of procedures. In order to enhance co-ordination between the Commission and the member states meetings are now being held between the Commission and the Director Generals of the development agencies of the member states.

For the European Commission Humanitarian Office (ECHO) co-ordination with the member states has been a top priority since 1997. Policy co-ordination takes place in the Humanitarian Aid Committee (HAC), where representatives of the member states take decisions on ECHO policies as required by its governing Regulation. ECHO further has started to establish desk-to-desk working relations between ECHO and the administration of the member states. ECHO introduced a new information system, concerning funding decisions on humanitarian aid that are disseminated on the internet within 24-48 hours to assist operational co-ordination.[58] At present this system covers about 80% of EC activities in humanitarian assistance. ECHO also aimed to enhance collective influence of the EC in other fora.

### *4.1.1 Co-ordination of a poverty focused approach*

Since the adoption of the 1993 Resolution on the Fight against Poverty, a set of pilot programmes has been undertaken in seven countries to co-ordinate a poverty approach in the European Community.[59] These programmes have failed. The pilot programmes have demonstrated that co-ordination on the ground is particularly difficult – even though member states decided that co-ordination should start at that level. The response of member states to these programmes has been disappointing.

The pilot programmes also demonstrated that the role of the recipient country in the programming is key. However, the interests of the recipient country may not be the same as those of the donors, even if the recipient government is seriously committed to eradicating poverty. It is also difficult to instigate donor co-ordination at operational level lead by the recipient government when it is unclear whether that government has the capacity to oversee the exercise. In some countries it has appeared difficult to find a balance between co-ordination exercises implemented by other donors, e.g. the World Bank, and the exercise of the EC. Finally, within the Commission the communication between the delegations and the Commission has not been effective, particularly in circumstances where the delegation believes that the recipient country is not interested in the exercise.

In view of these outcomes these exercises have been stalled and the Commission now concentrates on mainstreaming a poverty approach in its development activities. For this purpose staff are trained in poverty approaches, and support is given to integrating a poverty approach in other services that are being offered. The Development Council of 18 May 1998 reviewed efforts in the fight against poverty and concluded that:

> "the fight against poverty must be placed at the heart, and in the mainstream of international development co-operation."[60]

This resulted in three foci with regards to the planning exercise under EDF 8. First, the targeting of social sectors in the framework of a policy dialogue on macro-economic reforms and SAPs, in order to ensure a better resource allocation for these sectors. This includes an initiative to debate the social dimension of HIPC. It also includes an ongoing debate among member states experts on poverty about policy coherence. A second focus point is the strengthening of a sectoral approach for health and education policies, and an improvement in capacity for conducting policy dialogue on these with ACP governments. Thirdly the Commission focuses to target support to more specific interventions consistent with sectoral policies. This is conditional upon the capacity existing in the ACP countries to implement these. These interventions include measures to combat AIDS, in co-ordination with other donors.

### *4.1.2 Co-ordinating a gender approach*

Policy on integrating gender has increasingly been co-ordinated between DG1B (dealing with Asia, Latin America, Mediterranean) and DG8 (dealing with African, Caribbean and Pacific) and ECHO in the Commission on the one hand and the member states on the other. Within the Commission, progress has been made in a number of areas.[61] These include the elevation in the importance attached by senior management to the implementation of the Council resolution on gender,[62] as well as to the actions taken to mainstream gender in new legal instruments. This includes within the negotiations on the next agreement between the EU and the ACP countries as well as within the ALA and MED regulations. This also includes the integration of gender in Commission-wide sectoral and thematic policies, such as environmental measures, HIV/AIDS, anti drugs policies, population, and others.

Progress has been made with the introduction of procedures to ensure gender integration throughout the project cycle, and in DG8 gender is now included in evaluation and project questionnaires.[63] In DG8 and DGIB staff has been trained in gender and development, though results are greatly undermined by the scarcity of staff and frequent staff changes. In DGIB gender impact assessment forms have been developed and attention to gender is given in the project presentation.[64] In DGIB gender issues have now been integrated in a number of pilot countries.

Annual meetings of member states experts and the Commission have taken place in order to review, among others, the implementation of the resolution and reports from member states on their experiences of implementing the resolution in their development co-operation. Two reports monitoring progress by the Commission and the member states have been produced.

The Development Council adopted further measures to strengthen the work on gender, and recognised the problem of insufficient capacity in this area. It was concluded that the Commission and the member states will increase co-operation and that co-ordination of gender related policies and practices is particularly important at the recipient country level.

### *4.1.3 Co-ordination of a human rights approach*

The EU's human rights policy has a rather narrow focus on civil and political rights. In the course of 1999 a number of activities were undertaken to regulate and co-ordinate the activities in this area. The Council adopted two regulations on human rights related to Lomé and to third countries respectively. The Member States Committee approved an internal regulation for consultation and implementation with regards to human rights projects, with harmonised procedures between DGI, DGIA and DG8, as well as the Common Service, and common guidelines were approved setting out priorities and procedures. An initiative for an annual report on Human Rights activities of the Commission and member states has also been launched.

## 4.2 Co-ordination of sectoral policies

At the meeting of Director Generals for Development of the Commission and the member states, held in April 1996, the term "Sectoral Development Programmes" (SDPs) was introduced. SDPs are long-term programmes for co-ordination of aid programmes in one sector that replace a project approach. The major characteristics of this approach are discussed in more detail in chapter 6.

The idea was that common platforms would be established in order to define strategies and establish resources to help recipient governments to design and implement SDPs. The recipient government should provide the leadership in the policy formulation and implementation. The aid is provided to financially support the proposed policies, though the bulk of financial means must come from within the country.

The SDP is a:

> "<u>tool</u> to enable government and donors to overcome these constraints. It consists of a process of negotiation leading to a transparent <u>agreement</u> in the form of a <u>coherent operational programme</u> in the context of a sectoral strategy, with financial commitment by all parties over an agreed period, in a co-ordinated manner..."[65] (original emphasis)

SDPs should be long-term investments in the sector, and funding decisions should not be only dependent upon conditions of macroeconomic performance indicators often causing unpredictability in funding allocations. It is obvious, however, that without a more or less stable economic basis and transparent accountable financial management capacity in the recipient country enabling the required policy planning in the sector SDPs are unlikely to be effective.

Development of SDPs were seen as a means to enhance the implementation of the May 1993 Resolution on co-ordination of European development policies. Health and education were the focus for the exercise on co-ordination in the six pilot-countries. Later the World Bank introduced the concept of "Sector Investment Programmes" based on a similar idea.[66] A more detailed overview of developments in EC programme aid and budget support follows in chapter 7.

### *4.2.1 SDP's in Education*

The work on SDPs in the area of education (SDP-Ed) is based on the 1994 Council Resolution on education. The notion of universal and equitable access to basic education as an obligation under the International Convention on the Rights of the Child was approved by the Council in 1996 in the Resolution on Human and Social Development. The objective of SPD-Eds is:

"to improve human resources through improvements in the provision of education and training."[67]

Representatives of education departments of the EU member states and the Commission come together in the Education Experts Group Meeting twice a year to monitor the implementation of the Resolution on Education.

Increased attention on education has not resulted in an increase of funds to this sector. The proportion of EDF programmable funds committed to education and training fell initially from 9.4% in EDF 6 to 6% in EDF 7. No figures are yet available on EDF 8.[68] An approximate total of € 1.5 billion has been allocated in the National and Regional Indicative Programmes (NIPS/RIPS) prepared for the 8th EDF: € 500 million for health, € 500 million for education, accounting for 13% of Programmed Aid. An additional € 500 million would be allocated through the Structural Adjustment Facility, accounting for a third of the resources in the facility. The priority attached to basic education within the overall education sector has been very little, but the Commission has stated its intention to pay more attention to basic health and education. However, within the 8th EDF, as with previous EDFS, the Commission prepares programmes with the ACP, but does not approve them. Programmes are approved by the National Authorising Officers (NAO) of the ACP countries and the EDF Committee. The EDF Committee of member states representatives approves all projects of more than € 2 million.

The education programmes, funded as part of Structural Adjustment Support Programmes have been difficult to identify separately. It has been extremely difficult to assess the real increases of education budgets through these means, although, if properly implemented, this should be identifiable.[69]

In Tanzania and Ethiopia pilot SDP-Eds have started.[70] In Tanzania policy development took place during 1991-1994. A Social Sector strategy was developed in 1995 and in 1996 a Primary Education Master Plan was prepared, followed by negotiations on the SDP-Ed as part of the 8th EDF. An inter-ministerial policy level Education Sector Co-ordinating Committee (ESCC) was established in the same year. This has a sub-ordinate technical level Sector Management Group (SMP) with a full-time executive committee, which is supported by donors. The chair of the SMP is the first contact point for donors. The ESCC chair (currently the Principal Secretary of the Ministry of Education and Culture) chairs quarterly meetings with donors.

In Ethiopia diagnostic studies in social sectors were undertaken in 1995-1996. In 1996 the vice-Minister informed a Horizon 2000 meeting of preparations of an SDP. Communications concerning the SDP-Ed preparations were then channelled through to the World Bank. The governments' intentions were presented at a World Bank Consultative Group Meeting (CGM). A Central Steering Committee

(CSC) was established in 1996 with government and donor representatives, and further preparatory discussions followed with donors. Preparatory missions were undertaken in 1997.

In Ethiopia the programme is co-ordinated by the Prime Minister's Office internally, through established inter-ministerial meetings. The Ministry of Education has launched a Sector Analysis Pilot Study on the co-ordination of information to enhance information sharing in the sector. Regional Steering Committees are to be formed.

According to an internal document of the European Commission, the experiences suggest that donor co-ordination is most effective when focused in the country concerned and led by the government. Where such meetings do not exist, donors should begin regular discussions in the country as a first step. As an SDP-Ed normally involves more Ministries than the Ministry of Education alone sectoral committees should be set up, responsible for the broader picture. They should not substitute work of the ministries but strengthen them through co-ordination.

Stakeholders should participate though mechanisms established by the government. Parallel consultation processes may be counter-productive, undermining a normal democratic process of government, which seeks to respond to public opinion. Donors can support the government's enhancement of its tools for a participatory approach to stakeholders. Management Information Systems should be an important part of SDP-Eds because insufficient and unreliable information leads to poor management of the budget. Finally, undertaking joint studies, as well as harmonising the monitoring and reporting needs of donor governments and institutions so that all share the same reports, would greatly enhance the efficiency of SDP-Eds.[71]

SDPs should therefore not be seen as just an exclusive EC programme. Moreover, it has been pointed out that the capacity of the European Commission is insufficient

> "to take an active role in country-level negotiations. Particular concerns were expressed about over-stretched and under-resourced sectoral advisors, over-reliance on consultants, and limited technical capacity at Delegation level."[72]

Several studies emphasise that sector-wide approaches require a constructive engagement with all relevant donors in a particular country. Officials of some member states stress, therefore, that co-ordination should take place in the CGM of the World Bank, rather than at EU level. In reality a constraining factor is also the difference in individual capacity of member states. Within this complex context the EC is working towards *"... an agreement of principles on a firmer and more explicit basis"* for an EC approach to Sector Wide Approaches.[73]

## 4.3 Co-ordination of country programmes

Co-ordination of country programmes in the EU is still very weak. It takes place at two levels: between aid agencies in donor countries and between aid agencies in recipients countries. With regards to the first the Commission has sought to develop common strategy documents of the 15 member states and the Commission for the National Indicative Programmes (NIPs). This has not been effective. The reason is that some member states, such as Italy, do not have country strategy plans themselves. Other member states follow a different time sequence as they have a different budget cycle. According to the European Commission, member states often do not send their country strategy documents. With regards to the second, for a number of countries the European Union has attempted to establish co-ordination. Between the aid agencies in the EU, there are also meetings of several regional groups, such as the Africa and Asia and Latin America groups of desk officers from the member states and the Commission.

There is some co-ordination in the recipient countries themselves between the delegations and the member states embassies and aid agencies. But in most countries this is not considered to be very effective. In the view of member states co-ordination is often seen as ineffective because the delegations of the European Commission are insufficiently equipped to provide leadership in co-ordinating the EU countries. Obviously, this problem is partially caused by the lack of staff capacity in the European Commission, including the delegations. Moreover, political will in the EU member states supporting EU co-ordination is a decisive factor that may not always be present at the operational level.

In ACP countries, the role of the delegations of the European Commission is further weakened by the EDF Committee. This committee approves projects and programmes under Lomé to ACP countries. The EDF committee consists of EU member states representatives and the European Commission. The existence of the EDF committee complicates and slows down procedures for approval and implementation of the EDFs. The EDF committee, which meets on a regular basis in Brussels, also complicates decentralisation efforts because it substantially reduces and limits the role of the EU delegations. In doing so it exacerbates the image of the EU delegations as ineffective and bureaucratic institutional outlets.

## 4.4 Co-ordination with the Bretton Woods institutions

Since 1990 co-ordination between the European Commission and the IMF and World Bank has been somewhat improved. The modalities for co-ordination with the IMF were established by an exchange of letters in 1990, and encompasses exchanges of information; contacts between services; informal contact on the preparation of Policy Framework Papers; and bilateral consultations on political/economic issues.

A High Level Meeting between the European Commission and the World Bank held in July 1996 established modalities for co-operation between the two donors in the area of Structural Adjustment, such as joint missions, consultative groups, and co-operation in sectors, such as co-financing and joint analyses. Recently collaboration between the European Commission and the World Bank has been enhanced, in relation to the Africa Region. In February 1998 a high level meeting was held between the European Commission and the World Bank in Baltimore. The agreements for co-operation incorporate activities such as Joint Country Review Exercises between the EC and the World Bank.[74]

Nevertheless, the European Commission does not sit on the boards of the Bretton Woods institutions, because of member states opposition. In addition there is no co-ordination of the member states on these boards – although lately some initiatives for strengthened co-ordination have been taken in the IMF following the introduction of the euro. However, these efforts are only at an embryonic stage. Consequentially, the political weight of the USA is much stronger than the EU despite the much larger financial contributions of the EC to the World Bank and the IMF.

Yet, most member states officials stress the importance of operational co-ordination and that co-ordination should be lead by the recipient country. However, experience related to Structural Adjustment Support shows that very few decisions are taken 'in the field'. In most cases preparations of programmes are made in Brussels, unless there are structural adjustment experts in a delegation. Very few countries are able to propose co-ordination on structural adjustment, in which area the World Bank is seen as the leader. Recipient countries do not want to antagonise the World Bank.

## 4.5 Reporting Progress

The Commission stated intention is to work more systematically on achieving greater complementarity and co-ordination. Rolling programming, discussed in chapter 7, in a continuous dialogue between the EU and the ACP is seen as one way of achieving this. With a greater role in the ACP countries for the EU delegations and the NAO/RAO, co-ordination networks with member states and other donors, such as the World Bank, could become more effective. However, this requires a fundamental revision of the centralised role of the Commission Headquarters in Brussels and the approval structure in the EU with the EDF Committee of member states representatives. Effective decentralisation will require a transfer of decision-making power to the delegations.

Many of the resolutions and conclusions adopted and agreed by the Council incorporate a reporting mechanism in order to review progress. Ideally, such progress should incorporate progress made by the member states. Unfortunately only with the gender resolutions and conclusions has this progress been monitored and reported on in a systematic way and with inclusion of the member states. In relation to other resolutions, such as the resolution on human and social development or the resolution on coherence, no reports have been prepared to review progress, even though these have been requested by the Council. This is not acceptable, because such reports are important tools measuring progress made in the implementation of the resolutions by the member states and the Commission.

## 4.6 Conclusions

The commitments made in the series of UN Conferences, that were negotiated with developing countries, should continue to provide the basic framework for EU development policies. Most member states agree that co-ordination of aid policies is imperative for a successful implementation of the targets agreed on during these conferences. No country can implement the targets on its own. The EU provides more than 50% of total DAC ODA, yet its political influence in the multilateral organisations and in relation to aid policies concerning the recipient countries is limited due to lack of co-ordination between EU member states and the European Commission.

Most EU member states stress the importance of developing countries leading co-ordination of aid efforts in their own countries. However, experience shows that few decisions are taken by governments of recipient countries. The World Bank almost exclusively directs co-ordination of Structural Adjustment Programmes. In order to increase the 'ownership' of aid programmes in developing countries it is necessary that the EU works to achieve change to that effect in the Bretton Woods institutions. Co-ordination in the EU of sectoral policies, such as health and education, in close co-ordination with recipient country governments, is one way of achieving greater 'ownership' of aid policies by developing countries.

However, co-ordination between the EU aid agencies is also weak, due to the limited capacity of European Union delegations in the developing countries. Additionally, structural problems between the delegations and Headquarters in

Brussels lead to over-centralisation of procedures and leave little space for delegations to develop policies at country level in the field. Operational preparations of programmes are made in Brussels and financial decisions on the EDF are taken by the EDF Committee, which is a committee of member states representatives.

Lack of co-ordination in the EU results, therefore, largely from unresolved political questions concerning the role of the Commission and the powers of the member states. It can only be resolved if the role of the Commission vis-à-vis the member states is clarified. Re-nationalisation of aid policies, as suggested by some politicians, is not an answer that will help to cope with the question of how Europe develops effective North – South policies coherent with other European policies. It is imperative that the expanded role given to the European Commission be matched by an extension of powers and capacity to implement the programme in an effective and efficient way. These powers need to be much more clearly defined by the member states.

CHAPTER 5

# Regional Programme Changes of NGOs in the EU[75]

## 5.1 Introduction

One channel of EU development assistance is provided by Non-governmental Organisations (NGOs), here understood as:

> "any organisation founded and governed by citizens without any formal representation of government staff or agencies. (...) [T]his includes any organisation engaged in supporting or assisting the poor by way of relief, rehabilitation or development activities in either North or the South."[76]

The European Commission channels resources for development through the NGO co-financing budget line. This budget line is usually around € 200 million. ECHO also works with and through NGOs. In addition other budget lines are accessible to NGOs. An estimate of € 500 million per year is channeled as ODA by the European Commission through NGOs. European NGOs are the largest group of beneficiaries from these funds. Additionally Member States channel aid resources through NGOs.

On development co-operation the Commission's principal intermediary with NGOs is the Liaison Committee of Development NGOs to the European Union (CLONG) which has some 900 members.[77] In dialogue with the Commission, the CLONG sought to agree a definition of NGOs involved in development (sometimes referred to as NGDOs). This resulted in a 'Charter' that describes aspects of what constitutes NGDOs.[78]

This chapter identifies some major characteristics of the NGOs in the European Union. This chapter is also concerned with how the changes in Eastern Europe from 1989 have affected the work of NGOs.

## 5.2 Population

The first NGOs were established just before the end of the last century. However, as a share of the current NGO population only a relatively small number of organisations were established before 1945. More than half of the organisations were established between 1945 and 1975. The organisations included in the survey used as the basis for this chapter are non-governmental organisations (NGOs) which have the following characteristics:

– Are non-profit making charitable organisations;
– Have a general regional orientation: they are not focused on one particular country or region;
– Implement activities in several countries outside Western Europe with the aim of bringing humanitarian assistance and of promoting development;
– Have connections with other NGOs in Western Europe through membership in one or more networks and/or family groups that are operating at that level. These may include NGOs in countries that are not members of the European Union.

The population included the membership of the European networks EuroCidse (12),[79] Aprodev (14), Eurostep (25)[80] and Voice (69), as well as the family groups of Caritas (16), International Save the Children Alliance (ISCA) (9) and Médecins Sans Frontières (MSF) (6). Family Groups of American origin with affiliates in European countries (such as Care and Foster Parents) were excluded. A number of NGOs solely operating in Eastern Europe (5) were included if they appeared to have close operational connections to other NGOs included in the research.[81] Other family groups, such as Oxfam (3),[82] are organised in other networks, i.e. Eurostep. A list of NGOs included in the survey can be found in annex 15.

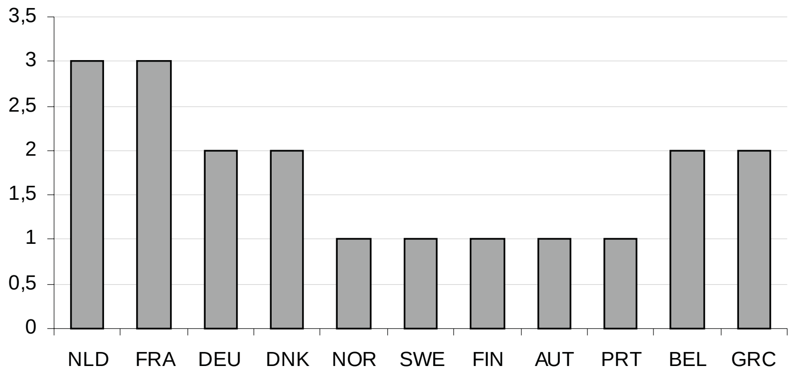
Ninety-nine organisations were included in the analysis. A total of 110 organisations were approached. The rate of return was, therefore, 90%. This makes the outcome of the survey reliable, particularly since the entire relevant population was included.

## 5.3 Characteristics of EU NGOs

Almost half of the number of all organisations (47%) do not have a religious affiliation, while one third (31%) is Catholic and 20% is identified as Protestant. Between 1989 and 1995 there was an increase in the total combined budgets of the organisations from approximately 1.3 to 2.3 billion ECU. In Germany, for instance, the total budgets of the organisations included increased from 437 to 569 million ECU. In the Dutch organisations the overall budget doubled from 211 million ECU in 1989 to 403 million ECU in 1995. In France the combined budgets increased from 71 to 210 million ECU. The UK NGOs had a very small increase only from 230 to 290 million ECU. In 1995 the largest number of NGOs came from Germany,[83] followed by the Netherlands, UK, France, Belgium and Italy. Germany also had the largest sum total of the programme budget for the NGOs, followed by the Netherlands, the UK and France. The variety between budgets of European NGOs was large.[84] In 1995, the NGO with the smallest budget had 160 000 ECU while the largest NGO had 176.5 million ECU. About 40% of the NGOs had a budget of under 10 million ECU and 75% had a budget of less than 30 million ECU; 11% had a budget of over 60 million ECU.

Since the organisations included in the survey are defined as 'Non-governmental Organisations' it would be expected that they are primarily financed from private sources. Nevertheless, 26 percent of the organisations in the survey were financed by government and the EC for more than 80% of their total project budget. For eleven percent government and the EC financing covered more than 95% of the total project budget. Eurostep members were over-represented in this category, with nine organisations receiving over 80% of their project funds from official sources. For four organisations official sources represented more than 95%. Government-funded NGOs are located in almost all countries.

GRAPH 4 *Distribution by country of NGOs that are at least 80% financed from government and EC*




The total financial contribution of the EC increased from approximately 170 million ECU in 1992 to 230 million ECU in 1995. This is respectively 9% and 10% of the total NGO project budgets. There are six organisations in this survey that, in 1995, depended for more than 75% of their funding on the European Commission. Eleven were more than 50% dependent on Commission funds.[85]

Almost all of the organisations depending heavily on Commission funding were working in Eastern Europe. For four of these, over 70% of their budgets were financed from ECHO. In 1995 the total amount of NGO financial resources from ECHO was 130 million ECU.[86] There were seven NGOs that received resources from the European PHARE/TACIS programme for Eastern Europe. Total financing of NGO activities from the PHARE/TACIS EC special programmes for Eastern Europe was only around 4 million ECU.[87]

Governments contributed some 30% to the project budgets of NGOs.[88] Nineteen organisations (26%) did not receive any funding from their national government in 1995. Eleven organisations received more than 75% government financing, and 23% of all NGOs received more than half of their budget from the government.

The survey also established in which regions the organisations worked initially. Some 69% of the organisations worked in Sub-Sahara Africa when established; 53% worked in Latin America and the Caribbean; 43% worked in South and South-east Asia; 33% worked in Western Europe; 23% worked in the Mediterranean; 20% worked in Eastern Europe; and 2% worked in China.

There is a clear relationship between the year the organisation was established and the regions where activities took place at that time. Seventy percent of the organisations set up before 1950 were working in Western Europe and 53% were working in Eastern Europe. Only 29% were working in Sub-Sahara Africa, and even less were working in any other region. For those organisations established after 1950 and before 1979, 89% worked in Sub-Sahara Africa when established. Only 20% worked in Western Europe and dramatically less, 6.7%, worked in Eastern Europe. Seventy three percent of the organisations were working in Latin America, South and South-east Asia. Only 29% worked in the Mediterranean.

There is also a clear relationship between the region where the NGO is based, and the regions where the NGO worked when established, as shown in the following table.

TABLE 2 *Region of work when established and origin of NGO (in percentage)*[89]

| *Region of work when established* | *Southern Europe* | *Northern Europe* |
|---|---|---|
| Western Europe | 39.6 | 60.4 |
| Eastern Europe | 27.4 | 72.6 |
| Sub Sahara Africa | 57.2 | 42.8 |
| Mediterranean | 61.1 | 38.9 |
| Latin America & Caribbean | 57.7 | 42.3 |
| South-east Asia | 46.7 | 53.3 |
| South Asia | 44.7 | 55.3 |

Only two organisations – both based in Germany and established between 1959 and 1979 – worked in China when established. Proportionally, more NGOs from North European countries have worked in Western or Eastern Europe than NGOs from South European countries. Conversely, proportionally more NGOs from the South of Europe have worked in countries of Sub-Sahara Africa, the Mediterranean and Latin America than their North European counterparts. In Spain, for instance, all the organisations worked in Latin America at the time the organisation was established. This suggests that geographic proximity and historical connections play an important role in an NGOs choice of regional focus for their activities – and perhaps more so than humanitarian need.

## 5.4 NGO networks and family groups

In 1990 three new co-ordination structures were established: EuroCidse, Aprodev and Eurostep. Groups of independent, already existing, NGOs decided to co-operate more closely at the European level. In each case the co-ordination concentrates on areas related to European Community policy. The three networks represented three different backgrounds. EuroCidse brought together organisations with a Catholic background. Aprodev's membership was formed by organisations with a Protestant affiliation. Eurostep included non-denominational organisations.

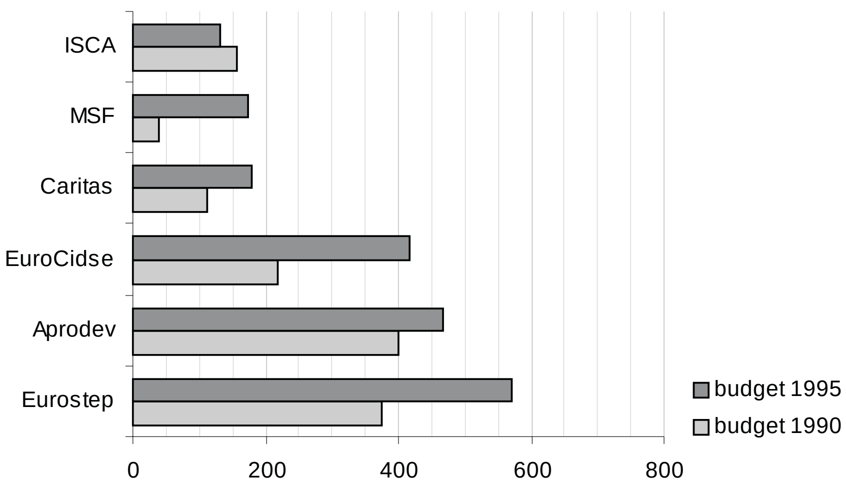
There are also groups of organisations that can be categorised as 'famillies' in which the members are national representations of the family as a whole. The oldest family group is Caritas, established at the beginning of the century. The International Save the Children Alliance (ISCA) was also established in the early part of this century. These organisations originally sought to bring relief to war-torn Europe. The family of Médecins Sans Frontières is a relatively young grouping, founded in the eighties.

The Oxfam family is slightly different, because it acts like a 'family' of organisations seeking to establish coherent policies in all aspects of their work. It only expanded within Europe in the nineties, partly by incorporating already existing organisations from other countries. All the European members of the group are, directly or indirectly, part of Eurostep. For this reason, the family is not separately identified in this survey.

Of these different groups, Eurostep has the largest membership. This is compounded by the fact that several of its members are national co-ordinating structures with an NGO membership from that country. However, these are counted in this survey as one organisation.[90] In terms of size Aprodev, EuroCidse, Caritas, International Save the Children and MSF follow respectively. In relation to project budgets for overseas activities, Eurostep also represents the largest group. MSF is the group with the largest budget on average per member. If the European Oxfams were included as a family group separately from Eurostep, they would have collectively ranked between EuroCidse and Caritas, in terms of the overall budget.

The combined MSF budget grew rapidly from approximately 30 million ECU in 1989 to 173 million ECU in 1995. Eurostep's total membership budget increased sharply from about 340 million ECU in 1989 and 375 million ECU in 1990 to 570 million ECU in 1995. The total budget of EuroCidse members also almost doubled from about 200 million ECU in 1989/90 to 400 million ECU in 1995. Aprodev's combined budget increased from 380 million ECU in 1989 and 400 in 1990 to approximately 470 million ECU in 1995. The International Save the Children Alliance was the only grouping whose total project budget decreased between 1989 and 1995.

GRAPH 5 *Comparison of combined project budgets of European networks and families in 1989 and 1995 (million ECU)*




There are clear distinctions between the family groups based on the year that they were established. The Caritas family is an old grouping, being almost fully established by 1963. In comparison, the members of EuroCidse were all established after 1956. Aprodev members are also relatively old, with 90% of its members having been established before 1962. The organisations of MSF were all founded in the seventies and eighties. Most of Eurostep's members were established in the sixties and seventies, but the network has a large spread over the entire range, from the end of the last century up until the present day.

The NGO networks and family groups can also be distinguished according to the region of work when the member-organisations were established. For instance EuroCidse, Eurostep and MSF have no members that worked in Eastern Europe when the member organisations were established. This is consistent with these groups being the ones with the youngest membership, predominently being established after 1950. In contrast, Aprodev and the Save the Children Alliance have many members who worked in Eastern Europe when they were founded. An even larger number of members of these groups worked in Western Europe when they were set up, which is also the case for Caritas. For many organisations from EuroCidse and Eurostep Latin America and Asia were regions in which they worked from the outset.

As has been suggested, the networks and family groups can be categorised by religious affiliation. The Aprodev network stems from the World Council of Churches, while the Headquarters of Caritas is in Rome, closely connected with the Roman Catholic Church. EuroCidse is also a network of Catholic organisations. Eurostep is the only network with some religious (Catholic) organisations amongst its, mainly, non-confessional membership. Some of these stem originally from a confessional background such as, for instance, Intermon and Novib that were established by Catholics, and Oxfam UKI that was set up by Quakers. Eurostep's binding factor is that all the organisations are presently non-denominational.

The Protestant network is, for obvious reasons, based firmly in the North of Europe. As the number of NGOs in the North is much larger than in the South of Europe, the Catholic networks still draw a large proportion, more then 50%, of their membership from the North of Europe. But they have a relatively stronger base in the South. Médecins Sans Frontières has the strongest base in Southern Europe.[91]

## 5.5 Humanitarian versus development NGOs

There is also a regional dimension to the nature of assistance, that is being humanitarian or development oriented. Of the organisations in Southern Europe a significant number described themselves as being of humanitarian in nature. Those describing themselves as being of a pure development character are predominantly based in Northern Europe.

It is often suggested that the post cold-war period could be characterised by an increase in humanitarian activity. The survey confirms this idea. In the period

1990-1995 the aid for humanitarian assistance did indeed increase. Thirty-eight percent of the organisations proportionally increased their budget for humanitarian activities.[92] Some organisations increased their proportional budget for development activities (17%). The remaining (45%) kept their relative budgets for these areas at the same level.

A more detailed look at activities implemented by NGOs show that a majority of NGOs predominantly still implement development activities. A large number (29) has a mixture of activities and these organisations are mainly based in the North of Europe. This is also the case for organisations concentrating on special groups, such as refugees and children. In contrast health is an activity on which most organisations in the South of Europe concentrate.

In absolute terms the sum of the project budgets of health and humanitarian organisations together increased from a little more than 100 million ECU to 400 million ECU between 1989 and 1995, accounting for less than a fifth of the total budget for that year. Nevertheless the sum of the budget of development organisations still remained larger in size, and increased from 600 million ECU in 1989 to a little over 900 million ECU in 1995. The 'mixed organisations' grew from approximately 460 million ECU in 1989 to 750 million ECU in 1995. The development and 'mixed' organisations account for almost 75% of the total budget for that year. Despite the growth of humanitarian assistance, this has not been directly at the expense of the resources for development.

## 5.6 Regional budget changes between 1990 and 1995

During the period 1990-1995 EU NGOs increased their budgets to Eastern Europe and to Sub-Sahara Africa. Between 1990 and 1995 Sub-Sahara Africa has remained a priority for all NGOs and 46% of the organisations increased their budget to this region. Notably, only 9 NGOs did not have such a programme – and this number included NGOs especially established to support activities in Eastern Europe. In rank order by number of organisations with a programme in the region, Sub-Saharan Africa is followed by Central and South America, and then South-east Asia. Next follows Eastern Europe, followed by South Asia, the Mediterranean, and the remaining regions, including the Gulf countries and China. A number of organisations indicated having programmes in Western Europe as well – but this was not systematically researched in the survey. MSF, for instance, implements programmes in Belgium, France and Spain.

Table 3 shows the changes of budget that went to the different regions. Some 49% of the organisations increased their budgets to Eastern Europe and 46% to

Africa. Fifteen organisations registered a decrease for South America, yet, on balance, still more organisations claimed to have increased their budget to that region. There is a relatively large increase of financial resources to South-east Asia. In 1995 61% of the organisations had included Eastern Europe as a region of work. This is a significant increase from before 1989, when 65% of the organisations did not include Eastern Europe in their working mandate.

TABLE 3 *Comparison of regional programme changes by percentage between 1989 and 1995*

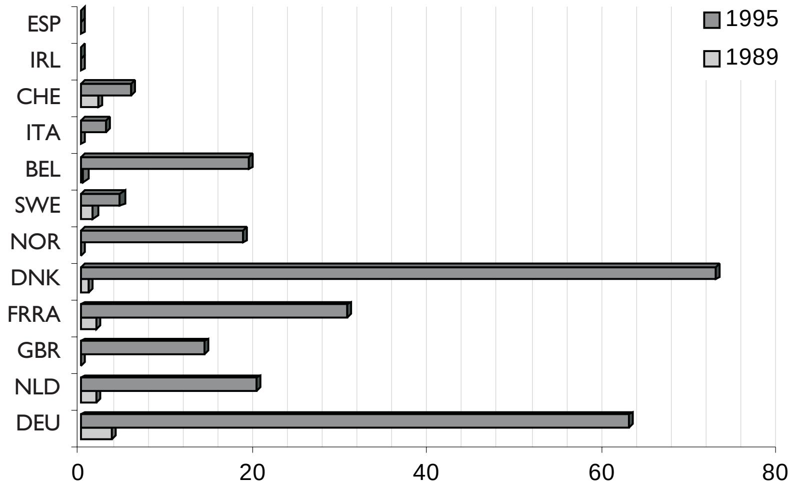
| | *Increased* | *Decreased* | *Maintained* | *No programme* |
|---|---|---|---|---|
| Sub-Sahara Africa | 46 | 8 | 37 | 9 |
| Central America | 20 | 10 | 46 | 24 |
| South America | 18 | 17 | 39 | 26 |
| South-east Asia | 21 | 11 | 38 | 31 |
| Eastern Europe | 49 | 2 | 11 | 37 |
| South Asia | 15 | 6 | 38 | 42 |
| Mediterranean | 14 | 11 | 15 | 60 |
| Gulf countries | 2 | 7 | 7 | 84 |
| *China* | 9 | 0 | 14 | 77 |

NGO funding available for Eastern Europe increased from approximately 23 million ECU in 1989 to 214 million ECU in 1995 – almost one hundred times. Proportionally the budget for Eastern Europe in relation to the total budget was 1.7% in 1989 which had risen to 10% in 1995.

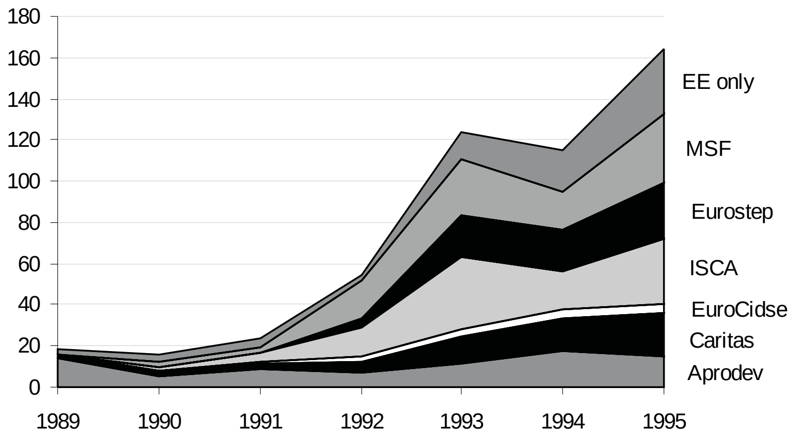
Graph 6 shows that the total budget of Danish NGOs for Eastern Europe was very large. Yet, not all the NGOs in Denmark implemented programmes for Eastern Europe. As one would have expected, German NGOs were proportionately well involved in Eastern Europe, as were those from France. The NGOs from the UK and the Netherlands contributed relatively little to Eastern Europe.

Even though the membership of Aprodev had the highest contribution to Eastern Europe in 1989 and almost all members contributed to Eastern Europe at that time, the network did not generate the largest budget for the region by 1995. In that year much more financial resources were generated from within the memberships of MSF, Caritas and Eurostep. This is illustrated in graph 7 showing the cumulative resources by each NGO-group generated between 1989 and 1995.

GRAPH 6 *Total project budget for Eastern Europe (in million ECU) per country 1989-1995*




GRAPH 7 *Budget for Eastern Europe by NGO group (cumulative in million ECU)*




The contribution of Save the Children fluctuated quite dramatically in these years. EuroCidse consistently remained the lowest contributor to Eastern Europe. Eurostep and Caritas built slowly, but steadily to budgets larger than those from Aprodev.

Twenty-one organisations set up other organisations to channel aid to Eastern Europe – but only a few of them used that as an exclusive mechanism. The majority of these new organisations were set up between 1991 and 1994. Many of these were in Germany and in Eastern Europe itself.

The following table shows the ranking of East European countries in terms of the number of NGOs working in these countries. Fifty percent of the organisations worked in Bosnia. The total aid of the NGOs to ex-Yugoslavia amounted to at least 100 million ECU in 1995.

TABLE 4 *Number of NGOs (in percentages) working in specific countries in Eastern Europe (1990-1995)*

| *Country* | *# NGO (%)* | *Country* | *# NGOs (%)* | *Country* | *# NGOs (%)* |
|---|---|---|---|---|---|
| Bosnia | 49 | Bulgaria | 19 | Czech Rep | 12 |
| Rumania | 36 | Lithuania | 19 | Kyrgystan | 11 |
| Serbia | 32 | Tadzhikistan | 17 | Slovenia | 10 |
| Croatia | 35 | Hungary | 16 | Slovak Rep | 9 |
| Armenia | 25 | Latvia | 15 | Uzbekistan | 9 |
| Russia | 25 | Estonia | 15 | Kazakhstan | 8 |
| Albania | 28 | Azerbaijan | 15 | Chernobyl | 8 |
| Georgia | 23 | Macedonia | 12 | Moldavia | 7 |
| Poland | 20 | Belarus | 12 | former DDR | 4 |
| Chechnya | 19 | Ukraine | 12 | Turkmenistan | 4 |

Development oriented and mixed organisations were particularly active in a number of Central European countries: Rumania, Poland, Bulgaria, Hungary and Albania.

## 5.7 Differences in motivations and justifications

In the survey respondents were not only asked whether their organisation changed policy but also to offer explanations for the policy the organisation chose to follow. In the following tables the justifications given are contrasted in relation to the two possible policy decisions; to work in Eastern Europe, or not.[93] Table 5 looks at the arguments used within organisations to justify their decision as to whether to work in Eastern Europe before 1989.

TABLE 5 *Arguments used to justify decisions about involvement in Eastern Europe before 1989*

| *We did not implement projects in EE before 1989 because:* | *We implemented projects in EE before 1989 because:* |
|---|---|
| - No projects were identified | - We received applications from there |
| - There was no demand, was not debated | - Our partners requested this |
| - We had no mandate to do so | - We offer assistance without discrimination of race, religion, ... or political affiliation |
| - Our focus is on the Third World | - We helped victims of 2nd World War, secure peace in the future |
| - We focus on the poorest | - We help people in need, victims of man-made disasters and of unjust social and economic circumstances |
| - We started with various missions in Africa | - We started in Greece in 1942 |
| - Our experience is in the other continents | - We give humanitarian assistance |
| - It was not possible, and vulnerable groups were not known | - There were needs and possibilities for help |
| - It was not a priority | - Emergency assistance was needed |
| - There are other organisations for this. Everyone needs to stick to their own job | |

Table 6 looks at the arguments used for justifying decisions taken about working in Eastern Europe between 1989 and 1995. Again similar arguments are used to justify either policy decision taken either way.[94] The important question is, therefore, how people in organisations decide which arguments to use and whether organisational characteristics play a role in this process.

TABLE 6 *Arguments used to justify decisions about involvement in Eastern Europe between 1989 and 1995*

| *We did not work in EE between 1989 and 1995 because:* | *We worked in EE between 1989 and 1995 because:* |
|---|---|
| - We choose to work in developing countries | - We responded to the demands of our partners |
| - There are other organisations for that | - Doors were opened for Christian NGOs |
| - It was not a priority | - It was a new priority |
| - We had a problem of personnel capacity | - There were new possibilities and developments |
| - We want to continue with our speciality | - Of the political change: the end of the Cold War did not bring peace in Eastern Europe |
| - Our human and financial resources are limited | - There was a humanitarian and emergency crisis |
| - We are too small | - The population was in a crisis situation |
| - We have a selection of countries based on UN poverty listing of LDCs | - Needs were discovered |
| - We had no mandate to do so | - We got new definition of the mandate |
| - We took the decision not to change focus | - We decided to promote solidarity for the South and help establish Third World activities in EE |

### *5.7.1 Characteristics of NGOs working in Eastern Europe*

There is a correlation between the regions on which the organisations were focussed when established and the decision as to whether to work in Eastern Europe after 1989. Proportionally many fewer organisations established at the height of the Cold War decided to work in Eastern Europe after 1989. Organisations established towards the end of the Cold War start activities in Eastern Europe more easily as did those that had worked in the region before the Cold War period.

TABLE 7 *NGO working in Eastern Europe in 1995 and year of foundation (in % per column)*

| *Working in EE* | *1988-1950* | *1950-1979* | *1980-1995* |
|---|---:|---:|---:|
| No | 8 | 44 | 35 |
| Yes | 92 | 56 | 65 |

The relationship between certain features of NGOs and the country in which they are based also underscored the idea that there might be a correlation between the country of origin and their decision on working in Eastern Europe. The results to this question allowed the division of NGOs into four categories.

TABLE 8 *Percentage of NGOs working in Eastern Europe by country*

| *% of NGOs working in Eastern Europe* | *Country* |
|---|---|
| 80-100% | Germany, France, Luxembourg |
| 60-80% | UK, Netherlands, Denmark, Sweden |
| 40-60% | Greece, Italy |
| 0-40% | Spain, Portugal, Ireland, Belgium |

Interestingly, the categories broadly reflect two criteria: (1) whether the country is in the North or South of Europe and (2) whether the country is in the proximity of Eastern Europe. Note that France 'behaves' as a country that is in the North of Europe and in the close proximity to Eastern Europe.

The following table shows the relationship between these countries and the work of NGOs in Eastern Europe (weighed percentages, n=97).

TABLE 9 *Country (in groups) by number of NGOs working in Eastern Europe in 1995*

| *Row %* <br> *Total %* | *No EE* | Yes EE |
|---|---|---|
| Group 1: Germany, France, Luxembourg | 9.4 | 90.6 |
| | 1.8 | 17.0 |
| Group 2: UK, Netherlands, Denmark, Sweden | 29.0 | 71.0 |
| | 12.6 | 30.9 |
| Group 3: Greece, Italy | 46.2 | 53.8 |
| | 8.9 | 10.4 |
| Group 4: Spain, Portugal, Ireland, Belgium | 66.7 | 33.3 |
| | 12.3 | 6.1 |
| Total | 35.6 | 64.4 |

This table shows that there is a clear relationship between the location of the NGO and the decision to work in Eastern Europe. The location plays a role in two distinct manners. More NGOs from the North had activities in Eastern Europe than NGOs from the South of Europe. Within these two groups more NGOs of countries closer to Eastern Europe had activities than NGO from countries further away.[95]

Additionally, almost all the Protestant organisations worked in Eastern Europe between 1989 and 1995. More of the Catholic organisations and even more so of the organisations without a religious affiliation did not work in Eastern Europe between 1989 and 1995.

All the members of the humanitarian group of MSF worked in Eastern Europe between 1989 and 1995. Most of the members of Caritas, Aprodev and the International Save the Children Alliance also implemented activities in Eastern Europe. The majority of members of these three groups all originate from before the 1950s. The networks with a much younger membership – predominantly from between 1950 and 1979, had a majority of members who had not started working in Eastern Europe by 1995.

A relationship could also be established between the membership of networks/ family groups and decisions of members to work in Eastern Europe. It also appeared that the more humanitarian oriented organisations (MSF) are much more attracted to work in Eastern Europe than the development oriented ones (Eurostep). Since the networks were only established in 1990 it has to be assumed that network pressure played a limited role in the policy decision-making of individual members.

It has been suggested that a connection could be expected between the region where an organisation worked when it was established and its decision on working in Eastern Europe. The survey confirms this hypothesis. Almost all the organisations, which worked in Eastern Europe when they were first set up, worked again in Eastern Europe during 1989-1995. Most of these organisations had not worked in Eastern Europe since the 1950s. Of the organisations, which were not working in Eastern Europe between 1989 and 1995, a majority (91%) worked in Africa when the organisation was set up.

It can be concluded that there is significant evidence that the original region where the organisation worked when it was established affects the NGO's decision on working in Eastern Europe after 1989. There is also a clear relationship between the nature of an organisation's activities and the decision on working in Eastern Europe before 1995. In addition there is also correspondence between the size of the NGO and the decision to work in Eastern Europe. Organisations with an average size (between 10 and 30 million ECU) and the very large NGO (over 60 million ECU) have a very high chance of having activities in Eastern Europe by 1995.

TABLE 10 *Size of organisations and activities in Eastern Europe in 1995 for weight cases in row percentages*

| *Budget size* | *No EE* | *Yes EE* |
|---|---|---|
| 0-10 MECU | 44 | 56 |
| 10-30 MECU | 19 | 81 |
| 30-60 MECU | 42 | 58 |
| 60-200 MECU | 9 | 91 |

Humanitarian organisations were almost all located within the category of organisations with budgets under 10 million ECU. Of the organisations in this category of smallest organisations, the NGOs working in Eastern Europe are predominantly humanitarian organisations and some are 'mixed'. Almost all the development organisations in this category declined to work in Eastern Europe. One small development organisation illustrates this with the explanation why it does not work in Eastern Europe:

> "There are other organisations existing for that. One should do one's own job."[96]

This was not the view of the smallest humanitarian NGOs, who took the decision to work in Eastern Europe.

The largest NGOs with budgets of more than 60 million ECU predominantly categorised themselves as pure development NGOs. These did work in Eastern Europe. They were less reliant on a strict interpretation of their core developmental mandate when making their decisions, more easily finding other ways of dealing with the changing working mandate. They either channelled funds through organisations specifically set up for this purpose or found ways to earmark specific funding for Eastern Europe. As one organisation explained:

> "[ Our ] policy is not to divert funds from the South to Eastern and Central Europe. All funding in Eastern and Central European countries is therefore on the basis of especially earmarked funds."

It can be concluded that humanitarian organisations have moved to Eastern Europe irrespective of their size, while for development organisation size was a key factor determining their policy on working in Eastern Europe.

### *5.7.2 Outside pressure to change policies*

The survey also looked at the role of outside pressure in taking policy decisions. This is, perhaps, particularly relevant given the large number of NGOs dependent upon public funding. Respondents were asked to comment on the pressure felt from outside funders to change to work in Eastern Europe. They suggested that the policy change did not always happen voluntarily. This is demonstrated by the following comments made by respondents:

> "The NGOs have often been put under pressure by official funders to orientate their aid to the East";
>
> "To meet expectations of the churches and at the request of the World Council of Churches";
>
> "To include 'countries in transition' as defined by the Ministry for Development Co-operation";
>
> "We went to Eastern Europe to include the countries from the PHARE and TACIS funding".

This shows that NGOs are not insensitive to requirements or possibilities offered by their funders. Notably, no remark was found about possible pressure from public opinion. All pressure identified was from national governments or the availability of EC funding. This shows that while NGOs, as independent stakeholders, are perceived to influence the policy of national governments and the EU, the reverse could also be true, with policies of NGOs being influenced by national governments or the EU.

## 5.8 Conclusion

Two thirds (64%) of the organisations included in this survey did not work in Eastern Europe in 1989. In 1995, however, 61% of the organisations had included Eastern Europe as a region in which they worked. Elements that helped determine whether NGO worked in Eastern Europe between 1989 and 1995 related strongly to:
– The year the organisation was established. Those which were established between 1959 and 1979, when the Cold War reached its height, were more reluctant to work in Eastern Europe after 1989.
– The original mandate of the organisation. The organisation was much more likely to work in Eastern Europe after 1989 if the NGO worked in Eastern Europe when it was founded. This was the case even if these NGOs had not worked in Eastern Europe between 1950 and 1989, and worked only in the South. Conversely, of the organisations that did not work in Eastern Europe after 1989, the majority worked only in Africa when the NGO was founded.

– The location of the organisation. Organisations based in countries close to Eastern Europe were more likely to work in Eastern Europe after 1989. Organisations based in the North of Western Europe were also more likely to work in Eastern Europe.
– The religion of the organisation. Almost all the Protestant organisations worked in Eastern Europe after 1989. Organisations who did not start activities in Eastern Europe were mostly non-confessional.
– The nature of activities of the organisation. Many of the humanitarian organisations started working in Eastern Europe after 1989. Most organisations aimed at special groups, such as children and refugees, started to work in Eastern Europe, as did the majority of health related organisations. Most of the organisations, which decided not to work in Eastern Europe, identified themselves as development oriented or had mixed activities. The relationship between these factors and activity in Eastern Europe was very clear notwithstanding the difficulty, commented upon by a large number of organisations, to distinguish between humanitarian and development activity.
– The membership of the organisation. The organisations that were members of MSF, Caritas, Aprodev and ISCA were much more likely to work in Eastern Europe after 1989. This coincides with the characteristics of membership for each group, and corresponds to a number of factors mentioned above, such as year of establishment, religious affiliation and the nature of activity.
– The size of the organisation. The largest 10% of organisations were, almost without exception, working in Eastern Europe, irrespective of any of the other factors mentioned above.

The differences in approaches towards Eastern Europe during the 1990-1995 period seem to suggest fundamentally different perceptions of Eastern Europe's relation to the EU. Nevertheless, the reasons given for justifying both the decision to work in Eastern Europe or not to do so by NGOs are very similar. In a few instances, the motivations reflected an acknowledgement of the particular nature of Eastern Europe, which is fundamentally distinct compared to regions elsewhere. More commonly, the justifications were a reflection of the specific identity of a given NGO. National determinants also seemed to be relatively important in determining the policies of the NGOs.

The expanded role of NGOs in terms of resources and scope should contribute to greater political involvement which demand coherence between European development policies and other policies affecting third countries. This is contrary to the increased attention given to humanitarian approaches which often seek to avoid political processes. Appreciating the particular complexity of the problems in Eastern Europe and in its relationship with the EU, NGOs could be more visionary and creative in developing thinking on the EU's aspirations and responsibilities vis-à-vis Eastern Europe. The changes in Eastern Europe point directly to the heart of the EU's identity as a global player, to which national responses alone are inadequate. NGOs, which, by definition, define themselves as an alternative to government action and reflection, could play an important role in determining the identity, the role and responsibilities of the EU towards Eastern Europe.

CHAPTER 6

# Financial Perspectives

In this chapter a number of issues will be addressed related to the financial situation of EC development activities.[97] The financial conditions of the aid programmes implemented by the European Commission are determined by two processes. Firstly the budgetary process, which applies to all the programmes within the Community budget. Secondly the financial envelopes within the European Development Fund (EDF) which provide the financial basis for aid under the Lomé Convention.

The resources for programmes implemented by the European Commission come from the EC's own resources as well as from resources made available directly by the member states. This mixture of resources results in a complex relationship between the finances made available for aid from the member states and the European Community. This chapter will study the nature of the financial underpinning of the Community programme as a tool for further in-depth examination of the relationship between the EC and the member states.

EC ODA, excluding the member states, consists of two separate financial resources: the budget lines in the EC budget and the financial envelope in the EDF outside the budget, to finance the implementation of EU-ACP co-operation. The latter is an intergovernmental agreement that is executed by the European Commission. The two parts that make up ODA resources are run by completely different sets of rules.

## 6.1 The budget

The budgetary process is determined on an annual basis. It is determined under a co-decision procedure between the European Council and the European Parliament. The budget is agreed on within a general framework, called the financial perspective, adopted on a multi-annual basis by the Council and Parliament. The general perspective establishes ceilings for the main budget headings, which determines the room for manœuverability in the annual budget negotiations.

The previous financial perspective was negotiated for the period 1993-1999. The budget process for the calendar year 1993 demonstrated, not for the first time, great differences of opinion between the European Council and the Parliament. The

Council could not agree on the provision of further funding for the former Soviet Union, Central and Eastern Europe, humanitarian aid and Structural Funds. Following decisions adopted by the Edinburgh Summit in December 1992, a compromise allowed an increase of funding to Latin America, Asia and the Mediterranean countries.[98] Additionally at the Summit in Cannes in 1995 the European Council agreed specific appropriations for financial co-operation with the Mediterranean as well as Central and Eastern Europe for the period 1995-1999. As part of the negotiations on Agenda 2000 a new financial perspective has been agreed on for the period 2000-2006.

The financial perspective is established for a period of seven years, and it only determines the ceilings for headings that are then decided upon in each annual budget. These ceilings determine the maximum allocations that can be agreed in the budget. The resources for the EC budget come from what are known as 'the own resources' of the Community. Originally the Community's budget was based on national contributions. In 1970 it was changed into a system of own resources, made up of custom duties, agricultural levies on imports from outside the EC and a proportion of national receipts from VAT. In 1988 a proportional sum of the member states' Gross National Product (GNP) was added. This is a residual part to complement the budget that is determined.

The key for the member states' contributions is the member states GNP divided by the EC GNP. Germany's share of EC GNP is 25% while the combined GNP of Germany, France, the UK and Italy is 75% of total EC GNP (see annex 3). Each year the call-down rate is determined as a percentage of GNP, the ceiling of which is set as 1.27% of GNP. Ten percent of the member states' own contributions are kept as collection costs in the member states and these are only used when appropriations are exhausted. The budget authority is with the European Council and the European Parliament, and, therefore, member states cannot earmark their contribution: the contributions are non-specific. In principle, therefore, it is not possible to determine the allocations of member states to specific budget lines or headings.

If the allocations and/or payments are less than the appropriations, the amounts that have not been spent cannot be carried over to a subsequent year by the EC. The annual nature of the budget is a key rule, and determines that appropriations that have not been used are returned to, or remain in, the member states, who are free to use them according to their own priorities.

The actual commitments and payments can differ quite considerably from the budgeted commitment or payment appropriations, and are naturally always lower since the budget provides a ceiling for the commitments and disbursements in a particular year.

**Box 2 – European financial management rests upon the following aspects:**

*Financial perspective (adopted by the Council with approval of the Parliament):*
This is an agreement for a certain number of years between the European institutions on ceilings concerning the main headings in the budget. The financial perspective is normally agreed on in a summit of the Council and is to a large extent the result of political negotiations in which the member states play a dominant role.

*Annual budget (adopted by the Council in co-decision with the European Parliament and the European Commission):*
- Commitment appropriations
  These set out the maximum allocations that the Commission can make in a specific year for a particular budget line.
- Payment appropriations
  These provide the ceiling of payments that are allowed in the budget for the same year.
  Commitment appropriations and payment appropriations do not have to be the same amount, as in year X more contracts can be signed, while in a following year Y the payments of these contracts are budgeted.

*Implementation by the Commission:*
- Actual commitments
  These are the resources covering the contracts that have been signed.
- Actual payments
  These are the payments that have been made.

## 6.2 The EDF

The EDF represents approximately one third of the total EC ODA resources equivalent to around half of the actual disbursements. The EDF operates separately and differently from the budget, most importantly because the principle of annuality does not apply to the fund. The five-year fund is a total amount of resources designated for the implementation of a particular Convention, no matter how long it takes. Most EDFs take about 12-13 years to be fully implemented. The resources for the EDF consist of contributions from the member states. The implementation of the fund is also managed by the European Commission. It follows the same budgetary categories as the ordinary budget: commitment appropriations, payment appropriations, actual commitments and payments. Since each EDF is agreed upon as part of a particular Convention, its use has to be in conformity with the Lomé Convention to which it relates. This means that one has parallel operations relating to the implementation of several EDFs with different rules at any one time.

The EDF for the Lomé Convention is determined every five years. Unlike the budget, where contributions can not be assigned to particular programmes, the EDF depends entirely on voluntary contributions. These are made outside the financial perspective. During the negotiations for the current 8th EDF, the UK reduced its share from 16 to 12%, officially because it did not agree with the compromise on the 1992-1999 financial perspective. The outcome on the 8th EDF was disappointing, prompting Commission President Jacques Santer to comment publicly and bitterly that:

> "What has been achieved is the realisation of the seventh EDF with the 15, which is the equivalent of what we used to do before with 12 [member states, MVR]."[99]

The following table shows the proportional contribution of each member state to the EDF. While on average a quarter has been contributed by Germany, and France, the UK's contribution is much less, despite its GNP being relatively close to that of Germany and France.

TABLE 11 *Comparison of EU member states' contributions to the 7th & 8th EDF in percentages*[100]

| | *EDF 6* | *EDF 7* | *EDF 8* |
|---|---|---|---|
| Germany | 26.06 | 25.96 | 23.36 |
| Belgium | 3.96 | 3.96 | 3.92 |
| Denmark | 2.08 | 2.07 | 2.14 |
| Spain | 6.66 | 5.90 | 5.84 |
| France | 23.59 | 24.37 | 24.30 |
| Greece | 1.24 | 1.27 | 1.25 |
| Ireland | 0.55 | 0.55 | 0.62 |
| Italy | 12.58 | 12.96 | 12.54 |
| Luxembourg | 0.19 | 0.19 | 0.29 |
| Netherlands | 5.64 | 5.57 | 5.22 |
| Portugal | 0.88 | 0.88 | 0.97 |
| UK | 16.58 | 16.37 | 12.69 |
| Austria | - | - | 2.65 |
| Finland | - | - | 1.48 |
| Sweden | - | - | 2.73 |

The successor to the Lomé IV Convention will be negotiated by February 2000, which is, therefore, also the deadline for negotiations on the EDF. The EDF is a financial envelope designed for the implementation of the Convention – even if it is not allocated within the five years for which it is designated. While the fourth Lomé Convention is expiring, previous EDFs will still be implemented because the funds are not exhausted. Meanwhile a new EDF or a similar financial envelope to accompany any successor treaty needs to be negotiated.

The negotiations in the run up to the year 2000 are, therefore, extremely important to determining the financial scope of EC development co-operation in the next century. In the following sections some key specific financial features relating to the budget and the EDF will be discussed and arguments will be developed as to how EC co-operation can be oriented towards a more consistent approach to the eradication of poverty.

### *6.2.1 Rolling over of EDF 8*

Lomé III (and previous Lomé Conventions) was based on the principle that EDF allocations were destined to ACP countries or regions as agreed; if funding was not used, or funds were suspended, the allocations could not be transferred to other destinations. However in Lomé IV and IV *bis* these rules were relaxed. The largest change was made in the Mid-term Review (Lomé IV *bis*) in 1995. This Mid-term Review stipulated that funding for national programmes would be approved in two tranches. The second tranche would only be approved if the implementation of the national programme during the first tranche had been successful. The second 30% tranche for these programmes is therefore not earmarked in the same way as used to be the case in previous Conventions. This provides a possibility of transferring funding from the 8th EDF to following EDFs, which means that the actual contributions of the member states could be further decreased.

The European Commission has also proposed to change the nature of the EDF into a 'rolling programming' that will be based on greater overall budgetary support to the ACP countries, greater flexibility and adaptation of programming and more intensive monitoring. It is proposed that funding will be dispensed differently to guarantee continuity in the budget support. Every two years new tranches would be released, on the basis of the implementation of five-year programmes. Funds that have not yet been spent can be 'rolled over' into the new tranche. It would mean that the resources of different EDFs would be managed within one single budgetary process. This provides, in principle, continuity and reliability, but whether this will be successful in practice will depend entirely on the conditions for releasing the tranches, and the logistical capacity and competence in supervising the progress of the programmes both in the EU and in the ACP countries.

## 6.3 Financial trends

The rules of the budget and those of the EDF differ, particularly with regards to the time frame of the resource allocations. While the budget has an annual framework, the cycle of the EDF takes between five to thirteen years, and this causes severe fluctuations in allocations and payments in any one-year. However, over a longer period some trends can be seen, as is shown in the following table.

TABLE 12 *Commitment Appropriations by Geographic Area, including ACP (1992-1998) in million ECU*[101]

| | ALA | MED | CEEC/NIS | South Africa | Other[102] | ACP |
|---|---|---|---|---|---|---|
| 1992 | 566 | 412 | 1 465 | - | 1 302 | 2 062 |
| 1993 | 634 | 399 | 1 514 | 90 | 1 468 | 1 631 |
| 1994 | 524 | 436 | 1 466 | 102 | 1 835 | 2 480 |
| 1995 | 808 | 491 | 1 678 | 123 | 1 895 | 1 520 |
| 1996 | 670 | 654 | 1855 | 129 | 2 197 | 965 |
| 1997 | 655 | 1 078 | 1 774 | 123 | 1 811 | 616 |
| 1998 | 657 | 1 101 | 1 729 | 145 | 1 919 | 2219 |

The table shows that the increase in the aid programme has predominantly been achieved by the increase in programmes to Eastern Europe and the Mediterranean countries. The table shows that commitments to the Mediterranean doubled between 1992 and 1997, while commitments under the ALA programme showed only a slight increase. The highest proportion of commitments was made to the CEEC and NIS, together taking 42% of the largest regionally allocated resources in 1997 and 29% in 1998.[103] However, the real commitments are not necessarily matched with real payments. In the period 1992 to 1998 the real payments under the Med programme were constantly at least less than half the real commitments. So the real spending to the mediterranean is much less than one would expect based on the budget or the real commitments.

The table also shows the large fluctuations in EDF, due to the cycle of five-year planning for EDF funding. Commitment appropriations to the ACP decreased in 1996/1997 to about one third of commitments in 1992. According to the European Commission, these fluctuations were caused by the slow ratification of Lomé IV *bis* by the member states. The eighth EDF, therefore, only entered into force on 1 June 1998, even though it covers the period 1995-2000. However, at the end of 1997, 6 billion ECU still needed to be drawn down from the member states for payments under the seventh EDF. From the sixth and seventh EDF 4.5 billion ECU still remained to be disbursed, while an additional balance of 1.6 billion ECU was unallocated and available for re-use. The Commission believes that no funds will be drawn under EDF8 from the member states before 2002, seven years after it was agreed upon.

While the EDF is a fixed fund available for the implementation of a specific Lomé Convention, it is important to note that the financial resources remain in the member states until they are needed. The EDF payments are only drawn down from the member states in the years that payments are made.

The contributions of the member states are divided according to a certain formula. Each year an estimate is made predicting how much the Commission will need to disburse for the EDF for that year. Four times a year the member states are requested to pay their share of the contribution to the EDF.

The slow spending rate of the EDF has a number of consequences. The EDF is normally only pictured in terms of the amount agreed on for five years. Clearly, as the actual disbursements are much slower, and much smaller amounts of resources are annually contributed from the member states than suggested on the basis of the agreement, the actual size is an illusion.

## 6.4 Under-utilisation

There is a prevalent argument that EC aid has increased rapidly and that this growth has been at the expense of member states' programmes. Indeed, the financial perspective 1993-1999 indicated an increase in the heading for external action from 4 billion to almost 7 billion ECU. The table below shows increases in commitment appropriations for EC aid. However, the actual spending in these years has not increased.

The conclusions from table 13 are striking. Firstly, the utilisation of the EDF is relatively positive, compared to the utilisation of EC budget lines. Secondly, the highest under-utilisation took place in 1996, with an unspent total of almost 4.6 billion ECU. This is partly the result of programming for National Indicative Programmes (NIPS) which took place in 1996 (and, naturally, spending is low during the planning phase) and is also explained by the slow ratification of Lomé IV *bis* by the member states. Finally, assuming that the trends of the first half of the nineties continue, total unspent ODA in the period 1993 to 1999 would be 25 billion ECU.

Even though the appropriations to the EC budget and to the EDF are allocated from the member states budgets for development co-operation, in most countries they do not return to the Development Aid Ministries. This is particularly the case for the under spending in the budget, because the contributions to the EC budget are non-specified contributions, managed by the Ministries of Finance which can reallocate the unspent funds. This means that under spending of the budget diminishes the payments from the EC and the member states (see Annex 7). The European Commission has recognised this problem.[104]

TABLE 13 *Financial perspective until 1999 of external action (EC budget) and estimates of appropriations for the European Development Fund (in million ECU)* [105]

| *Year* | *1993* | *1994* | *1995* | *1996* | *1997* | *1998* | *1999* | |
|---|---|---|---|---|---|---|---|---|
| Revised financial perspectives for external action in budget lines | 4 120 | 4 311 | 4 895 | 5 264 | 5 622 | 6 201 | 6 703 | |
| Actual disbursements, budget lines and projections (96-99) | 2 118 | 2 182 | 2 352 | 2 632 | 2 811 | 3 101 | 3 351 | |
| Difference between commitment appropriations and actual disbursements | 2 002 | 2 129 | 2 543 | 2 632 | 2 811 | 3 101 | 3 351 | |
| Official EDF allocation (7 and 8) for the respective periods | 2 300 | 2 300 | 2 300 | 2 900 | 2 900 | 2 900 | 2 900 | |
| Annual contribution to the EDF, actual until 1997, forecasted until 1999 | 1 610 | 1 800 | 1 650 | 950 | 1 560 | 2 150 | 2 150 | |
| Difference between official EDF allocations and annnual contributions | 690 | 500 | 650 | 1 950 | 1 340 | 750 | 750 | |
| **Total unspent ODA** | 2 692 | 2 629 | 3 193 | 4 582 | 4 151 | 3 851 | 3 101 | **25 199** |

### *6.4.1 Under-utilisation in the EDF*

The member states allocate their contributions in their annual development budgets. Since the predictions of member states' contributions by the Commission are constantly higher than the actual calls, the allocations made by the member states for these contributions are continually not used, or under-used. Given the annual nature of most of the member states budgets the resources allocated in the budget that are not used in any one year do not remain available as additional allocations in the following year's budget. In most member states these resources disappear in to the Treasury. The result is that every year resources allocated for the EDF are not spent for development aid and disappear. In other words, the commitments to the financial protocols of the EDF represent paper transactions. This is illustrated in annex 9 with the balance on 31st of December 1998 of the remaining in EDF 7 (1990-1994) in each Member State.

If the money pledged were actually transferred to an interest bearing account locked for the use of the ACP countries, not only would the money allocated reach the countries for which the funding is designated, but the interest accruing could then be used according to some properly supervised mutually agreed mechanisms, such as emergency aid, assistance to refugees, and debt relief. Moreover, the EDF should be limited to a defined period, provided that the resources were fully disbursed within that period.

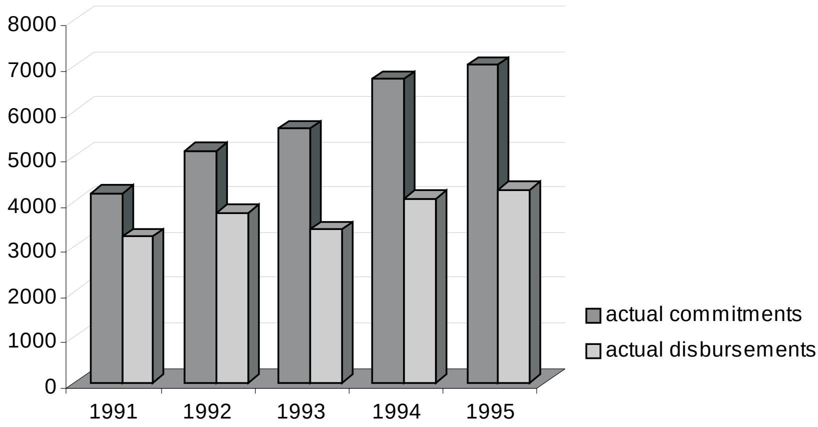
### *6.4.2 Under-utilisation in the budget*

By definition, the rate of actual commitments and payments are less than the appropriations authorised by the budget – because actual commitments and payments can never be higher than the appropriations. Moreover, for external action as a whole, the expenditure is normally spread over several years. For any given commitment, some 25% is paid in the same year, 25% in the next year, 15% in the following year, etc. This means that, as long as commitment appropriations are growing over a period, the amount of commitments will always be higher than payment needs. The higher the rate of growth of commitments, the larger the gap will be. This should clearly be taken into account in the current period where the budgeted commitment appropriations grew rapidly. It can, therefore, be expected that the actual disbursements will be much less than actual commitments.[106] Graphs 8, 9 and 10 support this argument.

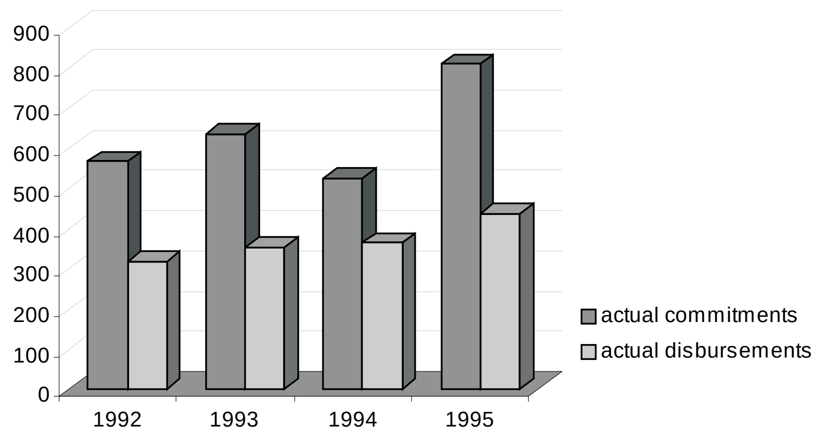
The total commitment appropriations for budget lines on external actions was ECU 5012 million in 1995, the actual commitments were ECU 3677 million and the actual disbursements only ECU 2352. The tables show that, over a large number of years, the actual payments only total some one third of commitments. The implementation rate of payment appropriations decreased to 80% in 1995 and 84% in 1996, creating a gap of 786 million ECU and 745 million ECU respectively. Moreover, from 1997 onwards the appropriations in the budget have decreased vis-à-vis the ceiling set by the financial perspective.

These are all indications of the illusory growth of the financial resources for external actions made available to and by the EC (see table 14). They show that increasingly large percentages of unspent payments return to the member states. These payments will eventually be made, as the commitments have been made. However, every year resources from the EC budgeted for development co-operation return to the Ministries of Finance of the member states and do not re-enter the development budgets. This decreases the annual ODA spending of the member states.

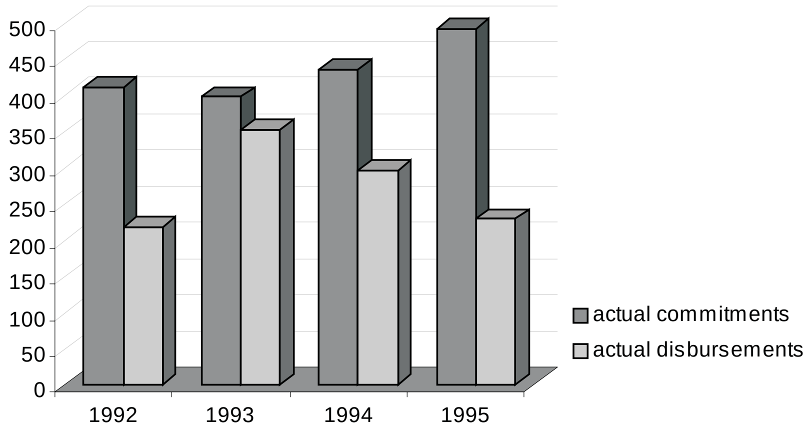
GRAPH 8 *Financial profiles from 1991 to 1995 in million ECU, for EC budget, EDF and European Investment Bank (EIB) – ODA and Other Public Sector Contributions in million ECU*[107]




GRAPH 9 *Financial profiles from 1992 to 1995 for Cooperation with Asian and Latin American Countries in million ECU*[108]



GRAPH 10 *Financial profiles from 1992 to 1995 for cooperation with countries of the Mediterranean basin (MED) in million ECU*[109]




TABEL 14 *General Budget: Expenditure under the title of external actions in million ECU, current prices (except 1999, prices 1998)*

| | *Ceilings financial perspectives (CA)* | Reserve | *Budget (CA)* | Reserve | *Implementation (CA) Total* | *Budget (PA) Total* | *Implementation (PA) Total* |
|---|---|---|---|---|---|---|---|
| 1993 | 4 120 | 209 | 4 115 | 209 | 4 276 | 2 998 | 2 580 |
| 1994 | 4 311 | 212 | 4 297 | 212 | 4 483 | 3 399 | 3 061 |
| 1995 | 4 895 | 323 | 4 873 | 323 | 5 061 | 4 198 | 3 412 |
| 1996 | 5 264 | 326 | 5 261 | 326 | 5 524 | 4 618 | 3 873 |
| 1997 | 5 622 | 329 | 5 601 | 329 | 5 551 | 4 827 | 4 676 |
| 1998 | 6 201 | 338 | 5 624 | 338 | 5 542 | 4 886 | 4 515 |
| 1999 | 6 703 | 338 | - | - | - | - | - |

CA: Commitment Appropriations
PA: Payment Appropriations
Implementation: effective utilisation

The above shows that it is very important that the Community budget is closely related to the implementation capacity of the Commission. Particularly in 1995 and 1996 the implementation of payments was much lower than the provision in the budget. In its proposals to the budgetary authority (the Council and the Parliament) for each annual budget the Commission takes the following elements into consideration:

- the amount of resources laid down in regulations for certain budget lines agreed by the Council;
- the possibilities for effective implementation in view of past results and the absorption capacity of the recipients;
- an assessment of payments required to fulfil commitments.[110]

The Commission clearly acknowledges that budget decisions need to be translated into the availability of human and administrative resources to implement the budget.[111]

### *6.4.3 The illusory growth of the EC development programme*

Contrary to what is often suggested, the growth of the EC development programme in terms of actual spending has not increased dramatically over the last decades. The bilateral programmes have remained more or less the same size as a proportion of the overall national development co-operation budget over the last ten years. With little fluctuation in the ratios between the programmes, differences are large between the different member states, highlighting important differences in priorities among member states (see annex 8). Even though the differences in ratios between the proportions of the bilateral and European Community components of the aid overall budget are considerable among various member states, the overall pattern for each member state seems to have hardly changed over time.

Table 15 shows that Denmark, Sweden, and to some extent, the Netherlands and France have a relatively low contribution to the European Community programme as a proportion of their bilateral programmes. Interestingly, these countries are among the top four in the EU in terms of their ODA as a percentage of GNP. Italy, on the contrary, slashed its bilateral programme in the 1990s. It contributed $614 to the aid programme of the CEC, while its bilateral programme was only $454. The UK also makes a large contribution to the EC taken as a proportion of its bilateral programme. This began in the eighties when its bilateral programme was gradually decreased. Germany's share to the EC has also increased as a proportion of the bilateral programme as this was cut quite dramatically in 1997.

TABLE 15 *Percentage of member states' EC contributions* vis-à-vis the proportion of the bilateral share of the member state's budget*

| | *1983/4* | *Average 91-94* | *1997* |
|---|---|---|---|
| Austria | | | 31 |
| Belgium | 28 | 37 | 43 |
| Denmark | 12 | 11 | 9 |
| Finland | | | 24 |
| France | 14 | 14 | 18 |
| Germany | 21 | 28 | 36 |
| Greece** | | | |
| Ireland | 100 | 83 | 33 |
| Italy | 35 | 30 | 135 |
| Luxembourg | | 33 | 21 |
| Netherlands | 12 | 15 | 12 |
| Portugal | | 25 | 37 |
| Spain | | 36 | 42 |
| Sweden | | | 8 |
| United Kingdom | 35 | 43 | 36 |
| Total EU MS | 20 | 24 | 27 |

* EDF and budget to external aid (ODA) based on OECD figures.
** The figures available to the author concerning Greece were not sufficiently detailed to include them in the calculation. Greece is therefore not included in the total of EU MS.
Note: 1983/4 is not calculated by the averages. Figures do not yet include Austria, Finland and Sweden which entered the Union in 1995.

## 6.5 Budgetisation of the EDF

The unresolved problem of the lack of control of the European Parliament over the EDF has a long history. In 1973 the Parliament agreed that the EDF should be incorporated into the European Community budget.[112] Following this request, the Commission proposed some form of budgetisation, which was rejected by the Council. Since then the Commission has included the EDF in its pre-budget proposals, and since 1977 the European Parliament has also included the EDF in the annual budget. By doing so, it can maintain an overview of all the external actions of the Community, although it still does not have any control over the EDF. Budgetisation, as proposed, would imply that the contributions from the member states to the EDF would have to be replaced by own resources of the Community.[113]

For the member states the present arrangement with the EDF outside the budget authority of the European Parliament is advantageous, since this gives them much greater control over both EDF funding levels and EDF allocations. In the Maastricht Treaty (Final Act) it was agreed that the EDF would continue to be financed by national contributions in accordance with existing provisions.[114]

### *6.5.1 Integrating the EDF within the financial perspective and the budget*

While the Maastricht Treaty provided a legal base for EC development policy, it can be concluded that the consistency of the programme has been greatly undermined in the years since 1992, due to various decisions of a budgetary and managerial nature. The European Community is now charged with implementing a development policy that has combating poverty as its objective. This needs to be reflected in the way in which external aid is distributed to third countries, with a clear bias towards the poorest and most vulnerable countries among them.

Forty-one out of fifty LDCs are members of the ACP Group, with the remaining nine LDCs falling within the programme for Asia and Latin America. The financial envelopes of the EDF supporting the Lomé Conventions provide the largest share of financial means available for the implementation of EC development policy towards the poorest and most vulnerable countries. The EDF should, therefore, be integrated as part of the financial perspective and the annual budget considerations as a logical step to implementing a comprehensive aid programme in accordance with the Maastricht Treaty objectives.

## 6.6 Financial Perspective 2000-2006

The financial perspective 2000-2006 is based on the assumption that enlargement will not require a change in the EC's own resources ceiling of 1.27 % of GNP between the years 2000 and 2006.[115]

Table 16 shows that the heading for agriculture continues to absorb half of the EU budget and is not decreasing. The heading on external actions has decreased by one third compared to the previous perspective. This is because pre-accession aid has been moved to a separate heading 7. This includes the PHARE programme.

The negotiations on the financial perspective were linked to the differences between contributions of member states to the EC budget and their net returns. While some countries are net payers, others are net receivers. The principal issue is that between the largest countries, Germany, France and UK, the differences in net payments are considerable, with Germany as a very large net contributor. In 1995, Germany was a net contributor of 12 billion ECU while France was a net contributor of only 0.6 billion ECU. The UK was a net payer of 3.8 billion ECU and Italy a mere 200 million ECU. Resolving this inequality requires changes in the CAP that will be hard to negotiate. The negotiation on ways to diminish differences between net contributions and net receipts is central to the negotiation on CAP reforms which allows more returns to certain countries depending on the set of measures that are agreed. Likewise to the use and size of the structural and the social funds, which give subsidies to poorer countries and regions in the EU.

TABLE 16 *Financial Perspective 2000-2006, Appropriations for commitments, 1999 prices, in billion Euro*[116]

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| 1. agriculture | 41.0 | 43.0 | 44.0 | 44.0 | 43.0 | 42.0 | 42.0 |
| 2.structural operations | 32.0 | 32.0 | 31.0 | 31.0 | 30.0 | 30.0 | 30.0 |
| 3. internal policies | 5.9 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 |
| 4. external action | 4.5 | 4.6 | 4.6 | 4.6 | 4.6 | 4.6 | 4.6 |
| 5. administration | 4.5 | 4.6 | 4.7 | 4.8 | 4.9 | 5.0 | 5.1 |
| 7. pre-accession aid | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 |
| Total appropriations for commitments | 92.0 | 93.0 | 93.8 | 93.0 | 91.5 | 90.8 | 90.3 |
| Ceiling on appropriations for payments | 89.6 | 91.0 | 98.3 | 101.5 | 100.6 | 101.3 | 103.5 |

### *6.6.1 Monitoring EC ODA output*

In 1990 the international community emphasised the importance of Least Developed Countries (LDCs) as primary recipients of development aid. A UN Programme of Action for LDCs was adopted, including a target that 0.15% of GNP should be provided as ODA to LDCs. All the EU member states agreed to implement the Programme of Action. This programme also set out that donor countries already providing more than 0.20 per cent of their GNP as ODA to LDCs should continue to do so and indeed to increase their efforts.

In 1993 the Development Assistance Committee (DAC) of the OECD distinguished between developing countries (category I) and other aid recipient countries (category II). All donors, including the European Community, agreed that the international target to provide 0.7% of GNP as ODA would apply to the category of developing countries only, whereas assistance to other countries grouped in category II would be provided for by additional budgets. These additional resources were called Official Assistance (OA).[117] As the financial perspective 1993-1999 was already agreed, it did not make the distinction between the two categories of aid recipients. However, the implementation of the new financial perspective should recognise the different categories of aid recipients and make the distinction between allocations for DAC I and DAC II countries (see annex II).

As the EU is not a sovereign state, but an intergovernmental body, the implementation in the European Union of the target to provide 0.7% of GNP is monitored at the level of member states, who are all individual members of the DAC. The 0.7 % target does not apply directly to the CEC programme, which is regarded rather as one of the channels for ODA from member states, alongside bilateral aid and contributions to other multilateral bodies. Hence, member states' contributions to the EC feature as multilateral contributions in ODA financial analyses.

In order to ensure the adequate monitoring of the contributions by the member states to DAC category I and II countries, and to observe whether the member states achieve the 0.7% objective, a division should be provided for in the financial perspective and in the EC budget. This will ensure that the real contribution of EU member states to the developing countries through the EC programme can be monitored more adequately than is currently the case. To ensure that a poverty focus in the EC development programme is enhanced, the budget should also distinguish between LDCs and other developing countries. The heading on external action in the financial perspectives should provide the basic framework for this.

TABLE 17 *Categorisation of financial envelopes*

| *Financial envelopes* | *DAC Category I countries* | | *DAC category II countries* |
|---|---|---|---|
| | *LDCs* | *non LDCs* | |
| EDF | | | |
| ALA | | | |
| MEDA | | | |
| PHARE | | | |
| TACIS | | | |
| ECHO | | | |
| Budget lines | | | |
| Other | | | |

### *6.6.2 Financial issues related to humanitarian assistance*

Within the budget and the EDF clear distinction needs to be made between development co-operation and humanitarian assistance since they operate according to different principles and relate to different situations. At present the budget for humanitarian assistance and emergency draws on a large number of budget lines designated for specific regions. This makes the budget unnecessarily complex and lacking in transparency, particularly since criteria for humanitarian assistance should not include geographical ones. Moreover food aid and rehabilitation aid to refugees are humanitarian activities should be brought into one framework with humanitarian assistance. There is a need for the budget and the EDF to clearly identify separately funding for humanitarian assistance which is not related to a further geographical designation but is allocated on a crisis-by-crisis basis. Some flexibility should be built in to ensure that humanitarian assistance could properly be linked to rehabilitation and development.

THE HUMANITARIAN AID RESERVE

When the European office for humanitarian assistance was created in 1992 a large reserve for humanitarian aid was created in the budget. This reserve has been used every year and has essentially been used as part of the general budget. The budget authority has allowed this, and by so doing, implicitly agreed that the humanitarian aid reserve is needed on a structural basis for humanitarian aid. In the interests of efficiency and transparency, it would be an improvement if the reserve were integrated into the general budget allocated to humanitarian aid. This should be reflected in the general perspective. A reserve should be established for exceptional circumstances, but this should be excluded from the annual budgeting process of ECHO and should not be used on a structural basis.

## 6.7 Conclusions

Competition over resources for the EC budget and the EDF does not contribute to establishing a coherent EC development approach directed towards the eradication of poverty. The ACP countries include 41 out of 50 LDCs. The EDF should be included in the financial perspective and annual budget negotiations in order to ensure a coherent poverty focused development approach. This would increase transparency and democratic accountability, and it would be in accordance with the intention and the objectives of the Maastricht Treaty. Integrating the EDF into the financial perspective and the annual budget negotiations will diminish competition over resources between the EDF and the EC budget.

In the last seven years finances for the LDCs have gradually decreased, mainly because of a lack of capacity in the Commission to implement increased programmes to Eastern Europe and the Mediterranean countries without increases in staff. Meanwhile, the capacity of DG8 dealing with the LDCs has diminished dramatically. This has resulted in increased under-allocation and under-spending. Because of the enormous imbalance between appropriations and actual payments, the often-proclaimed growth of the EC aid programme is illusory. This also means that, in reality, the EC programme has not grown as a proportion of member states' bilateral programmes.

The illusory growth of the EC programme leads also to large under-spending in the EU as a whole. Resources for the EC budget and the EDF are allocated in member states' annual budgets. When the Commission does not draw on them, they return to the Ministries of Finance, which as we have seen, can allocate them to purposes other than development co-operation. In this way approximately € 3 billion annually leaves the EU budget for development co-operation and never reaches developing countries, – a figure which is a staggering 50% of total CEC aid. This constitutes approximately 10% of ODA from the EU as a whole.

Spending under the next EDF (or its successor arrangement) should be limited to a defined period of time to avoid unnecessary delays in spending. The money pledged should be transferred to an interest bearing account locked for the use of the ACP countries, and the interest accruing should be used according to some properly supervised, mutually agreed mechanisms, such as emergency aid, assistance to refugees, and debt relief.

The humanitarian aid reserve should be incorporated as part of the general budget since it has in reality been treated as such in previous years. Budget lines related to humanitarian assistance, such as food aid, rehabilitation and refugees should be brought into the framework of humanitarian assistance. As the principles of development co-operation and humanitarian assistance are clearly different, the Lomé Convention should make a clear distinction between the two and allocate adequate resources to each.

Accountability and transparency of EC aid should be increased by harmonising the budget in accordance with standards set by the DAC. This will ensure that member states can be properly monitored for their progress in achieving agreed targets of allocating 0.7% of GNP to ODA and 0.15% to LDCs.

CHAPTER 7

# Budget Support and Social Investment: towards 'Rolling Programming'

## 7.1 Introduction

Traditional development projects accounted for two-thirds of the expenditure under the Lomé Conventions in the 1980s, but declined to less then 40% of all payments in 1994. Increasingly, budgetary aid or the rehabilitation of existing infrastructure replaces the traditional schemes. In Lomé III a sectoral import programme was introduced, followed by a general import programme introduced in Lomé IV, designed to 'meet the needs of ACP states in financial crisis'[118] together with other existing instruments for programme support.

In its Green Paper on the future of Lomé, the European Commission presented the concept that budgetary support should by and large replace project support. Budget support seems to have particular advantages. While project support is a relatively inflexible instrument over which the recipient government has relatively little control, direct budgetary support can strengthen the administration and contribute to sound fiscal and policy management in the recipient country. It could also be an instrument to increase expenditure in social sectors, such as health and education.

However, budget support is also an instrument that, by itself, does not resolve structural problems causing the financial gap in fiscal resources of the recipient country. In particular, it is necessary for there to be an efficient financial administrative capacity. Highly indebted poor countries have often reduced their administrations and subsequently have difficulty in competing with the private sector for scarce, sufficiently qualified personnel. They are often not able to exercise sufficient control over budget expenditure. The implementation of an agreed budget may, therefore, fail, and this may result in an inability to implement budget support allocated to specific sectors.

In countries with a precarious financial and administrative base, budget support requires development policies that help to create a domestic framework for sound governance, including effective financial and policy management. This means that generally for the poorest countries it would seem that budgetary support on its own is not a good instrument and it is unlikely that expenditures in social sectors will be increased. It has to be supplemented with additional finance to ensure that the capacity is available to handle the budget support.

> The interest in budgetary support rather than project support is the 'emphasis on the importance of the national policy making and budget processes in the developing countries.'[119]

The differing views on the way in which this can best be implemented demonstrate that there is not a consensus on the question of which policy priorities should be reflected in the national policy making and how it can be guaranteed that these priorities are reflected in the budget. It is exactly this lack of consensus on policy priorities between donors and between donors and recipients which are the major obstacles to successful implementation of budgetary support.

This raises three questions:

- First, is budget support a potentially effective instrument for eradicating poverty?
- Secondly, if budget support might be an effective instrument for poverty eradication, what additional measures are needed to ensure that budget support can be effective?
- Thirdly, what is required for the European Union to be able to deliver effective budget support?

## 7.2 The evolution of financial programme aid

Budget support is a form of financial programme aid. The main characteristic of programme aid is that it is intended to be *'policy-based lending'*. Programme aid is defined as:

> 'all contributions made available to a recipient country for general development purposes (...), not linked to specific project activities.'[120]

The original form of programme aid was food aid. Food aid has always been an important component of European aid. In the 1970s, financial programme aid was introduced, which mainly took the form of import support – also called 'balance of payments' support. These programmes tied the recipient government to importing specific products, from specific countries. It is clear that donors used this kind of support to open markets for their export products.[121]

As many developing countries became increasingly heavily indebted during the 1980s, it became concomitantly difficult to gain access to foreign exchange. To resolve this problem, loans from the World Bank, originally only destined for projects, were made available for policy reform.[122] Generally, donors sought more flexible conditions on imports, trying to tie less aid, while introducing conditions on macro-economic policies. This was called 'balance of payments support'. The liberalisation of domestic markets and the implementation of austerity programmes to reduce the fiscal expenditure of recipient governments were generally central elements in the package of conditions accompanying such support. Increasing the flexibility of import substitution eventually lead to retroactive financing; making accounting procedures increasingly artificial.

In the late 1980s, direct support to the government budget was introduced by the United States and followed by other bilateral donors. This 'budget support' was also made conditional on carefully specified policies and institutional reforms to be implemented by the recipient government, often in co-ordination with the World Bank.[123]

### *7.2.1 Balance of payment support versus budget support*

Both balance of payments support and budget support are – technically – direct financial contributions to the recipient governments with the objective of reducing the government's 'financial gap'. Balance of payments support was given to reduce the gap in foreign exchange of the recipient government. Whether balance of payments support was needed was predominantly determined by the balance sheets of the recipient country's Central Bank. Through import substitution, such gaps in foreign exchange were rectified and thus frequently the allocated financial resources never reached the bank accounts of the recipient country.[124]

Such gaps evolved where there were fixed exchange rates. During structural adjustment programmes, when exchange rates were liberalised, the foreign exchange gap was 'resolved', or no longer existed in economic terms. The liberalisation of the exchange rate led to devaluation of local currencies, which now became convertible. Devaluation implied that the finance required for debt servicing would become higher than hitherto. While the foreign exchange gap was resolved in this way, a gap in the budget appeared, caused by a shortage of fiscal means. Therefore budget support was established, which is considered to be a direct contribution to the domestic budget. As a result an analysis of government policies as a whole has become the central element for deciding whether or not budget support is given.

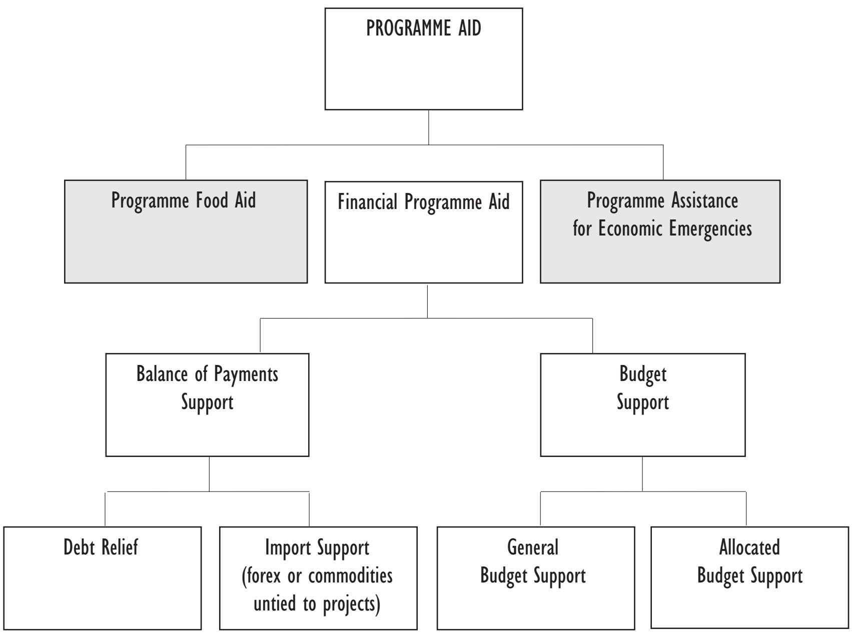
### *7.2.2 Conditionality leading to cuts in social sectors*

With programme aid, conditionality was introduced. Conditionalities under balance of payments support focused on macro-economic aspects. The condition to liberalise the exchange rates and the subsequent devaluation of domestic currencies led almost automatically to a decrease in fiscal means, since it increased the burden of external payments as trends in trade and capital transfers did not change. Clearly those countries with a high external debt were hardest hit. Governments were forced to make substantial cuts in their domestic budgets. In most instances savings were made by cutting the administration itself, as well as reducing services in the social sectors.

The potential advantage of budget support is that it can introduce conditions that help to protect social services and, more generally, measures that protect people living in poverty. Through budget support, more emphasis can be put directly on the fiscal expenditure of the recipient. However, it is crucial to take into account that, whether or not the recipient government can actually honour these conditions, will depend on the macro-economic support given to reduce the weight on external debt payments in order to sustain the entire budget.

In the following figure the various kinds of programme aid are distinguished. Cutting across these categories the DAC distinguishes between 'general programme assistance', which does not have a specific allocation and 'sector programme assistance', which is intended to benefit a specific economic or social sector, such as agriculture, health or education.

**Box 3 – Definitions of Programme Aid and Budgetary Support**




Adapted from: H. White, Evaluating Programme Aid, Introduction and Synthesis, *IDS Bulletin*, Vol. 27, No. 4, 1996, Table 1, and DAC Principles for Effective Aid, OECD, 1992.

Balance of payments support consists of contributions that are intended to be used for specific expenses in hard foreign currencies; e.g. the repayments of outstanding debts or the imports of commodities.

Budget support consists of contributions made directly to the recipient government's budget. These can be general allocations to the budget or contributions to specific sectors (e.g. health or education). These are normally fiscal expenses in local currencies.

Often these financial contributions are transferred into counterpart funds. These funds are the equivalent in local currencies of foreign exchange (forex) or commodities offered by the donor. However, when currencies are convertible there is no real difference between balance of payment support and budget support in fiscal terms.

### *7.2.3 Neglect of social sectors during structural adjustment*

Structural adjustment policies were introduced in the early 1980s since many governments could only sustain their budgets by increasing already large external debts or by exploiting natural resources at an unsustainable pace. The reform policies were based on export-led growth and included the deregulation of markets, so as to integrate the developing countries into the world market in combination with stringent austerity measures including profound cuts in the national administration and in social policy areas.

The impact of this package of economic and budgetary reforms has had important social costs. First, rapid liberalisation resulted in a shift of control over agricultural lands, forests and fisheries from those engaged in subsistence production to property owners. This destroyed rural livelihoods and food security. Moreover shift of agricultural production to non-traditional exports undermined the long-term productivity of agricultural lands and domestic food security. Increased pressure to use natural resources and agricultural lands for speedy economic returns undermined the traditional environmentally sustainable production methods.

Intensified global competition, combined with moves to deregulate labour markets exerted downward pressure on labour standards in many industries;

Secondly, in many countries increased competition on the global market excluded small entrepreneurs from the market and reduced employment, or reduced the returns of employment measured in purchasing power. Thirdly, privatisation resulting from structural adjustment often resulted in increased costs for basic social services, which are vitally important for people living in poverty. This includes basic health care, primary education, and access to clean water and fuel.

Disadvantages for women were disproportionally increased, since it is primarily women who depend on subsistence production. Women in employment often were already less paid and more vulnerable than their male counterparts in industrial sectors. Women, most often responsible for raising children, were also most severely affected by increasing costs for health and education, as well as diminished access to these services. The consequences of environmental degradation, such as the reduction of firewood and fuel or the pollution of water, affected women, and girl children most because they normally have the responsibility to collect those goods for the family.[125]

### *7.2.4 A new compact between donors and recipients on social investment*

During the 1990s, it became apparent that structural adjustment programmes (SAPS) needed to be changed so as to protect people living in poverty. The neglect of social sectors by donors and recipients as a result of many years of fiscal austerity needed to be redressed. The UN Summit on Social Development in 1995 called upon donor and recipient countries to engage in a compact to increase spending in basic social sectors. In this compact donors would commit 20% of resources and recipient governments 20% of public expenditure to basic social services. The figure of 20% was proposed as an indication of what resources would be necessary to create the desired availability of basic social services for all citizens.

The 20:20 social compact assumes that investment in social sectors can be increased by targeted support to these sectors. This would be an instrument to ensure that macro-economic policies protect key areas for people living in poverty.

However, it could also be argued that budgetary support, being a macro-economic instrument, should not be allocated. If only parts of a country's budget is supported, while the administration does not have sufficient fiscal space to meet all its necessary domestic and external expenses, this would most likely lead to an undesirable distortion of the country's financial base. In order to create more flexibility, the administration would probably have to resort to 'creative' accounting. Such a situation would not guarantee greater investment in social areas.

The 20:20 compact, therefore, should not focus strictly on input targets. The compact is valuable because it expresses the need for donors and recipient to agree on priorities in relation to the budget and the means of making that possible. The compact is also crucial because the priorities are being expressed in quantifiable or measurable contributions from both donors and recipients, manifesting a need to create shared ownership of development programmes. However, the 20:20 compact should also focus on the macro-economic policies that would enable the implementation of such a poverty eradication compact between donors and recipient.

## 7.3 The EU: from programme aid to budget support

Direct financial aid has been part of the various Lomé Conventions through the STABEX and SYSMIN instruments. The aim of STABEX is to promote exports by helping export stabilisation through compensation for losses caused by price or quantity fluctuations, or both. SYSMIN is a special financing facility for mining products, set up for those ACP states whose mining sectors occupy an important place in their economies and which are facing difficulties. STABEX and SYSMIN are not formally regarded as part of structural adjustment support programmes, since transfers under these instruments are, by nature, unpredictable, and, therefore, they cannot support an entire reform process. Also, contrary to structural adjustment support, STABEX and SYSMIN funds are disbursed without conditionalities.[126]

Balance of payments support was first introduced in the third Lomé Convention. It was added to the Convention because structural adjustment programmes in many ACP countries had caused sweeping cuts in government expenditure that led, among other things, to food riots and violent demonstrations. The European Community had not been involved in structural adjustment until that point – partly because of disagreement between member states. The European Community responded to the crisis by approving '*quick disbursing*' aid from a special programme of 600 million ECU for import purchases available to heavily indebted low income African countries.[127]

The European Community adopted a resolution on Structural Adjustment Programmes (SAPs) in 1988.[128] It noted that:

– the mixture and pace of reforms should be suited to each country's circumstance;
– more attention should be paid to the social dimension; and
– ACP governments should have more say in planning the reforms.

In Lomé IV (1990-2000) for the first financial protocol leading up to the Mid-Term Review an additional fund, amounting to 1 150 million ECU, was established to support structural adjustment.[129] This encompassed:

– sectoral import programmes (SIPs) through direct procurement; and sectoral import programmes in the form of foreign exchange released in instalments for financing sectoral imports;
– general import programmes (GIPs) in the form of foreign exchange released in instalments for financing general imports covering a wide range of products.

Lomé VI *bis* included a structural adjustment facility worth 1 400 million ECU. Direct budgetary support was introduced in the Convention, intended to alleviate domestic financial constraints. These funds could be transferred either directly to ACP states whose currencies are convertible and freely transferable, or indirectly through counterpart funds generated by the various community instruments.[130]

In 1995 the European Council adopted a new Resolution on Structural Adjustment.[131] The resolution applies to all European Union development co-operation policies, including those of the member states. The Council noted:
– the inappropriate allocation of resources which, in particular in the social sectors, penalises basic services;
– that the significant reduction of public expenditure had acted to the detriment of maintaining economic and social infrastructure and, in some cases, the functioning of essential government bodies;
– that investment has stagnated or even declined;
– that imbalances influenced by trends in trade and capital transfers had not been corrected despite efforts to cancel or reschedule debts;
– that the real involvement of representatives of the countries concerned in defining the programmes was inadequate.[132]

With this resolution the Council asked the Commission to implement the Lomé Convention with greater emphasis on the social dimension. The Council demanded that particular emphasis should be given to supporting public finances through an approach that would prioritise social sectors. Counterpart funds should be transparently implemented in national budgets. This was, in reality, the first shift towards sectoral budgetary support. A new resolution on Structural Adjustment Programmes by the Council is forthcoming.

### *7.3.1 'Rolling programming' in the future Lomé Convention*

The EU negotiating mandate stresses the change in the nature of aid in order to achieve 'ownership' by the South. The EU states that such a change entails an approach

> "which is based on genuine partnership, is aimed at replacing the concept of 'conditionality' with that of 'contract', which implies mutual obligations and a shared vision of the policy implemented."[133]

In the negotiations on the successor to the Lomé Convention the EU has been advocating "rolling programming", which is another term for budgetary support. All current instruments would be rationalised into one envelope from which all long-term assistance would be allocated. Rolling programming would be an on-

going process with a constant five-year perspective that is rolled over every two years. The Commission sees rolling over as a way of achieving its objectives and summarises this as follows:
– five year planning perspective leading to security and predictability;
– regular update of Country Strategy providing necessary flexibility;
– need and merit resulting in efficiency in satisfying country needs;
– one co-ordinated programming exercise leading to coherence;
– focal sectors enabling a concentration on country development strategies.[134]

### *7.3.2 Evaluation of the effects of budgetary support*

An evaluation of EC financial programme aid by the Court of Auditors in 1996 concluded that the European Commission implemented the import programmes with a broad interpretation under the first half of the Fourth Lomé Convention, prior to the inclusion of direct budgetary support in 1995. The EC introduced a system less directly linked to the physical implementation of imports. Therefore, it was, in practice, equivalent to global balance of payments support and direct budgetary aid. The Court, therefore, decided not to focus on aspects relating to imports and the generation of counterpart funds. It focused, merely,

> 'on the macro-economic aspects and the impact of the budgetary expenditure of the ACP states in the most deprived social categories.'[135]

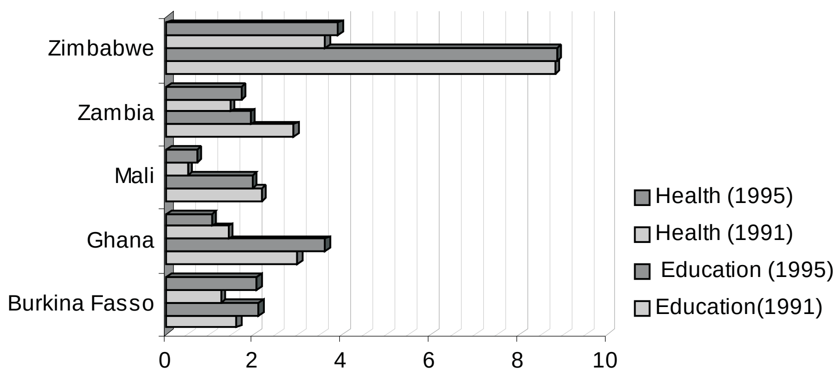
What do such evaluations of the EU structural adjustment support programme conclude with regard to the desirability of EU budgetary support? First, the difficulty of evaluating programmes that were part of a global reform process should be taken into account.[136] The principal input to these programmes was not under control of the European Union. Moreover, it was found difficult to evaluate programmes that focused on specific objectives, but did not function as independent projects.[137] However, some specific lessons can be drawn.

In the first place, the Court of Auditors noted that general import programmes are pointless. They should be abandoned in favour of direct budgetary support. Similarly, when counterpart funds are established, they should be transferred to the central government's budget and included in the fiscal process.[138] Where direct budgetary support is employed, it is easier to check the real use of aid against the primary objective of poverty eradication.[139]

In its more detailed investigation, the Court focused on 11 countries. It found that the use of counterpart funds differed enormously, ranging from 100% allocated to social sectors in Mali and Zimbabwe to 20.8% in Benin. The Court concluded that, in the case of some countries, the investment did not reflect the priority given by the European Community to social sectors. The Court further noted that a rate significantly higher than 50% of counterpart funds' investment in social sectors in each country should be considered the minimum. Moreover, within social sectors, greater priority should be given to basic social services, particularly basic health care and primary education.

It is obvious that, when specific funds are allocated to specific sectors, this does not automatically result in increased total spending in these sectors. The government can decide to spend less of its resources in those areas. This is called fungibility. In order to establish whether spending in social areas had actually increased the Court looked at the actual budget expenditure of recipient governments. The Court experienced difficulty in assembling data on actual expenditure and looked instead at budget allocations. It appeared that allocations to social sectors as a percentage of GDP, and even as a percentage of the real budget, had increased only marginally in most countries.

GRAPH 11 *Budget Allocations to Social Sectors, as % of the total budget**




*Adapted from: European Court of Auditors, Annual Report 1995, *Official Journal of the European Communities*, 1996, Table 12.6 (b), p. 302.

In Zambia and Mali, allocations to the education sector decreased as a percentage of the total budget between 1991 and 1995. In Ghana, allocations to the health sector decreased as a percentage of the total budget. On average, the spending on education increased from 3.68% of the total national budget to 3.69%. Spending on health increased, on average from 1.63 to 1.87 % of the total budget. These figures are only allocation figures. In most countries real spending would, in all likelihood, be even less. The figures also do not differentiate spending in primary education and basic health. The European Court of Auditors concluded:

> "It is apparent that, despite the support of the Community, the situation of the budget in the priority social sectors has not shown any manifest improvement for certain countries."[140]

In looking at explanations for the lack of increases in actual spending in social areas, the European Court of Auditors observed that the servicing of foreign debt continued to be a major impediment to the effective use of budget support. It found that:

> "[t]he structural adjustment loans granted by the IFIs in fact require external assistance in the form of donations which allow new loans to be contracted. The loan conditions stipulate the volume of countries, because the own resources of the country undergoing adjustment are not sufficient to finance both the repayments of the earlier debts and budgetary expenditure."[141]

Most governments of the Highly Indebted Poor Countries (HIPC) spend over one-fifth of their revenues and 15% of their total expenditure on debt servicing. Moreover, the conditionalities associated with structural adjustment loans to which HIPC resort often demand governments to cut budgets in social areas.

The Court suggested that stronger co-ordination between the multilateral and bilateral donors was required to achieve a coherent policy. The key to successful budgetary support is, therefore, not only the negotiation of consistent policies and priorities agreed between donor and recipient, but also among the donors themselves. A recent study on EC programme aid and management reached a similar conclusion:

> "Individual donors are tending to target their own assistance on particular budget sectors for accountability reasons. A few are focusing on institutional change in budgetary processes and developing capacities and skills for this. The Commission has sought to exert some leverage on the restructuring of domestic expenditures, with mixed success. This approach is too individualistic. The main need is for a collective multi/donor/recipient agreement on priorities within an expenditure/budgetary framework for each major recipient."[142]

The European Union has an additional role to play, because a common political framework does exist which calls on the member states and the European Union to adopt approaches that are co-ordinated and coherent.

## 7.4 The EU policy on debt cancellation

A resolution to the debt crisis should be part of an integrated approach associated with budgetary support. The European Commission maintained that, increasingly, almost all aid from the European Community in the Lomé Convention has been disbursed as grants – and this aid has, at least, not exacerbated the debt problem. STABEX resources were also transformed into grants, and sometimes used directly for (internal) debt relief. In an evaluation of STABEX operations in Uganda, this was found to have been useful, but the problem of external debt was also recognised. The conclusion was that debt relief had been a successful element of the STABEX programmes, but that the relief of external debt in particular should be considered as a legitimate use of STABEX funds and the possibility of extending STABEX-based programmes to debt relief beyond the EC was raised.[143]

As a follow up to the 1995 Social Summit the Danish government instigated an investigation into the possibilities of total or partial debt relief for ACP countries.[144] Recently the European Commission has proposed some measures to address the problem of debt owed to the European Community.[145]

As a creditor, the European Community represents 1 460 million ECU, of which 600 million ECU are most likely to require action under the Highly Indebted Poor Countries (HIPC) Initiative. In the Commission's proposal it is suggested that support to heavily indebted poor ACP states would be enhanced by:

- granting additional structural adjustment support on a case-by-case basis;
- considering, again on a case-by-case basis, support for the reduction of commercial debt; and
- strengthening support for debt management.

As a creditor, the debts to the Community come from special loans, risk capital and EIB loans. It is proposed that the Community:

- takes action to reduce the net present value of the eligible countries' debt to the Community.

Assuming that 11 ACP states participated in the initiative, the Commission estimated that the costs of the Communities' contribution to the HIPC Initiative would be 150 million ECU at 1996 values. This would correspond to 5% of the total cost to be borne by multilateral creditors. For the Community, the costs would not exceed a few tens of millions of ECU per year on average. This would be a very small percentage of European Community aid. These figures do not include debts to European Union member states. The Commission proposes that the Community re-finances outstanding debts through the provision of grants.

This should particularly focus on special loans and should be financed by reflows.[146]

However, deeper, speedier and broader debt relief is required. The ACP Finance Ministers believe that it is necessary to:

– adopt greater flexibility to increase the number of eligible countries;
– ensure the availability of debt relief in the initial decision stage;
– speed up the time-frame for decisions on individual countries, given the track-record of many countries in structural adjustment, and the size of the problems in these countries;
– give special treatment to post conflict countries, landlocked states and vulnerable island economies.[147]

Despite initiatives of the Commission and urges from the Parliament and the ACP-EU Joint Assembly, the member states have absolutely refused to discuss this issue in terms of a comprehensive EU solution. ACP countries have raised the question of debt relief with European member states and debt resulting from European Community loans granted in early Yaoundé and Lomé Conventions, but these attempts have to date remained largely unsuccessful, apart from an initiative for exceptional assistance for the HIPC ACP countries, with a reservation of 40 million ECU financed from interest accrued on the funds deposited with paying agents handling some parts of the EDF.[148]

## 7.5 Conditions for successful 'rolling programming'

Rolling programming, in general, and budgetary support, in particular, require a close co-operation and fine-tuning of activities and approaches between the ACP and the EU. As an initial step to move towards a more ongoing planning and monitoring process between the ACP countries and the Commission, annual reviews have been introduced. These reviews should consider the progress of implementation, and the relevance of the programme as planned within possibly changed circumstances. The new approach to reviewing progress of implementation in an ongoing manner poses a number of related questions regarding criteria for resource allocation and the involvement of civil society. It also raises question in terms of the implementation capacity of the administrations charged with the implementation of the programme.

### 7.5.1 Resource allocation and selectivity

The EU proposes that, in the 'rolling programming' methodology, resources would be allocated on the basis of a combination of an *"estimate of need"* and *"an evaluation of performance"*.[149] It defines 'needs' on the basis of economic and social development indicators, and would envisage special treatment for LDCs and special provisions for island and landlocked states. It defines 'performance' in terms of the commitment to the objectives of sustainable development and poverty eradication, the quality of macroeconomic and sectoral policies, good governance, progress with reforms and the level of utilisation of EC aid resources. The EU proposal adds that the assessment of performance:

> "does not imply that the EU would impose an array of specific conditions that should be met!"[150]

It suggests that what is needed is to:

> "elaborate a mechanism that will enable a fair evaluation of broad developments and measures the overall development efforts that are undertaken by a country";
> "make it possible to support countries that pursue its development strategies effectively";
> "include an assessment of the effectiveness in the country's implementation of EC assistance."[151]

In the absense of more specific criteria for allocation, as well as for evaluating whether progress made would be considered satisfactory, the danger is that the assessments will occur on a political basis with rather random justifications. So far, it is certainly unclear what would be the weighting of the different elements of performance criteria if the EU is serious in its statement that it would not "*impose an array of conditions*".

The EU proposal of 'rolling over' leans towards general budgetary support. These funds would not be earmarked for social areas. While this has some advantages, as discussed, the proposal does not identify how increased investment in social areas can be ensured. Moreover, it is unlikely that there are many, if any, beneficiary countries that fulfil all the criteria that would guarantee adequate results. This reality poses some fundamental questions as what indicators can be used to measure progress in this context.

Finally, the EU proposal suggests that, as part of the rationalisation of aid, humanitarian aid would be included in the rolling over programme. However, while humanitarian aid can be employed by a Southern government in response to natural disasters, it also gives assistance in man-made disasters and conflict situations. Clearly, where a government is involved as a party to the conflict, it should not itself be managing humanitarian relief, since this is based on the principle of neutrality. Humanitarian aid should therefore remain in a separate envelope.

### *7.5.2 The involvement of civil society*

The measures which governments needed to implement under structural adjustment programmes increased income disparities and were extremely detrimental to people living in poverty. In general, administrations resorted to authoritarian means of implementing these policies. As a result, civil society has, by and large, been excluded from participating in decision-making:

> "The hardship brought on the people by the implementation of the present Structural Adjustment Programmes made the majority of the people, including organised labour, to oppose them. This has led to the use of force by governments to suppress these protests, resulting in further alienation and in some cases, political instability."[152]

The Lomé Convention, as an agreement between governments, has also not had much success in involving civil society and its organisations in decisions or in the implementation of the Convention.

Budgetary support pre-supposes a legitimate government which serves its people and implements policies that are supported by a broad consensus. It is, therefore, imperative that governments obtain a genuine legitimacy through respecting democratic principles and human rights. Governments must seek the active involvement of the people in development and allow people to decide for themselves their own development needs, including contributing to policy formulation and planning, as well as to supervising and monitoring their implementation. If these conditions are not fulfilled, the impact of budgetary support on poverty eradication will be severely constrained, and potentially non-existent. Equally, in countries in conflict, or without a proper government, budgetary support cannot be appropriate.

The EU proposes that the parameters for the evaluation of performance in rolling over programming

> 'shall be jointly established and subsequent evaluations will be carried out through open and inclusive dialogue.'[153]

It does not identify how such a process could or should be established. Yet this is key to ensuring the credibility of the evaluation process on which resource allocation would be based.

### *7.5.3 Sufficient administrative capacity*

The EU assumes in its proposal that budgetary support might be more efficient and administratively less cumbersome for donors and recipients. However, budgetary support needs to be carefully planned, in a coherent manner, involving both the beneficiary government and other donors and budgetary support needs to be carefully monitored. This requires that the EU needs to have the capacity and expertise to follow these processes on a continuous basis.[154]

Firstly, for rolling programme and budget support to be effective decentralisation of powers to the EU delegations is very much needed. This will only be feasible if the EDF Committee will delegate powers of approval and implementation to the European Commission. It also requires that the capacity in the delegation be increased and more expertise be made available to make inputs and assessments in specific areas.

Secondly, procedures of financial control need to be changed to ensure that financial resources are released in relation to the annual review process. If the timing of the release is not managed accurately by the Commission, it will upset the budgetary process of the beneficiary country. Experiences with EU financial aid have demonstrated that cumbersome EU procedures often lead to delayed disbursement. While the proposals for rolling over sound excellent, the experience of EC aid is that delivery is unwieldy and procedures for approval of funds are exceedingly slow. The EU proposals do not identify counter measures that could be taken.

Rolling programming, and budget support, should not overburden the domestic administration. It is, therefore, important that accounting requirements for various instruments are harmonised. Preferably the different donors should harmonise accounting requirements, within the framework of accounting in the general budget of the beneficiary government. Assistance should be given to enhance the capacity of the recipient administration to manage its own finances in an efficient, transparent and accountable manner.

The EU proposal does not explicitly address the politically sensitive issue of corruption. However, ACP governments receiving budgetary support must be expected to make a real effort to properly manage all available resources – both domestic and foreign – to contribute to the economic and social development of their societies. In this respect, the EU too must put its own house in order. The EU countries should make the corruption of foreign officials by European firms a criminal offence, and, where it still exists, end tax deductibility for bribes. It needs to hone procurement and contract rules to prevent or sanction cases of corruption. Sound management cannot be justifiably placed as a condition on ACP countries, when the EU tolerates, or even indirectly encourages firms, to bribe foreign officials.[155]

## 7.6 Conclusions

Rolling programming can be an effective methodology, with budgetary support as an effective instrument that contributes to the eradication of poverty, if:

- EU and ACP countries collectively agree that the eradication of poverty is a principal objective of budgetary support; there is a credible plan detailing how this might be achieved; both the EU and ACP are willing to contribute resources to this end, within a single and consistent budgetary policy;
- The EU and the ACP agree on precise programme mechanisms, including planning, the decision-making procedure, the time-frame of disbursements, the monitoring and evaluation of progress, and clear criteria for any suspension of aid;
- Governments are demonstrably legitimate and respect democratic principles and human rights. Governments must seek the active involvement of the people in development and allow people to determine their own development needs; to plan and contribute to the programming; to supervise and monitor their implementation.
- Reliable and transparent processes on fiscal expenditure are put in place as well as measures to avoid corruption, both in the EU and in the ACP countries.
- Greater investments in the ACP's fiscal budgets are devoted to basic social services.

Budgetary support can only be an effective instrument to eradicate poverty if there are other supportive aid policies:

- The EU and the ACP must develop a co-ordinated and coherent positive response to the Highly Indebted Poor Countries Debt Initiative. Activities under this initiative should be accelerated. The EU and the member states' underspending of approximately 3 billion ECU per year of funds budgeted for developing countries should be allocated to a comprehensive programme to resolve the outstanding debts towards the EU, including the bilateral debts owed to the member states;
- Structural adjustment policies implemented by the EU and the member states should not run counter to the principal objective of poverty eradication and the protection of basic social services;
- Mechanisms must be developed for EU policies to avoid major contradictions in aid policies and programmes; co-ordination is required both between EU bilateral programme aid activities and EU budgetary support, as well as with other providers of funds, such as the International Financial Institutions;

– Measures are taken to avoid corruption, both in the EU and in the recipient countries: to begin with, the corruption of foreign officials by European firms should become a criminal offence and tax deductibility of bribes in EU countries should be immediately terminated.

The EU will need to improve its capacity in terms of:
– adequate expertise in the EU in order to improve policy dialogue;
– providing continuity through multi-annual planning;
– tightening up procedures so as to guarantee timely disbursements of funds and avoid disruption in payments;
– establishing, together with ACP countries, an effective monitoring capacity to supervise the implementation of the mutually agreed plan and to enable adjustments to be made if and when necessary;
– creating transparent procedures for the selection of countries for which budgetary support might be an appropriate instrument;
– maintaining a separate envelope for humanitarian assistance to provide relief in countries that do not fulfil performance criteria for rolling over programming; and
– co-ordination between the EC and the member states' aid programmes.

CHAPTER 8

# Trade Policy of the EU [156]

Trade is arguably the most important policy area influencing the developing countries over which the European Union has competency. The EEC was mainly established for political reasons – through economic means. The centrepiece of the Treaty of Rome was the establishment of a Customs Union, and alongside the Common Agricultural Policy (CAP), and the Common Fisheries Policy (CFP). Since the Maastricht Treaty the competencies of the Community have been widened to include a large number of other areas. In relation to trade, the European Community has competence to form policies in: (1) the free movement of goods, (2) agriculture and fisheries, (3) the free movement of persons, services and capital, (4) transport policy, (5) competition, taxation and approximation of laws, (6) economic and monetary Union, and (7) common commercial policy.[157]

In terms of trade volume the EU clearly is a global player. In 1997 the share of EU's total exports in goods and services was 37.9% of total world exports. This is compared to 13.7% of the US and Japan's share of 7.1%. The proportion for Germany alone was larger than that of Japan, with 8.7%. The share of all developing countries' total world exports was 18.6% and of this the share of Sub-Sahara Africa was only 1.5%. If South Africa and Nigeria are excluded the share of Sub-Sahara Africa only counts for 0.8%. The number of exports of Sub-Saharan countries in total world exports is minute and certainly no match to the EU's gigantic export capacity.[158]

This capacity has been build over a long period in which Europe's productive potential was carefully nurtured, stimulated and protected. Intervention has been the key strategy for sheltering and encouraging European trade as well as expanding EU internal and external trade. This protectionism has now become increasingly at odds with the globalisation strategies pursued by the major economic players, which are focused on neo-liberal free trade arrangements.

The contradictions between protectionism and liberalisation, and their consequences for the South, are discussed in the following sections. Current globalisation strategies designed by the European Union clearly have an export orientation, and are a response to the competition with the US and Japan over external markets. The interest in increasing exports, while protecting EU producers, obviously creates a tension between protectionist and liberalisation measures. This tension between two economic paradigms, leading to different practices at various policy levels, creates contradictory policies that are incoherent with the objectives of EU development policies.

This chapter will address the question of the (in) coherence between the EU trade policies and its development objectives. The first section will discuss recent developments in relation to the backbone of the European trade policies: the CAP. In the following section we will identify trade regimes specifically designed for trade with developing countries: the Lomé trade arrangements and the General System of Preferences (GSP). In section 8.3 we will look at trade negotiations with the strongest economic bloc in the developing world: the South-east Asian countries, including China. In section 8.4 the negotiations on the Free Trade Agreement (FTA) with South Africa will be reviewed as a means of looking at the possible implications of such negotiations. Finally the proposal to establish Regional Free Trade Agreements in the context of the Lomé Convention will be discussed.

## 8.1 The CAP and the agenda for reform

The Common Agricultural Policy was established in 1962 and was designed as a system of support for EU farmers in order to ensure food self-sufficiency. Its central element is market organisation for about 90% of the Community farm output. Its objectives are to:

- increase agricultural productivity through promoting technological progress;
- ensure a fair standard of living for agricultural farmers;
- stabilise agricultural markets;
- guarantee regular supplies of food to consumers; and
- ensure reasonable prices of food to consumers.[159]

These objectives have been achieved through an agreed set of measures – including common pricing arrangements, common protection, and intervention by the EU in the agricultural market. The main feature of the CAP, to date, has been the setting of target prices within the Community for specific products. Import prices for these products are then kept above the target price. Within the Community intervention prices are set slightly below the target price. If sales can only be made below the intervention price, the Commission buys up the product in order to drive the price up.

The CAP is financed jointly by the member states through the European Agricultural Guidance and Guarantee Fund (EAGGF) which is part of the General EU budget. In the past it has consumed up to 70% of the total EU budget. At present it accounts for approximately 50% of the budget as expenditure under other budget headings has expanded. This is equivalent to more than €40 billion.

### *8.1.1 Effects of the CAP on the South*

The European Council Resolution of 5 June 1998 on coherence emphasised the need for the European Union to ensure coherence between European policies and food security in the developing countries.[160]

The CAP has had detrimental effects on food security in developing countries. The CAP increases agricultural production and lowers world market prices, for which European farmers are compensated, but farmers in developing countries are clearly not. The closure of the EU market further helps to bring world market prices down. Moreover, the overproduction fills the EU market, but also increases the volume of EU exports. In some cases these exports are again subsidised, giving European products even further advantage over domestic products in developing countries. Ironically, this problem is further accentuated when excessive supplies are distributed as aid because they further lower world market prices and simultaneously undermine domestic production in the country concerned.

In some instances the CAP has encouraged the export of agricultural products from the South. A good example is the case of cassava production. Cassava is a cash crop for farmers with few resources because it requires little investment. While the EU was keeping the prices of grains artificially high, Europeans turned to cassava as a source of animal feed. This drove up the world prices of cassava and made cassava farming attractive to farmers in the South.

In Thailand, for instance, many farmers changed to cassava production and at the peak of the production in the early 1980s about 80-90% of total cassava produce was exported to the EC. In 1982 the EC initiated a policy to impose quotas on cassava imports and to introduce tariffs, which made the production of cassava considerably less attractive. In 1992 the EC committed itself to reduce its fixed prices for grain, and grain again became attractive as animal feed. This in turn decreased the demand for cassava. This seriously affected farmers – who found it difficult to divert to other crops. Farmland that has been used to cultivate cassava for several years is not suitable for other crops. In such cases, the CAP has created a situation in which poor farmers in the South are wholly dependent upon decisions taken in the EU and over which they can exercise no control.[161]

### *8.1.2 Quotas and preferences*

It can be concluded that these measures have seriously hampered farmers in the South both to supply the domestic market and to increase their export possibilities in a sustainable way. By protecting European farmers' production at relatively high costs, the CAP has prevented agricultural producers in developing countries from capitalising on their comparative advantage. The CAP has, therefore, generally acted as a disincentive to agricultural production and food security in the South.

High European prices are maintained by the protection of the volume of imports into the EU. However, these measures are not applied equally to non-European producers. In fact, the measures to protect the EU market are a complicated set of tariff barriers negotiated separately with different countries. The effects are, therefore, more complex to map out because they restrict imports from some countries and give preference to others.[162] The preferences take two forms:

- Special quotas: producers of some countries can supply their products to the EU, while maintaining the high prices set for products by the EU, but without paying import duties that constrict producers of other countries on the European market. Examples of these are the beef and sugar protocols signed under the Lomé Convention with specific countries.
- Preferences: producers from some countries are allowed to supply their goods to the EU market without the need to maintain the high prices set by the EU. This gives them comparative advantages over others.

The abolition of these special quotas and preferences would dangerously undermine the economies of some countries that are heavily dependent on them. For instance the Caribbean countries have few alternatives to the production of bananas, sugar, or rum, and depend heavily on the preferences granted through the Lomé protocols. The economies of these small island states would probably collapse if the special protocols were abolished. On the other hand, the system of quotas and preferences limits access of these products from other developing countries to the EU market.

### *8.1.3 Reform of the CAP*

In 1992 the Commission decided to reform the CAP in order to address concerns over its high costs. Reforms mainly involved the reduction of intervention prices, reductions in production and encouragement to farmers to set aside land. These cost-cutting measures were accompanied by compensatory income support payments to farmers. In spite of these measures, the CAP still consumes 50% of the budget.

In Agenda 2000, the European Commission identified the following reasons for reform of the CAP:[163]

- The process of globalisation requires lower prices if the EU is to be competitive in newly emerging markets;
- The negative image of the CAP among the general public caused by the high costs of the CAP;
- The need for greater effectiveness requiring the decentralisation of managing the CAP;

– The preparation of eastward expansion of the EU with countries with large agricultural sectors which would cause the costs of the CAP to spiral;
– The EU's commitment under the GATT Uruguay Round to cut the volume of subsidised exports by 21% over six years, which it has not yet implemented. Moreover, there are proposals for a new round of international trade negotiations under the WTO to be launched in 1999 as well as the negotiation of several bilateral trade agreements.

The Commission proposed drastic cuts in intervention prices so that agricultural products can be exported with less subsidies. Direct income support, allowed under the WTO rules and regulations, to European farmers would compensate for these measures. In the meeting of February/March 1999 the Council reached a compromise on the reform of the CAP within Agenda 2000 largely along those lines.

### *8.1.4 Expected effects of the CAP reforms*

Current production, in the context of increasing competition over the lowest production prices, reduces the quality of agricultural products worldwide and has caused a crisis in the European agricultural sector. The CAP has encouraged intensive production, the extensive and illegal use of hormones, pesticides and fertilisers. Consumer confidence has fallen dramatically while the problem of overproduction has not been addressed.

The reform measures of Agenda 2000 do not tackle the current problems of the CAP.[164] The combination of low prices on the one hand and income support on the other results in a production that is completely divorced from production costs. The selling of agricultural products below the production price is not sustainable in the medium to long term. Moreover, the proposed measures will not lead to a reduction of production necessary to avoid gluts and surpluses.

The proposals also do not encourage food security in the South. On the contrary, they help European farmers to compete with poor farmers in developing countries. The costs and benefits are not equally divided among the South. Looking at the proposals in more detail shows that producers in some developing countries lose, while producers in other countries gain. No measures have been proposed to ensure that negative consequences of price cuts for producers in developing countries are tackled. For instance reducing tariff barriers to the EU market for exporters from the South would clearly help Southern producers to compensate for the market share taken by EU producers in developing countries. Also surpluses will need to be reduced so as to naturally increase agricultural prices.

Concerns are that the reforms' emphasis on enhancing EU competitiveness will result in further displacement of small-scale producers in the developing countries by European large-scale producers. In the South only large-scale producers are likely to survive. This will lead to a further concentration in land ownership and increasing hardship for the majority of small-scale producers. An increase in the dependency of developing countries on food imports can be anticipated, which in turn will render them even more vulnerable to price changes. Price fluctuations of world market prices will generate balance of payments problems when countries become increasingly dependent upon food imports. Subsequent financial instability and currency devaluation affects vulnerable domestic consumers. Finally, the modes of production required to be competitive may well lead to increased environmental degradation and increased inequality in prosperity.

The proposed reforms of the CAP will not make the CAP any cheaper. On the contrary, in the next decade the budget for agriculture will continue to increase. A radical overhaul of the CAP is needed in order to make European agricultural policies sound as well as coherent with the development objectives stipulated in the Amsterdam Treaty.

## 8.2 Trade regimes with developing countries

In relation to the EU the developing countries can benefit from two different trade regimes. The Lomé trade arrangements are negotiated between the EU and the ACP, and give the most far-reaching access to the EU market. The Generalised System of Preferences (GSP) gives preferences to those developing countries that do not belong to the ACP grouping. In the new GSP regulations concerning the period July 1999 to 31 December 2001, LDCs are to be given preferences equivalent to those received under the Lomé Convention, so as to comply with WTO regulations. While the Lomé Conventions are negotiated between the two parties, the GSP is unilaterally offered by the EU to a certain number of countries and can be withdrawn unilaterally. The Lomé Convention thus provides much greater predictability than the GSP. Once the Convention has been signed trade preferences cannot be suspended or withdrawn except as a last resort, and only when the essential clause has been breached. Even then a consultation process is required before such action can be taken (art. 3.6.6.).

Another important difference between Lomé preferences and the GSP is that the GSP is based on the principle of graduation – meaning that preferences diminish once a country or production sector becomes stronger. This is not the case under Lomé where trade preferences are agreed similarly for all participants, with the exception of special protocols. The GSP has additionally a social and environmental incentive clause.

In the table below the most important differences between the Lomé trade arrangements and GSP are set out.

**Box 4 – Lomé Preferences versus the GSP**[165]

The European Scheme of Generalised Preferences defines a list of 50 least-developed countries[166] (LDCS) that benefit from extended tariff preferences for industrial and agricultural products, beyond the General System of Preferences. These LDCs benefit either from the Lomé Trade Regime, or from the extended GSP. The two regimes compare as follows:

| *Lomé Trade Regime* | *GSP Trade Regime* |
|---|---|
| Originates from 1957 provisions made in Treaty of Rome for association of non-European countries and territories with which EEC member states had special relations – colonies, former colonies and overseas territories. | Began in 1971 following an offer made by the EEC in the United Nations Conference on Trade and Development (UNCTAD). |
| Is granted to ACP countries, includes 41 LDCs and 30 other developing countries, including vulnerable economies such as small island states and land locked countries. Does not include graduation. | Is granted to a large number of developing countries, including 9 LDCs.[167] Includes sector/country graduation on the basis of market share, which can affect LDCs and other very poor states.[168] |
| The non-discrimination clause ensures that the preferences also apply to the other ACP countries. | LDCs not party to the Lomé Convention are granted equivalent preferences to those provided under Lomé.[169] |
| Rules of origin make cumulation of the input into a product's value permissible where this originates in all ACP countries and the EU. Specific rules are defined for each product or group of products. | Rules of origin permit input of a product in individual countries with further input from the EU. Some regional cumulation is allowed for the members of ASEAN,[170] the Central American Common Market (CACM) and the ANDEAN Community. Specific rules are defined for each product or groups of products. |
| Industrial products can enter without restrictions. | Gives duty free access for manufactured exports listed. Also duty free treatment in clothing and textile sector. |
| Tariffs on many agricultural products are reduced, or are set up for certain quantities (quotas). Quotas in 'sensitive' areas arranged in special protocols. | Tariffs on a group of agricultural products are reduced. |

| *Lomé Trade Regime* | *GSP Trade Regime* |
| --- | --- |
| No withdrawal or suspension of trade preferences after the trade protocol of the Convention has been signed. | Suspension of trade preferences in circumstances of use of any form of forced labour, exports of goods made in prison labour, inadequate control on the export or transit of drugs, failure to comply with obligations entered into in the Uruguay Round, failure to comply with international conventions on fisheries, etc. |
| | Contains an incentive mechanism concerning labour rights and environmental protection if labour rights are complied with in countries or production sectors in these countries. |
| Lomé Trade preferences are being reviewed as part of the negotiations to produce a new agreement effective from March 2000. A waiver for renewed Lomé trade provisions could be obtained as there is a provision in WTO rules for non-reciprocal trade arrangements; alternatively an extension of the WTO's provisions governing 'special and differential treatment' to cover a new agreement with the ACP could be obtained. | The current GSP schemes fall within guidelines agreed for the period 1995-2004. For industrial products it was introduced for a four-year period in January 1995, and renewed for 1999-2005. The scheme for agricultural products came into force on 1 July 1996, but was only applicable to 1 January 1997 and will be valid till 30 June 1999. |
| The Commission wants to change Lomé trade preferences into Regional Economic Partnership Agreements (REPAs) or into GSP arrangements. | |
| EU does not want an extension of unlimited free access in some products it has defined as 'sensitive' such as rice, bananas, sugar, manioc and bovine meat (beef and veal). The EU believes that developing countries could rapidly increase export of these products if liberalisation took place. EU sensitive sectors are protected by a dual mechanism involving a modulation of preferential tariff margins coupled with an emergency safety clause. The emergency safety clause allows for the suspension of the provisions if severe market disruption is likely. | |

Trade regimes with developing countries are not always established with the objective of promoting trade. On the contrary, the comparative advantage of developing countries resulting from their low prices is often seen as a problem. The following sections will look at what negotiations are taking place on trade with specific developing regions, and how the EU focuses on the way in which it can protect its market on the one hand, while opening markets in the developing countries on the other.

## 8.3 EU trade policies with different regions

Globalisation presently determines the direction of the major economic powers, including the EU. Policies of export-led growth are promoted on the basis of comparative advantage in production costs. While this liberalisation, in theory, leads to fair competition, the protection of major economic areas by the major powers at present creates uneven playing fields for economic development. This undermines the viability of liberalisation as an economic policy that can help foster social and sustainable development. Liberalisation is here defined as the dismantling of boundaries as barriers to economic activity. Globalisation here, can be termed as the increasingly close international integration of markets for goods, services and capital, which results in a situation which is characterised by the inter-linkage of countries/businesses whereby decisions made in one part of the world have direct and indirect repercussions on economies and communities far removed.[171]

In the following sections trade arrangements with different regions will be compared. First, the negotiations will be examined between the EU and the grouping of South-east Asian countries in ASEM. This group includes the ASEAN countries, with the exception of Burma and Laos, as well as Japan, China and South Korea. Trade facilitation between the two groups is predominantly geared to non-tariff barriers.

ASEM provides an excellent example of the way in which political processes are developed as a direct response to competition from other economic super-powers. It also shows how globalisation is accompanied by stark contradictions between policies of liberalisation and of protectionism. It is suggested that the mutual political objective of the participants in the two groupings is to impede too rigorous a liberalisation process which is being pushed by the United States through the WTO, while at the same time ensuring that non-WTO members, in particular China and Vietnam are brought into the multilateral system of WTO rules.

Secondly, the negotiation process on an FTA between the EU and South Africa is considered. The imminent outcome of this protracted and arduous process will give a clear indication as to what other developing countries – with considerably less bargaining power – can expect from negotiations on free trade agreements. The negotiations with South Africa are especially important since South Africa is both a member of the Southern African Customs Union (SACU) and of the Southern African Development Community (SADC). This means that, *de facto,* any agreement between the EU and South Africa would directly affect SACU and SADC countries, even though they did not participate in the negotiations – and do not have the same economic capacity as South Africa.

Finally – and not entirely unconnected to the above – the proposal for Regional Economic Partnership Agreements (REPAS) between the EU and the ACP countries is discussed. The REPAS would provide a mechanism for the liberalisation of trade between the different groupings. While their feasibility and sustainability is widely contested, the EU seems determined to move the negotiations in the direction of regional free trade agreements with the ACP.

## 8.4 Asia-Europe Meeting[172]

The Asia-Europe Meeting (ASEM) is a process held against the background of increased integration of markets worldwide and, therefore, has a clear focus on trade and investment. It encompasses ten East and South-east Asian countries: Japan, China, South Korea, Thailand, Brunei, the Philippines, Malaysia, Indonesia, Vietnam and Singapore and the fifteen individual member states of the European Union as well as the European Commission.[173]

### *8.4.1 The evolution of EU – Asian relations*

Economic relations between European countries and Asia have existed since the very early days of global trade. Several EU member states have long standing economic ties with Asia stemming from European colonisation of Asian territories. However, given the fact that external trade is one of the areas that EU member states have largely conceded control over to the European Community, it is the Community's relations with Asia that provide a better picture of present EU trade relations with Asia. The Community has had institutionalised relations with Asia for over twenty years. However there have been developments in the form, pattern and intensity of the relations in recent years.

It is evident that member states' policies have provided a significant contribution to Community policy. The first significant development in economic relations for the Community came in 1973 with the accession of the United Kingdom to the then European Community of six. The UK, wanting to maintain its ties with South Asian countries, influenced the Community to agree to commercial co-operation agreements with the major South Asian countries – India in 1973, Sri Lanka in 1975 and Bangladesh and Pakistan in 1976. In 1980 the Community concluded a multilateral trade and co-operation agreement with ASEAN. This was followed by trade and co-operation agreements with Indonesia (1982), China (1985), Thailand, Singapore, Malaysia and Korea (1986), the Philippines (1987) and Vietnam (1994).

### 8.4.2 *The EU towards a new Asian strategy*

A more coherent action first came from the EU in the form of a European Commission paper on Asia in July 1994 titled *Towards a New Asia Strategy.*[174] The intentions of the document were to accord Asia a higher priority by strengthening the EU's economic presence in the region, developing political dialogue with Asia, contributing to regional security dialogue as well as maintaining development co-operation as an instrument for poverty alleviation in the region. In its emphasis on economic interests the Asia strategy paper outlines the role of the EU stating:

> "The Union's role is to pursue market-opening for both goods and services and to overcome obstacles to European, trade and investment by encouraging a favourable regulatory environment for business in Asia (...). To achieve its aims, the Union needs to adopt more pro-active strategies: emphasising fuller, and increasingly targeted use of economic co-operation to promote European investment."[175]

As the overall objectives of the new Asia strategy, the document outlines the following:

- To strengthen the Union's economic presence in Asia in order to maintain the Union's leading role in the world economy;
- To contribute to stability in Asia by promoting international co-operation and understanding;
- To promote the economic development of the less prosperous countries and regions in Asia;
- To contribute to the development and consolidation of democracy and the rule of law, and respect for human rights and fundamental freedoms in Asia.

### 8.4.3 *The ASEM initiative*

Following the EU new strategy for Asia, the proposal for a forum between Europe and Asia came from an Asian country: Singapore. In a communication from the Singapore government to the French government in November 1994, a proposal was made for a European Asian forum. In April 1995 the European Commission began negotiating with Singapore and other members of ASEAN on the matter. It is worth noting that it was the ASEAN group which suggested the other non-ASEAN Asian countries as participants in the forum. It is striking that the proposed Asian countries were exactly those that the Malaysian Government had targeted for membership in its earlier proposal for an East Asia Economic Caucus (EAEC). Agreed by both sides, this initiative resulted in the first Asia-Europe Meeting in Bangkok on 1-2 March 1996.[176]

### 8.4.4 ASEM and the Asia Pacific Economic Co-operation (APEC)

According to the EU Asia Strategy paper the World Bank estimated that by the year 2000, half the growth in the global economy would come from East and South-east Asia alone.[177] This growth would result in 400 million Asians having average disposable incomes as high or even higher than that of their European or US counterparts. It was this affluence that the EU wanted to tap. Its potential to provide markets for European goods would be enormous.

Asia's economic boom meant that Asian countries were less dependent on the West. The Asian share of world trade had grown from 20% in the 1960s to 40% in 1990. But it was really the growth in intra-Asia trade that led to its decline in dependence on developed countries. This made Asia less susceptible to the introduction of socio-political reforms being used as a conditionality for stronger economic ties. The so-called 'Asian way' was being espoused by Asian leaders over western values. Given the economic success of Asia few felt politically able to challenge this.

It is ironic that the establishment of APEC also played a role in persuading some Asian countries, particularly Malaysia and Singapore, to seek closer relations with Europe. These countries hoped to use the grouping with Europe to bond with other Asian countries as a sort of prelude to the EAEC, that had been proposed by Malaysian Prime Minister Mahathir in 1990. This caucus has been strongly opposed by the US because of its intention to exclude non-Asian powers. It was also believed that closer ties with Europe would allow some Asian countries to counter pressure from the US in its efforts to create a Trans-Pacific free trade area. ASEAN countries saw in Europe a crucial ally for support in holding on to some of their protectionist policies.

This historic background to the establishment of ASEM is reflected in the official communiqués from the Ministry of Foreign Affairs in Thailand, clearly adding a US/Pacific Rim dimension to the Bangkok ASEM Summit:

> "The initiative for this Summit grew from the recognised need to strengthen the linkage between Asia and Europe. While the Trans-Pacific linkage appears to be strong through the Asia-Pacific Economic Co-operation (APEC) as well as the Trans-Atlantic linkage through the G7, ties between Asia and Europe have not been developed to its full potential. This historic Meeting should help strengthen this linkage as well as foster closer ties between the three main centres of economic growth namely, Asia, Europe and North America."[178]

A Commission Working Document of June 1997 is perhaps more explicit in recognising that Europe was running far behind the United States in terms of its relationship with the booming South-east Asian economies:

> "The first ASEM took place at a time when Asians and Europeans had come to realise that the potential synergy and partnership between the two regions had been largely underestimated, in the political and cultural fields as well as the economic sphere. The ASEM initiative also reflected a sentiment that, in today's multi-polar world, relations between Asia and Europe had lagged behind strengthening Trans-Pacific and Trans-Atlantic links, and an urgent need was felt to rectify this asymmetry."[179]

Thus APEC is essentially part of the picture. Formed in 1989, APEC, like ASEM, is an informal forum, but one which is spear-headed by the United States.[180] APEC's participating countries are committed to achieving the goal of free and open trade and investment by 2010. Its developing country members have been given an additional 10 year grace period and have to eliminate obstacles to free trade by 2020.[181] Quite apart from Europe's desire to increase its profile in Asia and to avoid missing out to their major economic competitors, Japan and the United States, there is also an Asian interest in a countervailing political and economic forum to APEC. Rocamora put it as follows:

> "For the US, the main purpose of APEC is to head off the possibility of an Asian economic formation such as that proposed by Malaysia's Mahathir, one that would exclude the US. The US would like to develop certain institutional mechanisms, quite likely under American leadership, which can facilitate the resolution of trade and other economic disputes. Not incidentally, a formation that cannot include its European competitors will be useful in the US' economic race with Europe."[182]

Indeed official background information on the second ASEM Summit, held in London in 1998 states that:

> "The forum, which evolved from an idea by Prime Minister Goh Chok Tong of Singapore, is intended to balance the existing links across the Atlantic and Pacific."[183]

Both ASEM and APEC have the added advantage in locking in China into a structured, albeit informal, relationship with the EU in the former case and with the USA in the latter.[184] This is significant since both fora have a primary commitment to the World Trade Organisation (WTO) agenda and rules. China is at present only an observer member of the WTO and there is a clear interest by developed and Asian developing countries alike to accelerate China's full membership. Both fora also involve South Korea and Japan. Thus both ASEM and APEC include two members of the globally dominating economic triad – Europe and Japan in the first instance and Japan and the United States in the latter.

### *8.4.5 Association of South-east Asian nations (ASEAN)*

In economic and globalisation terms, the ASEM arrangement clearly has certain advantages over the traditional relationship, which the European Union has with ASEAN.[185] This association, formed in 1967 with five member states, began its relationship with the European Union as early as 1973 through informal relations between the then EEC. The EEC was the first grouping with which ASEAN established links; initiating a Joint Study Group in 1975 and a more formalised relationship in 1977 when the Community became an ASEAN dialogue partner and was invited to attend the first ASEAN Post-Ministerial Conference. The first EC-ASEAN ministerial meeting was held in 1978 and 1980 saw the first generation of EC-ASEAN co-operation agreements.[186]

ASEAN, in a joint declaration with the EU, has welcomed the launching of the ASEM process but has reiterated that ASEAN remains a cornerstone of the EU's dialogue with the Asian region. It adds that:

> "As the ASEAN-EU relationship enters its third decade, it is timely to launch a new dynamic in this partnership, which will run parallel with ASEAN."[187]

Both ASEAN and the European Community have developed over the period of this relationship: with enlargements in both regions and with the growth of regional free trade within Europe and within ASEAN.[188] On the ASEAN side, in 1992 it agreed to the creation of the ASEAN Free Trade Area (AFTA) designed to promote free trade within the region but not aimed at political or economic integration. The aim, the recent financial crisis notwithstanding, is to complete the AFTA by 2003, with Vietnam, Burma and Laos given additional time to reduce tariffs.

### *8.4.6 Participation in the different Asian fora*

It is important to note here that, at its inception, ASEM comprised, on the Asia side, all ASEAN countries plus Japan, South Korea and China. The reality today is slightly more complicated. Not all members of ASEAN participate in ASEM or APEC, the notable exceptions being Burma and Laos, who became members of ASEAN in July 1997. Burma is a particular sticking point since it raises the thorny question of human rights which is regarded as a particularly sensitive issue in the West's dealing with Asia. Cambodia is currently a member of none, although it has been agreed within ASEAN that it will become a member of that organisation but a specific timetable for adherence has yet to be agreed.

APEC also has the advantage of including the 'three Chinas' (China, Hong Kong and Taiwan) and this primarily accounts for a deliberate lack of reference to countries or nations within the APEC context. APEC also includes colleague OECD nations: Canada, Australia and New Zealand. Recently, together with Peru and Vietnam, it also includes Russia.

TABLE 18 *Participation/membership of the key Asian groupings (1999)*[189]

| *ASEM* | *APEC* | *ASEAN* |
|---|---|---|
| Brunei Darussalam | Brunei Darussalam | Burma |
| China* | China* | Brunei Darussalam |
| Indonesia | Hong Kong | Indonesia |
| Japan | Indonesia | Laos* |
| South Korea | Japan | Malaysia |
| Malaysia | Korea | Singapore |
| Philippines | Malaysia | Thailand |
| Singapore | Philippines | Philippines |
| Thailand | Singapore | Vietnam* |
| Vietnam* | Thailand | |
| | Taiwan | |
| | Vietnam* | |
| | | |
| European Union | Australia | |
| 15 member states + | Canada | |
| European Commission | Chile | |
| | Mexico | |
| | New Zealand | |
| | Papua New Guinea | |
| | Peru | |
| | Russia | |
| | United States | |

* No WTO membership but observer status (10 February 1999)

Documents for the second ASEM Summit in London in April 1998 outline the current membership of ASEM as shown in the above table and add: “participation may be expanded on both sides in the future.” This carefully worded phrase suggests that membership of the EU or membership of ASEAN does not automatically qualify for membership of ASEM. Certainly the Commission stresses that ASEM is not a bloc-to-bloc arrangement and therefore membership is not automatic.

### 8.4.7 Objectives of ASEM

In his introduction to ASEM I the Chairman identified the following goal:

> "The Meeting recognised the need to strive for a common goal of maintaining and enhancing peace and stability, as well as creating conditions conducive for economic and social development."[190]

The objectives of ASEM, as set out in the Chairman's Statement of the first ASEM Meeting in Bangkok in March 1996 are: the fostering of political dialogue, the reinforcement of economic co-operation, and the promotion of co-operation in the social and cultural fields.

With regard to reinforcing economic co-operation, the statement clearly emphasises the generation of greater two-way trade and investment flows on the basis of:

> ".. the common commitment to market economy, open multilateral trading system, non-discriminatory liberalisation and open regionalism."

The meeting further agreed:

> ".. that the ASEM process should complement and reinforce efforts to strengthen the open and rules-based trading system embodied in the WTO".

It also stressed the need to:

> ".. encourage the business and private sectors, including small and medium sized enterprises of the two regions, to strengthen their co-operation with one another and contribute towards increasing trade and investment between Asia and Europe."

It was strongly emphasised by the participant countries that ASEM should not involve itself with contentious issues. This has clearly limited the scope for political dialogue. ASEM also avoids duplication with any other fora, and rather complement these, including most importantly the WTO.[191]

The ASEM process has resulted in the production of two action plans adopted at the 1998 London Summit: the Trade Facilitation Action Plan (TFAP) and the Investment Promotion Action Plan (IPAP). In addition a third meeting of the Asia-Europe Business Forum (AEBF)was held parallel to the London Summit. Further, in response to the financial crisis, the London Summit established an ASEM Trust Fund under the aegis of the World Bank.

### 8.4.8 The structure of ASEM

The very structure of ASEM indicates both the level of priority it accords to the region and the fundamental agenda, which it is keen to pursue. It is also worth noting that, despite the rhetoric of the Bangkok summit, there are no meetings of Development Ministers in the ASEM process.

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**Box 5 – Structure of ASEM**

1 *ASEM Summit*
Meeting of the Heads of Government every two years. The first Summit was held in Bangkok in March 1996, the second in London in April 1998 and the third is scheduled in Seoul in October 2000.

2 *Foreign Ministers' Meetings*
In addition to preparing the Summits, political dialogue is their principal area. The first meeting was held in Singapore in February 1997 and the second in Berlin, 28-29 March 1999. It is the Foreign Ministers which proposed both the Asia-Europe Co-operation Framework and the ASEM Vision Group.

3 *Senior Officials' Meeting (SOM)*
The SOM is designed to assist the Foreign Ministers. Meetings have been held in Dublin in December 1996, in Luxembourg in October 1997, in London in February 1998, and in Berlin on 27-28 March 1999.

4 *Finance Ministers' Meeting*
Two meetings of Finance Ministers have been held – 19 September 1997 in Bangkok and 15-16 January 1999 in Frankfurt.

5 *Finance Deputies' Meeting*
The Finance Deputies assist the Finance Ministers and have to date held two meetings – in Luxembourg in September 1997 and in London in February 1998.

6 *Economic Ministers' Meeting*
It is this meeting which is responsible for TFAP and IPAP. Their first meeting was in Makuhari, Japan on 27-28 September 1997, with a second scheduled for Berlin on 9-10 October 1999.

7 *Senior Officials Meeting on Trade and Investment (SOMTI)*
SOMTI assists the Economic Ministers and particularly with regard to TFAP and IPAP. SOMTI has met in Brussels in July 1996; in Tokyo in June 1997; in Brussels in February 1998; in Singapore on 8-10 February 1999. It is scheduled to meet again in Belgium, on 7-8 July 1999 and on 7-8 October 1999, immediately prior to the Economic Ministers' Meeting.

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## 8.5 The ASEM Trade Facilitation Action Plan

Three particular instruments were developed for the 2nd ASEM Conference in London in 1998. These are the Investment Promotion Action Plan (IPAP), the Trade Facilitation Action Plan (TFAP) and the Asia Europe Business Forum (AEBF). These instruments aim to promote investment and trade between the two regions. The aim of TFPA is to promote trade opportunities between the regions by reducing non-tariff barriers. Non-tariff barriers are, like quotas or tariffs, obstacles to imports. According to Asian civil servants non-tariff barriers represented an estimated 15% of total business costs incurred by both partners.

By focussing on non-tariff barriers alone, the TFAP has a very narrow focus, with non-controversial issues that scarcely influence the core of EU -Asian trade. Important problems impeding trade between the EU and Asia are not dealt with, despite the importance of the political setting in which TFAP is one of the main components. In the next sections some of the more serious problems of EU-Asia trade are addressed.

### *8.5.1 The anti-dumping regulation*

The anti-dumping regulation is one of the most contentious aspects of trade between the EU and Asia. It imposes duties on exporters for exporting products to the EU at a price lower than the price in the EU market. There are several problems identified with this measure. Firstly, it can be difficult for exporters to get correct information on the prices in Europe. According to Searles (1997), looking at the application of this instrument in China, in many cases exporters are under pressure from European importers to reduce prices. While lacking knowledge of pricing in Europe, they cut prices to the point where they are accused of dumping.[192]

A second problem is that the exporter is penalised by the payment of duties, which are established as the margin between the price of the goods and the price of the same goods from another country. This procedure is not transparent, – often the reference country cannot be identified and the choice of country makes a large difference to the total amount of duties payable.[193] The third problem relates specifically to China and Vietnam, which the EU has classified as non-market economies. The EU imposes the penalty on the entire industry if a firm violates the rule, with the argument that the state could otherwise shift the exports to another firm.[194]

Given lower wages and the lower cost-of-living in many Asian ASEM countries in relation to Europe, many observers have argued that the anti-dumping regulation unduly penalises Asian countries for their ability to produce goods cheaper than European producers. Asian ASEM countries China, Japan, South Korea, Thailand and Malaysia are listed among the top ten countries who have fallen foul most of the regulation. China heads the list, as it has been the target 34 times since 1990.[195] Victims of the EU anti-dumping regulation have been characterised as developing countries, in the very general sense, with labour and over-all production costs that are still low and without much experience in building good export and product distribution vis-à-vis developed countries.[196] Even though, in recent years, the EU's application of the measure has been diminished, the regulation is still a real problem for many Asian exporters.

### *8.5.2 ASEM and social development*

The Asia financial crisis in 1998 has dramatically demonstrated the vulnerability of the economic growth of the 'Asian tigers'. The European CAP places heavy constraints on Asian investment in agriculture. The Asian dependence on food imports creates food insecurity. The financial crisis has shown the vulnerability of people living in poverty in the Asian countries, which was seriously aggravated by the high prices of imported food. Additionally, the agricultural sector and the processing of raw materials could play a significant role in revitalising the Asian economies because they require fewer imported components and can work with higher profit margins when local currencies have fallen.

TFAP deals with none of these outstanding issues of trade relations between South East Asia and the EU. TFAP's main strength is in sharing information and bringing the two parties closer together through greater understanding of each other's trade regulations. But the main question remains as to why an important grouping like ASEM is satisfied with producing such a limited trade facilitation programme.

The first point to note is that TFAP reiterates many of the issues dealt with in the GATT agreement. The explanation for this is the common interest of both EU and Asian countries in bringing the two non-WTO members, China and Vietnam, into a multilateral framework for trade.

The second point is the focus on non-contentious issues in non-tariff barriers. This strengthens the assumption that the aim of fostering bilateral trade between the EU and ASEM Asian countries is not by further removing tariff-barriers. This can be understood if we assume the hypothesis that the common agenda of the EU and South-east Asia is to protect the domestic markets.

TFAP is not concerned with social development. The considerable disparities in levels of development between Asian countries are not taken into account. TFAP's measures on standards are likely to favour large businesses. There are no measures to create an environment favourable to small and micro-enterprise. Even though the objective of TFAP is to clarify and share information, it does not even attempt to simplify or provide information on more development-oriented aspects of trade such as the complex GSP, or the unclear rules of the anti-dumping regulation. TFAP is not an instrument that offers any measures to make trade work towards social development.

TFAP is the only trade instrument in the context of ASEM, alongside the business forum. Both of these are geared to promoting the trade of large businesses. ASEM does not provide any action to ensure that trade co-operation will also help the eradication of poverty.

## 8.6 EU Free Trade Agreement with South Africa

Following the elections in April 1994 and the establishment of a democratic government, the European Council confirmed its commitment to increase co-operation with South Africa. The negotiation between the EU and South Africa on a co-operation agreement has been a major dossier in the EU's Common Foreign and Security Policy. The outcome of trade arrangements with the EU was extremely significant for South Africa. The EU is South African's largest trading partner, absorbing more than 40% of the country's exports and 33% of its imports. As for the EU, South Africa only accounts for 1.9% of EU imports and 1.3% of exports.[197]

The first Interim Cooperation Agreement between the EU and the Republic of South Africa was signed in October 1994, with the aim of promoting social and economic development and of establishing long-term co-operation. The EU budgetary authority created a budget line to support development actions. This budget line (European Programme for Reconstruction and Development – EPRD) replaced the Special Programme for South Africa that had given support to "the victims of apartheid" through Non-governmental Organisations.[198] It was also agreed that South Africa should participate in the GSP, even though this would effect at most 4.7% of South African exports to the EU and left unaffected the industrial and agricultural exports for which it was seeking improved market access.

In November 1994, South Africa's then Deputy Prime Minister Thabo Mbeki called on the EU Presidency to open negotiations on South Africa's accession to the Lomé Convention and on a special agreement for issues that could not be dealt with in the context of the Lomé Convention. South Africa did not expect to be entitled to many of the trade provisions under the Lomé Convention including the special protocols and the STABEX and SYSMIN instruments. At the same time, South Africa preferred to continue the arrangement of development assistance under the EPRD. While South Africa sought the closest possible association to the

Lomé Convention, the EU negotiating mandate proposed only very limited access. In March 1995 the European Commission proposed that South Africa be given only 'qualified' membership in the Lomé Convention and proposed negotiations on another initiative: a Free Trade Agreement.

On June 30 1995 negotiations between the EU and South Africa commenced on a comprehensive trade, co-operation and development agreement. In November 1996 the EU Council adopted a regulation on development co-operation with South Africa which covered the EPRD budget line. The negotiations lead in April 1997 to partial accession to Lomé IV *bis*. It provided in the accession commitment "*to the objectives and principles of co-operation*" and participation in the institutions of the Convention. South Africa would be eligible to tender for projects financed by the 8th EDF and would be able to take advantage of 'ad hoc' arrangements regarding cumulation and rules of origin. However, South Africa would not take part in the trade co-operation, including the co-operation on commodities (STABEX and SYSMIN) and the special protocols on beef, sugar, etc. South Africa would also not make use of financial resources, except for the possibility of finance under Article 255 relating to a sudden influx of refugees into South Africa.[199]

In July 1997 it was agreed that negotiations would start on a Free Trade Agreement (FTA).[200] It was agreed that the FTA would be:

- fully compatible with WTO rules;
- fully completed by the end of a transition period of 10 years for the EU and 12 years for South Africa;
- respectful of the interests and the sensitive products of both sides;
- beneficial to the whole of Southern Africa.

The Commission's interpretation of the WTO criteria for establishing an FTA would require that around 90% of all trade would have to be liberalised. The negotiations between the EU and South Africa were based on the principle of asymmetry, which would allow South Africa more time to liberalise a smaller range of products, while the EU would liberalise a wider range of products at a much faster rate. Full liberalisation would be reached over a 12-year period.

### *8.6.1 The illusion of free trade*

The use of percentages as indicators of free trade is rather mystifying.[201] The respective points of departure for the negotiations between the EU and South Africa was the idea that the EU would, in 12 years, liberalise around 90-95% and South Africa 80-85% of all trade. The end result of the negotiations brings the average to 90%.

However, the EU produced, at the beginning of the negotiations, a list of agricultural products to be excluded from negotiations – which South Africa claimed "*excluded about 40% of Southern African agricultural products from free trade*".[202] It only covered 4% of EU exports to South Africa.[203] Fixed EU prices, subsidies, custom duties and tariff quotas protect this list of sensitive products. Trade in these products from South Africa to the EU is negligible but, if the European market were opened, it could potentially increase rapidly.

The list was crucial from a domestic European point of view; in order to keep the member states together on one line. France and Germany were particularly worried that the CAP be protected. Other southern member states, such as Spain, were fearful of competition from South Africa for certain agricultural products, such as fruits. Member states were also particularly concerned about the "*erga omnes*" clause of the WTO, meaning that concessions given to one should be given to everyone. This meant that member states wanted assurance that products which are not even currently produced in South Africa would be classified as 'sensitive', in the light of agricultural trade with other countries.[204]

Consequentially, while it was agreed that the FTA should be based on asymmetry in favour of South Africa, the EU proposal worked in the opposite direction. The proposals of the EU would allow the EU to retain protection on approximately 40-50% of South Africa's current agricultural exports to the EU, while allowing South Africa to retain protection in only around 5% of current EU agricultural exports to South Africa. On agricultural products the EU would eliminate duties (but not subsidies) on an additional 50% of imports from South Africa, while South Africa eliminated duties on an additional 95% of imports from the EU.[205] This justified the conclusion that the FTA would be:

> "an asymmetrical liberalisation process in the agricultural sector, with South Africa liberalising far more than the EU."[206]

The Uruguay Round has not seriously challenged the CAP with the EU's existing GATT tariff reduction commitments – and there are no signs that the WTO will do so in the near future. South Africa, on the other hand, has been obliged to dismantle many of its protection measures in order to meet its accession commitments as a WTO member. Particularly disadvantageous in this was that it became a WTO member with a 'developed nations' status. The result is that the dismantling of tariffs in an FTA between the EU and South Africa is very unequal, and highly profitable for the EU.[207]

The inequality favouring the EU has already had dramatic consequences. An example is given below.

### *8.6.2 Job losses for women canning workers*[208]

In 1997 the South African government dismantled the General Export Incentive Scheme (GEIS), in line with its WTO obligations. This scheme compensated South African canning workers for the competitive disadvantage of EU import duties of between 10.7% to 23%. The EU canning industry is not only protected by import duties, but also by support schemes which subsidise European producers. This inequality, in which the European fruit canning is subsidised in multiple ways, while the support to the South African canning industry was dismantled, has driven South African products from the European market. The EU is also taking over traditional South African markets in Japan and the US and has a strong competitive edge over South Africa in new markets such as Brazil and Argentina. As a result factories have been closed leading to unemployment in the food canning industry, and job losses in the fruit production sector.

### *8.6.3 Impact on the region*

Though in the principles of the negotiations it was agreed that the agreement should be profitable to the region, the countries of the region have not been able to play any formal or direct role in the negotiations. This is particularly surprising in relation to the countries that, with South Africa, form the Southern African Customs Union (SACU), because any decision taken by South Africa on the Agreement impacts directly on the other member countries. Immediately after the election of 1994, South Africa also became a member of the Southern Africa Development Community (SADC). The SADC agreed in the August 1996 Protocol on Trade that a Free Trade Area would be established within a period of eight years from entry into force of the protocol.

The exclusion of the other member countries of SACU, the so-called BNLS – Botswana, Namibia, Lesotho and Swaziland – and of SADC has been worrying for several reasons. First, the only region with which South Africa has a negative balance of trade is with the EU. This trade deficit increases each time South Africa is seeking to increase its rate of growth, since growth increases its imports from the EU. An FTA is unlikely to change this balance, particularly in view of the tremendous dismantling of South African protection measures. The dominance of South Africa in the region appears in its share of total trade of the region: in 1998 it accounted for 62% of total SADC imports and 70% of total SADC exports. South Africa will need to ensure that it keeps a positive balance of trade with other important trade partners, notably BNLS and SADC members. This element will clearly have played a role during the negotiations and South Africa's determination of which concessions it was prepared to make to the EU.

Secondly, the FTA means a direct loss of revenue for the BNLS. It will loose customs revenue, which, to give an indication, for Swaziland is about 50% of the entire government revenue[209] or for Namibia it is around 24% of government revenue.[210] Such losses without proper compensation will create an economic crisis.

The FTA will further require high adjustment costs in the region. Products that enter the South African market freely from the EU can then – without any custom duties, enter the BNLS markets. At the same time the South African market is still well protected against BNLS imports through tariff and non-tariff barriers.

It is also expected that investment will divert to South Africa, because the current comparative advantage of the BNLS countries under the Lomé Convention will erode with the establishment of an FTA. It can be expected that industries will move to more efficient locations in South Africa where higher profits can be made. This problem will also have its effect on the SADC member countries. One example of the regional effects of the unequal removal of barriers is outlined below.

### *8.6.4 The impact of EU beef dumping in Southern Africa*

One of the clearest negative effects of the CAP is caused by the export subsidies given to enable exporters to dispose of surpluses on the lower-prices world market. These products are doubly subsidised – once for producing it against the higher fixed EU price, secondly to export it on the lower world market price. The subsidies do not differentiate between various parts of the product and often the quality of the product is so inferior that their export is profitable for the subsidies alone. This is not only very costly to the European taxpayer; it also gravely undermines domestic markets in developing countries.

A well-documented case describes the problems caused for Namibian producers by the EU dumping of beef to South Africa.[211] In September 1993 South Africa removed import controls on beef. The EU dumped beef during this period. It was undercutting the prices of all other producers on the market, including beef from Argentina.[212] From 1993 to 1995 the EU beef exports of subsidised low quality beef increased from 6 651 tons to 46 176 tons.

In 1996, the UK – the largest exporter of beef – banned its export to South Africa and the total exports in that year dropped as a result. The prices at which subsidised beef was sold in South Africa were far below local production costs and substantially below any other nation exporting beef to South Africa. It was only in 1997, when the EU reduced its subsidies, that Argentina could begin to compete. However, through its subsidies, the EU had forced itself into a particular section of the market.

The effects of the dumping were not limited to South Africa. It also impacted on members of the Southern Africa Customs Union (SACU), which are net exporters of beef. South Africa is an important market for beef from Namibia and Botswana. The sales by the local South African beef producers was reduced by 5.7% but in the northern communal areas of Namibia the marketing rate was reduced by almost 40%. Secondly, prices for locally produced beef in South Africa and Namibia were reduced by approximately 4% in 1994, 5% in 1995 and 6.5% in 1996.

In February 1997 the Meat Producers Association of Namibia appealed to the EU on the basis that the damage for the Southern African beef industry went beyond the benefits to the EU of the beef exports and could not justify the continuation of the scheme. According to Rob Davies, MP and Chairperson of the South African Parliament's Trade and Industry Portfolio Committee, the accumulated loss experienced by Namibia and South Africa was equivalent to the total amount of aid the EU grants to the two countries.[213] He pointed out how this

> ".. foreshadows the problems that could arise should a free trade area be established between South Africa and the EU."[214]

In March 1997 the ACP-EU Joint Assembly adopted a resolution on the impact of the beef export subsidies. The Joint Assembly called:

> "[f]or the Commission to draw up an annual report on the achievement of coherence between EU development policy objectives and the application of the various policy instruments of the CAP, with particular reference to cases involving appeals from developing countries."[215]

The EU Council defended the position that beef exports by the EU to South Africa did not constitute dumping. In 1997 export subsidies were reduced by 40%. Meanwhile no report has been prepared on coherence – even though the Council also requested this in its 1998 resolution.

### *8.6.5 The Pinheiro-Erwin compromise*

The so-called 'Pinheiro-Erwin compromise' between the European Commission and South Africa reached in Davos, Switzerland at the end of January 1999, amply illustrated the internal tension in the EU over the agricultural issue. In February 1999 the compromise was rejected by the EU General Affairs Council. France, Spain, Italy and Portugal believed that the European Commission had gone beyond its negotiating mandate as far as the sensitive agricultural products were concerned, and did not accept the compromise on the use of the names 'port' and 'sherry'.[216] Indeed some inroads were made by the South African negotiators, especially with regards to the 'exclusion list' of products becoming a, less severe, 'reserve list'. Additionally, a few safeguard clauses were built into the agreement that, South Africa hopes, might give some space for further improvement. These are:

1. Agricultural safeguard clause
   With regards to agriculture the agreement provides for consultation and compensatory adjustments for any changes which may affect the balance of concessions. The safeguard clause gives South Africa the right to:
   "challenge the EU should there be proof that increased imports of agricultural products are causing harm or threatening to cause harm to the domestic industry."[217]
2. Regular safeguard clause
   This clause provides for measures to be taken in the case of import surges that threaten or cause harm to domestic producers. It is accompanied by a non-reciprocal provision that South Africa can take exceptional measures to protect infant industries or sectors facing serious difficulties caused by increased imports during the transitional period.
3. Safeguard of SACU members
   This clause has been included with the intention of protecting the BNLS if increased imports threaten or cause serious deterioration in their economic situation. However, whether the BNLS can proceed on the clause depends on the willingness of South Africa to take it up. One could say that the clause makes the other SACU members hostage to South Africa's political good will.

The lack of generosity of the EU during the four years of these tough negotiations has demonstrated that the EU finds it extremely difficult to make any concessions in the agricultural sector. The statement of Commissioner Pinheiro to the Development Committee of the European Parliament[218] in defence of the Pinheiro-Erwin compromise graphically illustrates this:

> "We have squeezed the orange to the last drop, we can not squeeze it further. We are bullying South Africa. After 12 years the use of the names port and sherry will disappear, so what is the problem? South Africa has produced under these names for more than 100 years. Are we trying to humiliate Mandela?"

After South Africa agreed to some more modifications of the Pinheiro-Erwin compromise and in the light of the internal negotiations on Agenda 2000 at the European Council in Berlin of March 24 and 25, 1999, the Trade and Cooperation Agreement with South Africa was approved. The Council stated that:

> "The Agreement is an important further step in the consolidation and strengthening of the solid partnership which exists between the European Union and South Africa in the political, economic and trade fields. The European Council considers this historic Agreement a symbol of the strong links of friendship and solidarity between the peoples of Europe and of Southern Africa."[219]

Whether Southern Africa as a whole will benefit from this agreement remains to be seen. The agreement between the EU and South Africa will certainly have complex implications for the wider region, and, indeed, for the ACP as a whole. The potential consequences in relation to the trade negotiations in the context of the ACP-EU negotiations will be discussed below.

## 8.7 Regional Economic Partnership Agreements

The negotiations with South Africa – and the impact on the region have been seen by many observers as a 'pilot scheme' for regional Free Trade Agreements that the EU proposed in its negotiating mandate for a new Lomé Convention. These are called Regional Economic Partnership Agreements (REPAS) and would encompass arrangements between the two partners on both trade and aid.

The potential effect of FTA agreements needs to be thoroughly examined, acknowledging the vulnerability of the economies of many of the ACP countries. Within this context one needs to keep a clear focus on the relative interests of the two partners in the negotiations. While the ACP is a minute partner for the EU, with a share of 2.8% in EU exports and 3.4% in EU imports, the EU is a substantial, if not the most important partner, of most ACP countries – partly for historic reasons. The reason for the dramatic reduction in share of African trade in EU imports and exports is the fall in primary goods prices and the competition with other developing countries due to the loosening of colonial economic ties. Between 1960 and 1997 the share of the ACP in EU imports and exports has declined from around 10% to around 3%.[220] This demonstrates that the ACP is a very vulnerable group as far as trade is concerned and policies aimed to improve their results should be examined with the greatest caution.

In order to understand the potential impact of REPAS for ACP economies, one needs to identify their central characteristics. The first observation is the heavy dependency on the agricultural sector. Even though the agricultural sector may have declined in economic importance since the 1960s due to decreasing world prices of primary product exports, the sector still employs between 75-79% of the work force in low-income African countries.[221] A number of ACP countries depend on agricultural commodities for 70-100% of their export earnings, and for almost half of the ACP this is more than 50%.[222] The Sub-Saharan region as a whole depends for 50-90% of total merchandise exports and this would be higher if estimates of informal trade are included.[223] Many of the ACP countries have a limited diversification, and a few depend almost totally on single products. For instance, Burundi, Ethiopia and Uganda depend for more than two thirds of their total export earnings on coffee alone, while Malawi depends almost entirely on tobacco.[224] In Sub-Sahara Africa the majority of people living in poverty, and particularly women, are involved in the non-formal agricultural sector, for subsistence but also in internal trade, in areas that are vulnerable to external competition.

What have the ACP countries to gain from reciprocal FTAS? If the REPAS would give the ACP countries greater access to the EU market for agricultural products, this would clearly increase their export capacity. However, the negotiations on the EU-SA FTA have demonstrated the unwillingness of the EU to make any meaningful concessions in this area. It is further unlikely, that any fundamental changes to the CAP will begin in the next ten years. It should, therefore, be questioned whether ACP countries are likely to gain any more access to the European market with a REPA than has been achieved under the current Lomé Convention. On the other hand, the REPAS could entail the opening up of ACP countries (of part) of the agricultural sector and/or related industries for EU products. Given the uncertainties in the offer of the EU to negotiate FTAS with the ACP countries, the questions of (1) timing in terms of what will be agreed by whom and when, (2) quid quo pro: what is received in return for what concessions, and (3) capacity to negotiate, implement and monitor agreements become crucial variables determining the outcome of the negotiations.

In order to review the potential impact of the proposed REPAS, the Commission has commissioned a number of impact studies. These studies made a comparison between a scenario without a REPA and a scenario with a REPA, in order to assess the potential economic impact of the liberalisation plans. As these are the only available studies at present looking at the potential impact of EU FTAS with the ACP it is useful to examine their findings. Firstly, the regions in relation to which the studies were implemented are considered. Secondly, a summary of the potential impact of the REPAS is presented. This is followed by a reflection on the possible consequences for ACP LDCS. In the scenario without a REPA the studies assumed that non-reciprocal Lomé preferences would be kept for the LDCS, while non-LDCS "*would be transferred to a slightly improved GSP*", and commodity protocols would be discontinued.[225]

### *8.7.1 Regions in the ACP*

The impact studies concentrated on six regions, which were selected by the EU and do not necessarily reflect the wishes of the ACP. The regions are CARICOM (Caribbean Community), EAC (East African Cooperation), the Pacific, SADC, UDEAC-CEMAC (Central Africa), and UEMOA (French West Africa and Ghana). There are problems with the assumptions made by the EU for this regionalisation. Uganda, for instance, is a member of both SADC and EAC. Ghana would only consider participating in UEMOA if Nigeria were also to join. Seventeen countries were not included in any of these regions (see annex 10).[226]

The level of integration among these regions is very different, as is their dependency on the EU for trade. CARICOM was established in 1972 and is one of the most integrated sub-regions of the ACP, working on the establishment of a single Caribbean market and economy. The USA and the countries of Central and South America are the most significant trading partners, while the EU's share of trade is relatively small. Yet, in some sectors, trade with the EU is significant for CARICOM. CARICOM has trade agreements with its neighbours in South and Central America and the USA. Moreover CARICOM participates in the process of establishing a Free Trade Area for the Americas (FTAA).[227]

SADC was established in 1980, and has recently adopted a development integration approach. In 1996, SADC members signed a protocol to establish a Free Trade Area eight years after ratification. Only five members have to date ratified it, and the establishment of a FTA is thus unlikely to enter into force before 2008.[228]

The EAC is not yet established but in April 1998 the three countries, Uganda, Kenya and Tanzania, laid out their intentions to establish a customs union within five years in the Treaty for the Establishment of an East African Community. The long-term aim of the EAC is to establish a political federation. The Treaty is not yet ratified.[229]

The UDEAC was established in 1962, primarily as a customs union. The Treaty to establish a regional economic space, CEMAC, was signed in 1994. It establishes a monetary union, an economic union, a community parliament and a court of justice. At present, quantity restrictions have been removed and a common VAT has been put in place. But there are important limitations, springing from economic disparities in the region. Agreements within the region have a history of non- or partial implementation. The lack of progress in regional integration stems from differences in interests in the region.[230]

The UEMOA is unique in having achieved monetary union. The group is establishing a customs union by the year 2000. Despite achievements such as the setting up of a regional institutional framework, obstacles to regional integration persist. These relate principally to the differences in levels of development, divergent interests and the lack of resources to pay for the costs of integration. Ghana, an English-speaking country, surrounded by UEMOA countries, could be associated to UEMOA, and would consider this if Nigeria would do the same.[231]

In the Pacific there is not a regional organisation resembling the composition of the Pacific ACP countries (PACP) and no secretariat that could carry out trade negotiations. The main problems are the lack of product complementarity, and the large differences in size, diversification and competitiveness among them. Interest in an FTA with the EU is rather limited.[232]

### 8.7.2 The impact of REPAs

A problem in comparing the EU studies on the REPAS is that they have used different methodologies and assumptions. While some researches are based on the assumption that the alternative to a REPA is that LDCS are accorded a Lomé equivalent special GSP, and the developing countries a normal GSP, others have worked with the hypothesis that the alternative (base) would be the *status quo*. However, in general terms, the following benefits and constraints per region emerge.[233]

For the PACP a REPA is not beneficial. Five out of eight countries are LDCS and the Lomé preferences and protocols would clearly be more beneficial to them. Apart from Fiji, none of the PACP countries would increase their exports to the EU with a REPA. The EU, on the other hand, would increase its market share by 20% in the PACP. EU imports would increase by 17%. Due to the nature of the goods (sophisticated goods, chemicals), the benefits for PACP from lower prices would be marginal. A REPA will not result in a substantial increase in investments if the constraints of PACP, other than the level of import duties, are not addressed. No positive dynamic effects are expected.

Two countries of the EAC are LDCS. The EAC could make some modest gains in exports to the EU with a REPA. There would also be an increase of EU exports to the EAC. Though this could be of benefit to consumers in the EAC, losses incurred in terms of producer costs and lost tariff revenue would outweigh the benefits. In terms of dynamic effects, there could be an increase in investment in both human and physical capital in the EAC, especially in sectors producing exports. There could also be an improvement of institutions such as customs.

Three out of six CEMAC countries are LDCS. A REPA would not result in an increase of exports from the LDCS to the EU, and only slightly so for the other three. Imports from the EU would increase, but also only marginally. In terms of dynamic effects a REPA would perhaps create an impetus for trade reform and innovations.

It is expected that SADC consumers will have problems with the increased competition from the EU, and some industries would be forced to close down. The agricultural sector would be particularly vulnerable. Revenue loss and trade diversion will outweigh consumer gains. Some dynamic effects can be expected such as investor confidence.

For the UEMOA and Ghana, also exports to the EU are unlikely to increase, while the imports from the EU into the region would. Industries involved in import substitution will suffer from competition from EU products. In terms of dynamic effects liberalisation could favour investment in UEMOA countries and a REPA could reinforce the integration process and reform the trade system in the UEMOA countries.

The exports from the countries of CARICOM and the Dominican Republic are expected to remain largely the same, while exports from the EU to the region will increase. In terms of dynamic effects a REPA would increase business confidence and investment, but only if it was implemented parallel with hemispheric liberalisation.

Additionally revenue losses can create problems in some or all regions. In the case of the EAC, it was calculated that between 12% (Kenya) to 20% (Tanzania) of tax revenues would be lost, which would be a major problem for the governments. The ACP countries could lose tariff revenues of around $7.5 billion, and adequate external financial aid would be needed to avoid failure of the REPAS.[234]

### *8.7.3 Isolation of LDCs from the world economy*

For all the regions it can be concluded that exports to the EU will not significantly increase, but that imports to the region will do so. The EU stands to gain. These EU imports to the REPA countries can cause serious competition, particularly in the agricultural sector and in import substitution industries. These negative consequences outweigh the gains of reduced consumer prices. By and large REPAS do not make much economic sense from the point of view of the ACP, most particularly from the LDCS.

On the other hand some of the studies expect that REPAS can have some positive results in terms of dynamic effects, particularly regarding strengthening of the regional integration processes and advancing regional institutions. Other analysts, who point out that regional integration could be undermined by the REPA negotiations, dispute this potential positive effect. These negotiations are complex and would demand much of the capacity of the ACP countries in terms of trade expertise. Moreover the internal integration process, already complex because of vast internal differences between countries within regions, would come under pressure from the differential potential effects of REPAS.[235]

Some of the researchers of the studies commissioned by the Commission believe that REPAS may have some dynamic effects in terms of boosting investor confidence and investment. Were more ACP countries to accept a REPA, this issue would become comparatively more important as it would potentially create a group of countries included and a group of countries excluded from Foreign Direct Investment (FDI). Since countries within regions could accept different options, the effect of attracting more FDI could be positive for some countries, but it could, at the same time, further undermine the regionalisation process, as other countries would not enjoy the benefits of these dynamic effects, because, in overall terms, joining a REPA would not be beneficial to them.

The negotiations on the REPA will inevitably cause tension within and between regions. While the stronger ACP countries should be motor for regional development, the REPAS are in danger of promoting regional tension and impeding regional integration. As more developed regions or countries clearly have more to gain from a REPA than LDCS, there is the fear of further isolating the LDCS and driving them further out of the global economy. What is needed are strategies that support regional integration in the ACP, diminish dependence on primary products and promote diversification. At the same time the trading infrastructure, regional institutions and the macro-economic environment – including the debt stock, must be improved to enhance the economic potential of the ACP LDCS in order to attract investment capital.

### *8.7.4 Lomé and the WTO*

A serious misunderstanding exists that REPAS would be WTO compatible, unlike other options. This is clearly wrong. Firstly, there are three articles applicable to the situation of trade preferences for developing countries. These are:

- Creating an FTA or customs union (Article XXIV);
- Special and differential treatment offered to developing countries (the 1979 Enabling Clause);
- A waiver (WTO article IX).[236]

None of these are automatically obtained, and, indeed, an argument could be made that approval for REPAS – requiring consensus in the WTO – would be much harder to obtain than either of the other two options.[237] In this context it is important to make the observation that the WTO is a new mechanism and much of the assumptions made about it depend on interpretation and speculation. In that sense, the WTO should be regarded as a political space:

> "WTO terms have to be understood to be accessible to alteration if appropriate alliances are created and effective interventions are pursued (...). This is the context and this is the spirit in which the WTO and its role vis-à-vis Lomé and the ACP's interests has to be viewed."[238]

In responding to the concerns raised about the potential negative effects of REPAS, the European Commission has replied that the ACP does not need to worry because the next WTO Millennium Round will be a 'development round'. The Commission states:

> "We therefore call for LDCs concerns to be given specific attention in all areas of the new negotiations."[239]

However, this promise, or assumption, should not be used in a cost-benefit analysis of REPAs for the following reasons.

Firstly, while it was recognised that LDCs would be the net-losers of the Uruguay Round, none of the compensatory measures promised to LDCs have been realised. Agreements concerning special and differentiated treatment of developing countries were made but have not been operationalised. The volume of aid promised as compensation for the adverse effects of the Round has since declined instead of increased.

Secondly, 'endeavour' is not a safe base for counting gains. This is well illustrated by a comment from a European Commission official in relation to the question as to what happened to the EU promises to provide for compensation to LDCs for losses incurred as a result of the Uruguay Round:

> "[T]here were many kinds of agreements made in Uruguay. Some were legally binding, others were 'best endeavour' agreements. These are open to interpretation. (...) the EU has fulfilled all its legally binding agreements. The best endeavour agreements are open to interpretation."[240]

If best endeavour practices are 'open to interpretation', then 'public promises' clearly give even less guarantee or assurance.

Thirdly, if a comprehensive round focussing on 'development' takes place, agreement in the WTO on EU proposals will depend on whether other industrialised countries will grant at least similar treatment to LDCs. This is by no means certain, and probably highly unlikely.

Finally, while it was multilaterally decided that agriculture should be renegotiated within the WTO in a Millennium Round, no proposals for greater market access to developing countries have been identified in the discussion proposals prepared by the European Commission as an area for negotiation. Moreover, the unlevel playing field is not addressed, whereby the industrialised countries can put in place alternative protectionist measures, such as direct income support and other subsidies, but in which LDCs are not able to do so because of fiscal constraints.

The EU has recently assisted the ACP in setting up an office in Geneva in order to improve their representation in the WTO. This also raises the expectation that the EU will form an alliance with the ACP to improve the rules of the multilateral system in favour of developing countries. However, whether such an alliance will stand in the heat of the negotiations with huge interests involved, should be seriously questioned.

## 8.8 Conclusions

European trade policies have much greater effect on developing countries than do aid policies. It is, therefore, important that trade policies be coherent with the objectives of EU development policies. Unfortunately, the basic direction in which European trade policies are moving causes significant problems for developing countries, particularly the LDCs.

Fundamentally the problems of EU trade policies stem from the CAP. While the CAP was originally intended to create food security in Europe and to boost production, it has led to surpluses that decrease world food prices. The EU is increasingly seeking opportunities to penetrate markets in the South, and in so doing, it threatens food security in developing countries. Developing countries have little to gain from the one-sided 'liberalisation' because the EU agricultural market remains extremely well protected, particularly through the extensive and costly system of subsidisation.

Despite the objective of liberalising in accordance with WTO regulations, the current changes implemented in the CAP will not make the global market a more level playing field. On the contrary, while the competition between the EU, the USA and Japan will further increase in the next century, it is probable that reforms of the CAP may become even more damaging to domestic food security in the South. It is feared that the current CAP, which is causing grave problems for the majority of producers in developing countries, will be replaced by an agricultural policy with even more detrimental effects on the vulnerable producers and consumers in the South.

In order for the CAP to be coherent with EU policies towards developing countries, it needs to be reformed. However, the reforms proposed in Agenda 2000 do not change the current hazards that the CAP poses to developing countries. The direction of the CAP needs more fundamental change. Measures should be taken to support small and medium sized farms by a) giving support which makes possible earning of a reasonable income with prices that reflect the production costs, b) increase the quality of agricultural products and c) phasing out the policies that create surpluses. This is possible when production is focused on quality products, in an extensive production process. Those farmers that produce the most should cut production more than smaller farmers.

The policy of the EU is to engage in free trade agreements with countries or regions to increase the EU's export possibilities. At the same time, its policy is to ensure that liberalisation does not take place at the expense of its important protection measures in agriculture. This double track, often contradictory, policy is demonstrated in the context of the Union's developing relations with Asia in the

Asia-Europe Meeting. The Trade Facilitation Action Plan focuses only on non-tariff barriers to trade, while the real problems caused by the CAP and EU anti-dumping regulations have not been addressed. Moreover, no efforts have been made to make the ASEM process and the TFAP instrument conducive to social development in the ASEM developing countries.

The negotiations on a Free Trade Area with South Africa have demonstrated the difficulties that liberalisation in the context of free trade areas poses for developing countries. While South Africa already has a negative balance of trade with the EU, this is likely to be exacerbated under the FTA. It is expected that the EU will gain considerable access to the South African market, yet this is not reciprocated with a similar increase for South Africa to the EU market.

The negotiations of an FTA with South Africa have also shown that the impact on the wider region is significant. While the neighbouring countries are in a customs union with South Africa, and the proposed FTA therefore, affects them directly, they have not been party to the negotiations. EU products can enter their markets through South Africa, while their access to the EU market is denied them.

The analysis of studies on the expected effects of Regional Economic Partnership Agreements with the ACP countries shows that LDCs in particular have nothing to gain from the proposed liberalisation. Yet, the LDCs may lose in the process of negotiating REPAs. LDCs are located in regions with non-LDCs. If these countries, under pressure from the EU, were to agree to enter into negotiations on REPAs, it would undermine the regionalisation processes. As in the case of Southern Africa, the EU could gain access to the LDCs, while the LDC's access to the EU market would not be increased. Finally the REPAs would probably reduce investment confidence in those countries that would not participate.

This points to the real contradiction in current EU trade policies. In principle the ACP partners have a choice to enter into a REPA or not. But in reality these choices may not exist. Even without hard evidence of potential economic gains, countries in the South will be inclined to enter into negotiations on liberalisation in order to avoid their isolation from the world market. This will give the EU plenty of access to the South. The developing countries, for their part, will be confronted with fierce competition that will undermine their own productive capacity and threaten food security.

The strategy of the EU to push graduation and to cut options, particularly for the non-LDCs, will bring division within the ACP group. Rather than supporting regional integration, this will weaken it. In order to avoid disintegration the ACP might, therefore, consider negotiating solely at the multilateral level, in a concerted effort with the South as a whole to ameliorate the international trading system to their advantage.

The EU should develop a positive approach, and support ACP countries to build their own economic capacity as well as to strengthen their regional capacity regionally, before entering into complex negotiations. This could very well include a process focussed at the removal of non-tariff trade barriers, much like the ASEM Trade Facilitation Action Plan. The EU could further help to improve ACP capacity to adhere to standards and procedures, including Sanitary and Phyto-Sanitation (SPS). Debt cancellation will also be necessary, to diminish the dependency of HIPCs on declining tariff revenues and aid as a major source of fiscal resources.

Rather than discussing the possible alternatives to fostering liberalisation policies in the ACP – which are rather limited at this point, the options that the EU has to support the ACP's productive capacity should be considered. Firstly, the EU could make a serious and co-ordinated effort to ensure that the WTO rules are conducive to regional integration of the LDCs and other developing countries so that the waiver for the ACP can be extended for a longer period. Secondly, if the EU is committed to liberalisation, it should begin by putting its own house in order – through a radical reform of the Common Agricultural Policy.

CHAPTER 9

# Investment[241]

## 9.1 Introduction

With the increasing globalisation and liberalisation of financial markets, investment policies have become even more important for the South. TNCs from Europe are among the major investors in developing countries, and the EU is an important source of Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) in the South. The EU is also a proponent of the regulation of investment in a multilateral framework. For European companies high interests are at stake in gaining access to foreign markets – in fierce competition with the US and Japan. Moreover, with the opening of the international financial markets, short-term FPI, or speculative capital, has become a source for making profits.

Investment flows are seen as being at the heart of economic growth and the spearhead of globalisation. At the same time, the movements in the international financial markets have been the most important factor leading to the South-east Asian financial crisis. Clearly the Asian crisis of 1997-1998 is not a phenomenon that stood by itself. It followed the Mexican crisis in 1995, and was followed in 1998 by a crisis of the financial markets in Brazil and in Russia. These crises are not yet over, and are by no means resolved; on the contrary, the crises have deepened in the last twelve months.

This chapter will look at the role of the EU in investment and investment policies, with a particular focus on EU-Asia relations. The Asia-Europe Meeting (ASEM), a grouping of 25 European and South-east Asian countries and the European Commission has an important focus on trade and investment. These policies are closely inter-linked and mutually dependent.[242] ASEM also sees these as the crucial areas for the expansion of co-operation in the next century:

> "Asia and Europe should now take a quantum leap in co-operation regarding trade, investment and infrastructure."[243]

At present, the Asia-Europe Investment Promotion Action Plan (IPAP) of the Asia-Europe Meeting (ASEM) is one of two major practical outcomes of an informal process initiated in 1996. The other major economic outcome of ASEM is the Trade Facilitation Action Plan (TFAP), discussed in chapter 8. Taking IPAP as a case study, this chapter assesses which investment policies contribute to social development.

## 9.2 Foreign Investment

Foreign investment can be divided roughly into two distinct types: Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI). FDI is defined as an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in an enterprise resident in an economy other than that of the foreign direct investor. The investor's purpose is to have an effective voice in the management of the enterprise. This can take place through the acquisition of an existing firm or through the creation of a new firm. The latter, known as "greenfield" investment, involves the creation of new productive capacity. FDI flows comprise equity capital (purchase of shares of enterprise in another country), re-invested earnings (the direct investor's share of earnings not distributed as dividends by affiliates or earnings not remitted to the direct investor), and intra company loans or debt transactions between the direct investors and the affiliate enterprise.[244]

Mergers and acquisitions (M&A) have as their immediate objective the joining together or the take-over of existing firms and, by extension, their existing productive capacity. Acquisition of 10% or more of the voting stock is commonly accepted as demonstrating the aim of acquiring a lasting interest in the enterprise. Foreign investment involving the acquisition of less than 10% of the shares of an enterprise is classified as portfolio investment. It should be noted that the 10% benchmark is not an absolute figure but a guide in distinguishing the two types of investment. FDI stock is the value of the share of capital and reserves attributable to the parent enterprise, plus the net indebtedness of the affiliates to the parent enterprise.

FDI is set within a longer-term perspective and is part of an overall corporate strategy. FDI involves a package of intangibles such as technology, innovation, organisational and managerial practices and skills, human resource development, access to markets and forward and backward linkage with domestic enterprises.[245] The extent to which these potential intangibles are translated into practice in the host country is of crucial importance in assessing the developmental impact of FDI.

FPI, by contrast, is designed primarily to secure short-term profitable returns for the investor. As a result, portfolio investment is particularly volatile – movements in financial markets generally result in extremely skittish behaviour, and the 'herd instinct' is triggered by even a small movement in the market or a 'feeling' of lack of confidence. The sudden withdrawal of FPI, or the threat that this might happen, played a crucial role in the emergence of the financial crises around the globe in recent years.

Whilst FDI is generally more stable and able to weather market vagaries, this is not always so. This is particularly the case with Export Processing Zones (EPZ) where the host government frequently provides infrastructure, tax incentive schemes, and a particular segment of a generally invisible workforce (predominantly young women between the ages of 16-24). EPZs have few, if any, backward linkages to the host domestic economy: they import most of their requirements and, by definition, export the finished product. In 1996 there were 225 EPZs in Asia. FDI in such zones has proven particularly footloose, with companies relocating swiftly to take advantage of – for the TNC – better incentives such as greater tax incentives, lower wages, lower labour and environmental standards.

Any host country obviously prefers greenfield FDI, particularly as an impetus to the local economy, to employment creation and, hopefully, to technology transfer. However a large proportion of FDI is in the form of mergers and acquisitions (M&A) and cross border majority purchases. Cross border M&As accounted for the bulk of the increase in FDI flows and their value in relation to total FDI inflows rose from 49% in 1996 to 58% in 1997, representing the highest share reached in the 1990s. In 1997 total cross-border M&A transactions worldwide amounted to a record level of $342 billion with banking and insurance becoming the dominant industries for M&As.[246]

Although FDI is defined as investments made with a view to a long-term involvement in the host country, divestment of FDI also takes place quite frequently and for a variety of reasons. These can include intensified competition in the host country, mismanagement, erroneous assessment of demand, decrease in profits due to wage rises, over-investment, and changes in the regulatory environment. But divestment can take place even when foreign affiliates are a continuing success and relate more to a broader corporate strategy of reorganisation, restructuring and 'down-sizing'. As with investment, divestment can fluctuate from year-to-year.

### *9.2.1 Capital flows*

FDI has become increasingly important in terms of financial flows to developing countries. In overall terms a shift in comparative value can be noted from aid flows to developing countries towards private flows. Market flows rose from one-third to two-thirds of the total between 1988 and 1996. Meanwhile aid flows fell in real terms (see annex 12).

FDI has been increasing steadily throughout the 1990s and, in 1997, seemingly largely unaffected by the Asian crisis, increased to $400 billion, with outflows reaching $424 billion. In 1997 FDI outflows from the European Union were $180 billion, compared to $100 billion in 1990, with increased orientation to developing countries, especially South-east Asia. Whilst developed countries, with more than 66% of world inward FDI stock and 90% of outward stock, dominate the global picture, their dominance is being eroded. Developing countries accounted for nearly 37% of global FDI inflows in 1997 ($149 billion), increasing from 17% in 1990 ($34 billion).

This upward trend in investment flows further supported the expansion in international production. Sales of foreign affiliates have grown faster than world exports of goods and services. The ratio of the volume of world inward plus outward FDI stocks to world GDP has grown twice as fast as the ratio of world imports and exports to world GDP. This suggests that the expansion of international production has deepened the interdependence of the world economy beyond that achieved by international trade alone.

As the following table shows, between 1992 and 1996 FDI inflows into industrialised countries almost doubled, while FDI inflows into developing countries almost tripled, with a particularly steep rise in FDI to Asia. Asia accounted for more than 50% of all FDI inflows in developing countries.

TABLE 19 *Foreign Direct Investment (FDI) Inflows 1985-96, in US$ billion*[247]

| | *1985-90* | *1992* | *1994* | *1996* |
|---|---|---|---|---|
| World | 141.9 | 173.8 | 238.7 | 349.2 |
| Developed Countries | 116.7 | 119.7 | 142.4 | 208.2 |
| Developing Countries | 24.7 | 49.6 | 90.5 | 128.7 |
| Africa | 2.9 | 3.2 | 5.5 | 4.9 |
| Latin America | 8.1 | 16.2 | 27.0 | 38.6 |
| Asia | 13.5 | 29.6 | 57.5 | 84.3 |
| Central & Eastern Europe | 0.4 | 4.4 | 5.9 | 12.3 |
| Least Developed Countries | 0.6 | 1.5 | 1.0 | 1.6 |

Most of the investment outflows come from the EU, Japan and the US, and its destination is highly concentrated. Indeed, in 1996, the top five host countries – China, Brazil, Singapore, Mexico and Indonesia, accounted for almost 60% of all the FDI inflows in developing countries. China alone accounted for 30% of all FDI inflows in developing countries with a total of $40.8 billion.[248] With the exception of China and Singapore, FPI often comprises a large part or even the largest part of investment to developing countries as shown in table 20.

In terms of the most important host countries for EU FDI in the period 1992-96, the United States accounted for 44% of non-EU outflows, followed way behind by Switzerland (6%) and Hungary (4%). By contrast Japan received only 1% of EU FDI. The 70 countries of Africa, Caribbean and Pacific accounted for only 1% of EU FDI and China also accounted for 1%. ASEAN countries received 7% of EU FDI.

TABLE 20 *Average flows of FDI and FPI to selected countries (1992-1997), in US$ billion*[249]

| | *FDI* | *FPI* | *FPI as percentage of total investment* |
|---|---|---|---|
| Singapore | 6.6 | 1.1 | 14 |
| China | 2.4 | 0.8 | 25 |
| Indonesia | 3.6 | 2.9 | 45 |
| Mexico | 8.2 | 10.7 | 57 |
| Thailand | 1.9 | 3.3 | 63 |
| Brazil | 6.3 | 11.9 | 65 |
| Argentina | 4.3 | 10.0 | 70 |
| South Korea | 1.4 | 11.9 | 89 |

The United States was the most important investor in the EU during 1992-1996, accounting for 59% of EU inward flows, followed by Switzerland (15%), Japan (6%) and Norway (3%). More than 50% of EU assets were held in just 3 countries – the United States (44%), Switzerland (10%) and Australia (5%).

The 'Asian tigers' first drew attention to the potential of developing countries as serious targets for investment. In recent years China – though not labelled a 'tiger', has joined this club as a major recipient of FDI, particular in comparison to other developing countries. A new record level of $45 billion in FDI flows to China contributed to the 9% increase in total FDI flows to Asia and the Pacific in 1997. With $87 billion in 1997, Asia and the Pacific accounts for nearly 60% of FDI inflows received by all developing countries, and for over 50% of developing country FDI stock. South-east Asia, most affected by the financial crisis, saw a small increase of 6% to $82.4 billion in 1997.

From an investment point of view, China is a particularly interesting case. It has experienced an extraordinary FDI boom in the 1990s but this now shows signs of coming to an end. Whilst FDI inflows to China increased by 11% in 1997, this is a small increase when compared to an average of 147% in 1992 and 1993.

In conclusion, the EU outflows of FDI have increased rapidly, with dramatic increases to Asia and China. As shown in annex 14 the inflows of FDI from Asia in the EU are negligible, with the exception of Japan. While inflows of Japan are significant, the outflows to Japan are fluctuating and less extensive. China is clearly the most important destination of EU FDI to Asia. EU outward flows to Hongkong, Singapore, South Korea and Taiwan have also increased quite rapidly.

### 9.2.2 Transnational Corporations

Transnational Corporations (TNCs) are enterprises comprising parent enterprises and their foreign affiliates. TNCs can be categorised in terms of foreign assets – showing the value of the investments abroad in financial terms alone. The concept 'transnationality' is also used to categorise TNCs, as a means of incorporating other aspects of globalised production, notably employment.[250] Figures aggregated by industry identify that the food and beverage industry rank relatively high if measured by transnationality, against a comparatively lower ranking in terms of foreign assets. On the other hand, the electronics and electrical equipment sector and the oil sector, have a proportionally high amount of foreign assets against a relatively modest score on 'transnationality'. The concept of 'transnationality' is becoming more important in the face of globalisation as it is a measure of the global spread of production, rather than of assets alone. The companies that score high on the transnationality index are likely to have a better impact on development than those investors that rank high only as a result of the size of their foreign assets abroad. Between the two indexes the country origin of TNCs from industrialised world show marked differences, with companies from North America and Japan dominating the foreign assets index, while companies from mainly small European countries being prominent in the transnationality index (see annex 13).

TABLE 21 *Averages in transnationality and foreign assets by industry 1996* [251]

| *Industry* | *Average Trans-Nationality as %* | *Foreign Assets $ billion* | *Foreign Assets as % of top 100 Foreign assets* |
|---|---|---|---|
| Food & Beverages | 67.2 | 171 | 9.5 |
| Chemicals & Pharmaceuticals | 65.3 | 247 | 13.7 |
| Miscellaneous | 62.4 | 141 | 7.8 |
| Electronics & electrical equipment | 52.8 | 357 | 19.7 |
| Oil, petroleum & mining | 52.1 | 331 | 18.3 |
| Telecommunications | 47.9 | 50 | 2.8 |
| Automotive | 43.8 | 381 | 21.1 |
| Diversified | 39.2 | 73 | 4.0 |
| Trading | 29.0 | 56 | 3.1 |
| TOTAL | 54.8 | 1 808 | 100.0 |

Using either index, corporations from developing countries are largely absent from the list of major TNCs. Only two, Daewoo from South Korea and Petróleas de Venezuela, are among the hundred largest companies, measured by foreign assets. Daewoo, with foreign assets of less than 20% of General Electric, is forty-third and Petróleas de Venezuela is in 73rd place on the top-100 list of TNCs.

What is striking, however, is the prominence of Asian-based TNCs and in particular those from China and Hong Kong in the top lists of both indexes for TNCs from developing countries.

TABLE 22 *Top 5 TNCs from developing countries in terms of degree of trans-nationality, 1996*[252]

| *Ranking by Transnationality Index* | *Corporation* | *Country* | *Industry* |
|---|---|---|---|
| 1 | Orient Overseas International | Hong Kong, China | Transportation |
| 2 | Pan-American Beverages | Mexico/Panama | Beverages |
| 3 | Guangdong Investments | Hong Kong, China | Miscellaneous |
| 4 | First Pacific Company | Hong Kong, China | Electronic Parts |
| 5 | Sappi Ltd | South Africa | Paper |

If ranked by foreign assets the table equally shows the importance of emerging Asian corporations, and of China in particular. The top ten TNCs from developing countries ranked by foreign assets in 1996 as shown in table 23, lists seven corporations of South-East Asian origin.

In conclusion, of the top hundred ranking of transnational corporations in terms of foreign assets there are only two companies from developing countries. This confirms the picture that, while the EU volume of FDI in Asia has grown considerably, Asian FDI in Europe is relatively unimportant. In that sense the investment flows rather follow a one-way stream. Companies of developing countries investing abroad are relatively concentrated. Rankings of TNCs from developing countries show the relative importance of Hongkong/China. Given the fact that China is not a member of the WTO this is an important issue both for developed and for other developing countries.

TABLE 23 *Top 10 TNCs from developing countries in terms of foreign assets, 1996*[253]

| *Ranking foreign assets* | *Corporation* | *Country* | *Industry* |
|---|---|---|---|
| 1 | Daewoo | South Korea | Diversified/Trading |
| 2 | Petróleos de Venezuela SA | Venezuela | Petroleum |
| 3 | Cemex SA | Mexico | Construction |
| 4 | First Pacific Company | Hong Kong, China | Electronic Parts |
| 5 | Sappi Limited | South Africa | Paper |
| 6 | Acer Group | Taiwan Province of China | Electronics |
| 7 | Jardine Matheson Holdings | Bermuda | Conglomerate/ diversified |
| 8 | China National Chemicals | China | Diversified/trading |
| 9 | China State Construction Engineering Corporation | China | Diversified/ construction |
| 10 | Campania de Telecommunicaciones de Chile | Chile | Utilities |

Jardine Matheson Holdings now based in Bermuda was until recently Hong Kong based but relocated prior to the colonies reversion to China.

## 9.3 The Asia crisis

The misnamed 'Asian' crisis, precipitated by the devaluation of the Thai Baht on 2 July 1997, tended to be seen, particularly by the IMF, as a temporary – albeit expensive – blip on the radar screen of globalisation. The solution proposed was a short-term bail out package conditional on stringent domestic reform in the Asian economies and posited on the belief that a retreat into protectionism should be avoided come what may. On the contrary, the trade and financial liberalisation process, which had characterised the dynamic 'Asian tigers', should be continued at all costs.

Whilst the crisis was different in each of the most affected countries: Thailand, Malaysia, Indonesia, Philippines and South Korea – there is little doubt that foreign investment played a crucial role. There are a number of related problems. Foreign investment has been supply-driven, rather than demand-driven. The inward flow of capital has been seeking a profit, and has been restlessly seeking the highest rate of return. This inflow of capital has created its own momentum so that the recorded high rates of economic growth have overstated the real growth of the economy. Little of the inward foreign capital was actually invested in productive capacity. On the contrary it led to rapidly increasing asset values which created the illusion of growth.

At the same time, structural adjustment programmes (SAPs) implemented by national governments to secure loans from the IMF and elsewhere, have required policies that have led to an actual contraction in the real demand within the domestic economy. A re-orientation towards export-oriented industry, required by the SAPs as a means of generating external financial resources to service the external and internal public debts, encouraged TNC penetration. Domestic capital, particularly in SMEs and micro-enterprises, was faced with contracting demand and inflating asset values. Loan availability was then determined by asset value, not by productive capacity.[254]

When Thailand devalued the Baht in 1997, foreign investors, fearing rapid devaluation of their assets rushed to withdraw from the Thai economy. Since the Asian miracle was based on short-term speculative investment the collapsing confidence in the Thai economy quickly spread across the region. The crisis was compounded by an expected contraction of the regional trade, which has accounted for much of the actual productive growth achieved in the export sectors within the region's economies.

Developed countries felt themselves armed against any adverse economic fallout, particularly in the European Union, which assumed that the advent of the Euro would prove an effective barrier. As the crisis spread across Asia and to Russia and Brazil, and as economic slow-down began to effect other countries, this received wisdom came under increasing scrutiny, including in the IMF itself. Not only did it become increasingly apparent that the IMF recipies of structural adjustment contributed to the crisis, but also that the IMF misdiagnosed the crisis as overspending in the public sector and prescribed further cuts in public spending. This further contracted the domestic economies, and, investors fearing that the bubble might burst, rushed to withdraw their investment. The IMF did not calm the situation but created further panic.[255]

This can be well illustrated in Indonesia. Here the problems in the financial sector were exacerbated by rising external liabilities, increased levels of defaulting private sector loans, and a lack of confidence in the government's ability to resolve the problems. This resulted in overvalued assets and currency. The excessive amounts of FPI created further instability. When the crisis came over two thirds of the country's banks were affected, and more than $2 billion was suddenly withdrawn from the banking system. The IMF's treatment of the crisis increased the problems and this was recognised in an internal memorandum:

> "[A]n important element of the IMF's rescue strategy backfired, causing a bank panic that helped set off financial market declines in much of Asia (...). These closures, far from improving public confidence in the banking system, have instead set off a renewed 'flight to safety'."[256]

The unfortunate misdiagnosis by the IMF raise many important questions concerning the way in which the crisis was examined, and how its policies are determined. It certainly calls into question the basis on which the IMF operates – including its relationship with financial owners, speculators and its key shareholders – the US and Europe.[257] In the circumstance it is extraordinary that – without further evaluation, ASEM leaders:

> ".. agreed that is was important to reinforce the role of the International Monetary Fund at the centre of the global response to what is a global concern."[258]

In this context it is also striking that the ASEM Trust Fund – established by the 2nd ASEM Summit in order to provide "*technical support for restructuring their financial sectors*" and "*for addressing the social effects of the crisis*",[259] was placed within the World Bank, rather than, for instance, within the European Commission. This graphically illustrates the EU's implicit acquiescence with the 'Washington concensus' – between the International Financial Institutions and the industrial financial lobby based in Washington.

### *9.3.1 Effects on investment flows*

The effects of the financial crisis on investment demonstrate a sharp distinction between FDI and TPI related to specific patterns of inflows and outflows. FPI has fallen sharply in the five most affected Asian countries whilst foreign bank loans have plummeted. However, FDI flows to the most affected crisis countries increased in the short to medium term. This was a result of decreased costs in establishing or expanding production facilities due to asset depreciation and currency devaluation, and the fact that many companies were on the verge of bankruptcy, given the heavy indebtedness of domestic firms and their reduced access to liquidity.

Consequentially M&As, led by companies from the United States and Singapore, have increased in the most crisis-affected countries since the onset of the financial crisis. Many of these sales were full acquisitions.[260] This has been the case particularly in South Korea and focuses especially on domestic firms, which are likely to go bankrupt.

Thus, export-oriented firms – in particular efficiency seeking mobile ones – have especially benefited by lowering costs of production, including of course real wage costs. In Thailand, for example, FDI in such labour-intensive export-oriented industries as electrical appliances and electronics has risen considerably.

The additional comparative advantage that TNCs have in this situation is that they can draw on their transnational capacity to shift production from one country to another, diverting orders to benefit from reduced costs. They can shift the destination of the end product and can switch from production for the domestic market to sales for export markets, because as a result of the crisis the absorptive capacity of the region has diminished.

The Asian crisis demonstrates that attracting investment *per se* is not an indicator for sustainable development. The crisis led to much FPI being withdrawn, while FDI entered the same countries. This investment has, of course, not created new employment, but has integrated national corporations into TNCs with decision making abroad. As a result more profit made by these firms will flow back to the home countries of the TNCs, rather than remain within domestic economies. Such policies will not contribute to social development.

The crisis created unemployment, because the domestic and regional markets collapsed. Prices from food imported into the affected countries increased dramatically, and poverty has grown as a result. The Asian crisis shows the importance of sound investment policies for sustainable social development.

## 9.4 Investment Treaties

The global expansion of TNCs has grown enormously in the last decade due to the world-wide liberalisation of investment. At present, investment treaties are at bilateral and/or regional levels. The number of bilateral treaties is expanding – from 1 360 at the end of 1996 to 1 513 in 1997, with the number of countries concluding investment treaties rising from 165 in 1996 to 169 in 1997. Increases continued in 1998.

The expansion of liberalisation of investment has created a situation in which liberalisation policy alone does not motivate the attraction of FDI, since there is increasingly an international climate conducive to FDI. This means that incentives, or rather determinants to attract investment, become increasingly important, particularly for countries that have few other comparative advantages:

> "Competition between developing countries of this kind is, of course, wasteful. Raising the <u>average</u> level of incentives mainly benefits MNCs, while raising <u>marginal</u> incentives may only benefit one developing country at the expense of another."[261] (original emphasis)

The lack of control on investment now means that those that benefit from liberalisation of investment are primarily TNCs. The incentives to attract them can quickly result in cut-throat, beggar-my-neighbour competition between already poor developing countries.[262]

### *9.4.1 The multilateral agreement on investment*

The primary motivation behind the multilateral agreement on investment (MAI), which included all investment – FDI and FPI – was the recognition of the importance of international investment and the lack of a single instrument:

> "Investment, like trade, is an essential agent of economic growth, employment, sustainable development and rising living standards. Yet the multilateral system lacks a comprehensive and coherent framework of "rules of the game" for investment."[263]

The, now moribund, proposals for the MAI was a project of the OECD – after it had been impossible to place it in the newly established WTO. The OECD began negotiations for an MAI in 1995. Once the draft agreement, negotiated by a number of technical groups, became public, it was subject to a barrage of criticism. First of all, the process of the negotiations had excluded developing countries. The process also excluded civil society and largely by-passed national parliaments. The MAI proposal further placed economic considerations above political, social and environmental considerations and its acceptance would have contravened much national legislation. It would certainly have curbed a government role in investment decisions and the direction of investment. Particularly worrying was the fact that the agreement would give companies/investors the power to bring complaints against governments when disputes arose.[264]

The negotiations were formally suspended after Prime Minister Jospin announced that France would no longer participate in the negotiations. This announcement followed the publication of the Lalumière report.[265] As a result negotiations could no longer continue in the OECD, since it operates by consensus. In the diagnostic section of the Lalumière report to the French government, particular attention is given to the civil society opposition. Whilst critical of the process and the organisation of the negotiations, the report focuses primarily on the architecture of the agreement itself, in which the governments are made subordinate to foreign investors by law:

> "By definition, every international agreement limits the sovereignty of its signatories. It subjects them to obligations that hamper their freedom to act. However, economic obligations have so far always been expressed in <u>relative</u> terms: governments undertake not to discriminate between national and foreign products, investments and even persons within their territory. Within this framework, countries are free to determine and

> implement their own economic and social policies. This has been the basic principle behind liberalisation or economic exchanges and trade for the last fifty years. The MAI goes further. For the first time, a universal multilateral agreement imposes absolute obligations on the participating countries."[266] (original emphasis)

Whilst taken singely, the report argues, the innovations may seem technically justified but:

> "Their combination is explosive. It creates a feeling of unequal rights, both between governments and businesses and between national and foreign investors (since only the latter are entitled to the guarantees offered under the agreement)."[267]

The EU is now consistently – and with apparent success – pushing for the inclusion of investment on the agenda for the forthcoming WTO Millennium Round of multilateral negotiations. Others, including a large number of developing countries, such as the ACP, consider that the most appropriate international forum for such a negotiation on investment would be in UNCTAD. ASEAN is one of the principal opponents of multilateral negotiations on investment. They take the position that no decision can be taken on negotiating a MAI unless it is linked to competition policy, and until such time that the WTO working groups on competition policy and investment have completed their respective work and studies.[268]

## 9.5 The ASEM Investment Promotion Action Plan

The ASEM investment Promotion Action Plan presented and endorsed by the ASEM II Summit, hailed in its foreword as "*truly a flagship initiative of Asia-Europe economic co-operation*" is in reality a very limited agreement. It does not address any of the questions raised above, or deal with any of the problems associated with investment policies. The primary purpose of the plan is to create opportunities for business people to meet. The objective is to:

> "[G]enerate greater two-way investment flows between Asia and Europe through enhancing the investment climate between and within Asia and Europe."[269]

Activities under IPAP are grouped under two pillars:
- investment promotion; and
- investment policies and regulations.

Activities within the first pillar are designed to facilitate and enhance investment and business. Under this pillar the business sector is regarded as the major player, with government playing a supporting role. Three principal activities are outlined under this pillar: ASEM virtual information exchange, the ASEM Decision-Makers Roundtable for chief executive officers and top-level executives of large and medium-sized Asian and European companies, and the ASEM Business-to-Business Exchange programme between managers from Asia and Europe.

The second pillar is to conduct a high level dialogue on investment issues. It is recognised in the document that there are clear differences of priority accorded to the regulatory aspect of IPAP:

> "European opinions, expressed by both governments and business, stress the importance of a sound, coherent and transparent legal framework for FDI, based essentially on non-discrimination (national treatment and most favoured nation treatment) and state-of-the-art investment protection, as found in many bilateral investment protection treaties recently concluded. However, many (but not all) Asian ASEM partners, and a relatively high proportion of Asian companies, especially from the ASEAN member states, consider an extended discussion on the key regulatory principles as 'irrelevant' or 'of low interest'."[270]

However, the document stresses that, even in Asia, the majority of companies judged regulatory principles to be 'important' or 'somewhat important'. The distinction is between capital exporting companies, which require or prefer a sound regulatory framework, and capital importing companies, which do not see this as a priority. It is stressed in the document that the approach is one of:

> 'mutually beneficial dialogue and consultation, and not on negotiations within the ASEM forum'.[270]

### *9.5.1 A social development perspective of IPAP*

ASEM foreign Ministers recognised the importance of SMEs in their meeting in March 1999 but this has not been translated into concrete plans. IPAP identified the lack of venture or seed capital – especially to support market entry activities of SMEs, as a problem, but there is no suggestion in the IPAP as to how SMEs are to benefit from investment promotion.

IPAP does not target SMEs, nor micro-enterprises, often operating within the informal sector and the backbone of survival strategies for people living in poverty. Without specific intervention, SMEs and micro-enterprises will remain marginal. Globalisation and increased competition resulting from liberalisation will make these enterprises even more vulnerable. It will encourage the transfer of environmentally sensitive activities by offering the least costly environmental safeguards and restrictions. It will encourage sub-contracting to domestic micro enterprises and SMEs to take advantage of poor labour standards and illegal conditions, including tax avoidance. In order to ensure that investment promotion is productive and sustainable, and as a part of competition policies, the interests of SMEs must be part of the agenda of IPAP.

Apart from the lack of focus on SMEs and micro-enterprise, the crucial problem with IPAP is that it ignores the current problems in the financial markets. While the proportions of the crises as they emerge are gigantic, IPAP remains with no other focus than facilitating contacts between larger businesses of the EU and Asia. It addresses neither investment promotion in the narrow sense, nor does it focus on broader questions related to, and problems associated with, investment flows between developed and developing countries. IPAP's focus is to indiscriminately increase the investment flows from Europe into South-east Asia. As part of a development oriented EU policy, or as an instrument within the context of serious financial problems caused by the uncontrolled movements of capital – particularly when recognising the potential role that the EU could play in improving the international financial architecture, IPAP can hardly be accorded 'flagship status'. Quite the contrary, it is totally irrelevant.

## 9.6 A development perspective on investment promotion

The emerging question is how EU policies relating to investment can be made more coherent with its development objectives. If it is assumed that FDI is necessary for development, one needs to consider the question as to how productive FDI can be attracted, while the inflow of FPI is avoided. In the past national policy frameworks and bilateral or regional treaties facilitating the liberalisation of investment have promoted FDI. These policies are by themselves increasingly insufficient to motivate capital to enter a country. Additional incentives are required in order to attract capital.

Incentives to attract FDI include measures such as the abolition of labour and environmental standards, the banning of trade unions, the decrease or abandonment of minimum wages. These are measures, that are often taken already in the EPZs, and increasingly in developing countries in general in the race to attract FDI. They generally have a negative impact on the development capacity of the domestic country because, even though the FDI may generate employment, the increased and uncontrolled competition negatively affects wages and has a dampening effect on the development of salaries in other sectors. Therefore the newly generated labour does not create additional income or purchasing power in the host country.

Incentives also include tax redemption measures, as well as guarantees by governments to ensure profit margins for incoming TNCs. These measures have negative consequences for the domestic country because little, if any, of the profit that may be generated by the companies will flow into the economy of the host country, while in increasingly many instances, the guarantees given by hosts for the profits of TNCs are paid for by domestic tax payers.

Finally the governments are increasingly giving away political and military control to TNCs as a means of attracting FDI. The legal agreements between the consortium of oil companies planning the Chad-Cameroon pipeline with the Cameroon government are a point in case. This agreement takes priority over the constitution, and the consortium has full powers to use military means to protect its assets in the country. Meanwhile the security of the people resident in the host country, Cameroon, is not guaranteed and the TNC has no obligation to take responsibility for their well-being.[271]

As a means to attract FDI this scenario seems to defeat its purpose of creating development. In the race for minimum standards the difference between FDI and FPI diminishes, because any investment – including that which is productive, can move around relatively freely and easily, searching for places that will offer even more attractive benefits for the companies. To control the volatility of speculative capital a new architecture of the international financial system is needed. For instance the Tobin Tax, or a foreign exchange transaction tax, could help control the movement of speculative capital. Introduction of such a tax would also defend exchange rates from speculative attacks, manage transitions between exchange rate regimes and finance international public projects. Often argued to be impracticable it is now seen as a perfectly feasible instrument.[272] The proposed World Financial Authority could be a helpful instrument if it would enable national governments to impose restrictions on external capital movements, for instance through taxation of cross-border financial flows.[273]

While instruments to control the free movement of capital flows are an important factor to create investment with a longer-term perspective, a sustainable and social development approach additionally requires that this is not entirely dependent upon export-oriented growth and uncontrolled liberalisation. Interaction with the global economy will only be generating long-term development for the South if the exchange is based on equal levels of economic development. Before fully entering into the global market, the national economic capacity needs to be strengthened. This approach, also termed the *"It's the development, stupid!"* – school,[274] stresses that:

> "[t]he main problem (...) lies not in the volatility of speculative capital, but in the way that the export sector and foreign capital have been institutionalized as the engines of

> these economies. The problem is the indiscriminate nature of the developing economies into the global economy and the over-reliance on foreign investment, whether direct investment or portfolio investment, for development."[275]

The priority for investment policies conducive to development is to build competitive productive capacity within the domestic country. Regional integration can be developed as a useful strategy to expand domestic-market driven growth, through regional import substitution and protected market-integration. With a primary focus on the region's producers serving the region's consumer market, economic growth is financed from domestic savings and investment. In this context cancellation of international debts remains a key issue for enabling economic growth based on increasing domestic capacity.

## 9.7 Conclusions

In the Maastricht Treaty (1992) the EU was given competence in development co-operation. It defined the objectives for development policies as:
– the campaign against poverty;
– social and sustainable development; and
– the integration into the world economy.

These objectives do not represent a menu of choices but are an interdependent package. Moreover, other EU policies that affect developing countries should take into account the development objectives.

The profile of investment flows shows the increasing importance of FDI to developing countries. This is a rather one-way flow even though FDI from developing countries to the three economic powers is also increasing. While increasing, this flow is still marginal. This is illustrated by the fact that only two corporations based in the South feature in the largest hundred TNCs in terms of foreign assets. The financial crises have actually exacerbated this inequality, because it has allowed TNCs from the three major economic blocks to acquire companies affected by these crises and, sometimes, driven into bankruptcy.

A control on foreign exchange transactions is badly needed, because it is precisely the volatility of speculative capital that endangers the macro-economic framework of developing countries. Policies to reduce the uncontrolled movement of capital flows are essential for generating investments with long-term objectives. An international financial instrument, such as the Tobin tax, would engender an environment more conducive to social sustainable development. The implementation of such an instrument is perfectly feasible. A World Financial Authority could also be a helpful instrument if it would enable national governments to impose restrictions on external capital movements, for instance through taxation of cross-border financial flows.

Investment Promotion is one of the two key areas developed in the context of the Europe – Asia Meeting (ASEM). ASEM was established during a summit in Bangkok in 1996 and has the objective to foster peace and stability, and to create conditions conducive to economic and social development. It was established as a counterbalancing force to APEC, formed in 1989, and responded to a desire from a number of ASEAN countries to guard their economic and political independence. The European Union was first and foremost interested in enhancing its own political and economic profile in the Asian countries.

The Investment Promotion Action Plan (IPAP) was hailed as *'a truly flagship initiative of Asia-Europe economic co-operation'*. It was approved at the second ASEM summit held in London in April 1998 after the Asian crisis. The timing would suggest that the policies and actions would respond to the financial crisis that hit the ASEM developing countries. A closer examination of the plan reveals that it is irrelevant to any of the major questions emerging from the crisis and its aftermath.

For European policies on investment to be coherent with development objectives there needs to be a total reversal of current thinking. The implicit acquiescence with the international order – seen from the perspective of the International Financial Institutions, which have created and exacerbated the current problems for developing countries, is simply no longer acceptable. The EU should take its responsibility as a global player to allow developing countries to strengthen their domestic and regional economic base before interacting fully with the global economy. The EU must foster macro-economic frameworks that accepts developing countries' protection of their national productive capacity against indiscriminate foreign penetration.

CHAPTER 10

# Improving the Framework for Political Co-operation between the ACP and the EU[276]

## 10.1 Introduction

Development co-operation based on contractuality and partnership has been identified as essential to the eradication of poverty and the achievement of social development. The international targets that aim to eradicate poverty, set by the OECD's Development Assistance Committee (DAC) and the UN conferences, have emphasised the need for shared responsibilities between donors and developing countries. The 20:20 compact is based on the idea that both donors and developing countries alike need to make social investments if social development is to be achieved. For these reasons examining the Lomé Convention, which is the most established co-operation agreement based on the concept of contract and partnership between donors and developing countries, is of particular relevance.

To date this co-operation between the European Community (EC) and the African Caribbean and Pacific (ACP) countries has been formally anchored on the framework of successive agreements known as the Lomé Conventions. As the last Convention states, co-operation between the two parties is underpinned by a legally binding system and the existence of joint EC and ACP bodies. According to the Convention, co-operation is exercised on the basis of the following principles:

- Equality between two partners;
- The right of each state to determine its own policy options; and
- Security of relations based on the experience of their system of co-operation.

Formalised co-operation between the European Community and a grouping of African states, (a forerunner to the ACP), dates back to 1957. In 1975 the first Lomé Convention established the basic mode and framework for the co-operation that exists today. In September 1998 negotiations started between the two partners to put in place a successor agreement to the revised Lomé IV Convention by March 2000. The ACP is in favour of building on the current Convention by improving its achievements. The European Community is proposing a fresh approach to ACP-EU co-operation by gradually dismantling non-reciprocal trade preferences to the ACP, one of the flagships of the agreement. As the EU has sought to bring in politically sensitive issues such as the establishment of Free Trade Areas, an effective process of political co-operation between the ACP and the EU is more vital than ever.

## 10.2 Advantages of contractual co-operation agreements

The concept of contractuality in a development co-operation framework is virtually unique. It contributes to making the ACP-EU framework for co-operation different from other conventional development co-operation agreements in a number of ways.

Firstly, the different roles and responsibilities identified for the two parties allow both of them to play a part in defining and carrying out co-operation. The Convention provides for decisions to be taking jointly on all aspects of the Convention apart from the levels of finance that ACP countries, collectively and individually, receive for the implementation of the Convention.

Secondly, the contractual nature of the agreement ensures a certain degree of predictability by spelling out the terms of the contract in the form of clear rules of co-operation and responsibilities of both parties. It also informs the ACP of the amount of finance they can expect to receive over a given period of time. In earlier conventions exact amounts of finance for ACP countries, corresponding with five-year national indicative programmes were virtually guaranteed.[277]

Finally the contractual nature of the partnership necessitates that both partners agree to implement policies in a common direction. As 'ownership' of policies by developing countries' governments is seen as crucial for the success of any development co-operation, emphasis is given to political dialogue as a means of clarifying and setting the responsibilities of both parties, and the conditions of the agreement.

The Lomé IV *bis* Convention assigned the role of conducting an enlarged political dialogue to the Joint Council of Ministers. This may take place outside the framework of the Convention. It calls for procedures for dialogue to be made as flexible as possible to allow it to take place at global, regional, sub-regional and country level. This may include Troika meetings (current presidency of the council plus former and next presidencies) and senior officials' meetings. This arrangement is intended to allow the Joint Council to better address specific problems when they arise.

In order to arrive at consensus on policy the negotiation process may sometimes be seen as time consuming. However, the political process in which the parties engage helps to establish a common point of departure for the joint implementation of policies in southern countries with the support of northern governments. Reaching such common understanding should be a vital element of any co-operation agreements between donors and recipients.

## 10.3 Fragility of partnership: will the EU force free trade areas upon the ACP?

The vigorous and effectiveness of the political process depends on the actual manner in which both parties arrive at decisions through their respective and joint institutions. Faults or constraints in the political process that prevent decisions from being reached can strongly undermine the credibility of the partnership. Similarly, inequality in the bargaining power of the parties may subvert the process by which the partners come to an agreement.

This is illustrated by a suggestion once made from within the EU that once the new agreement was reached, the effective negotiations on the terms of the Regional Economic Partnership Agreements (REPAS) for non-LDC ACP countries would take place within the EU Council of Ministers. Unilateral decisions would be taken by the EU and ACP countries would be forced to accept proposals they have so far rejected. There would be no alternative to reciprocal trade arrangements.

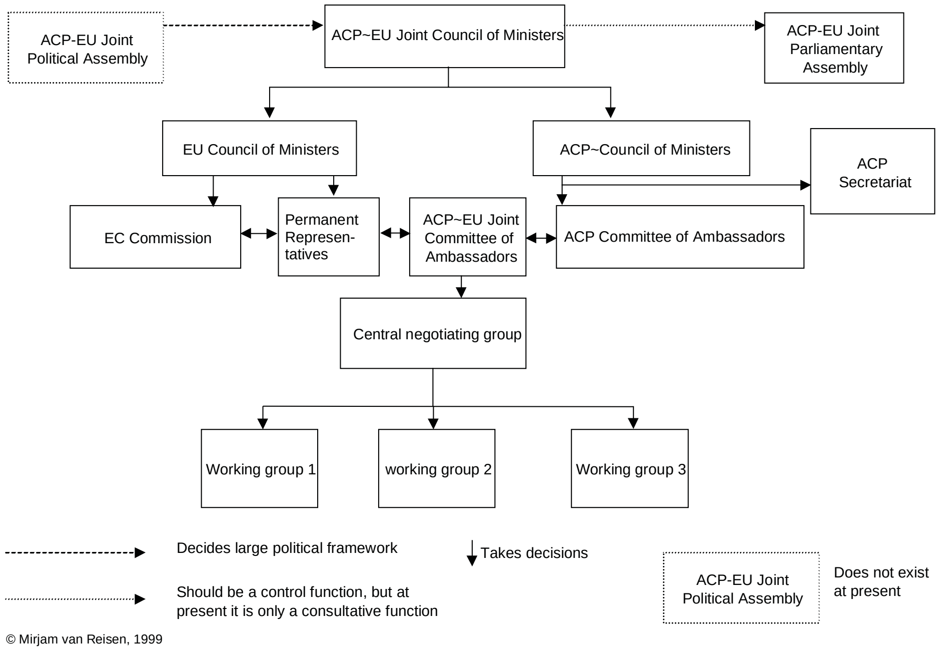
A political process that is be corrupted in this way lacks credibility and undermines trust for future co-operation between the partners, even where this might be beneficial to the EU countries. It also potentially results in decisions that have not been adequately considered. In the case of the REPAS, for instance, many observers have questioned their feasibility and appropriateness for the ACP. These include independent experts commissioned by the European Commission to conduct studies on the potential impact of the REPAS.

A sound political process is designed to ensure that decisions are taken in a responsible and considered manner with the support of the main constituencies that are affected. In the next sections we will, therefore, consider more closely how sound the political decision-making process is for the negotiations on co-operation agreements between the ACP and the EU.

### *10.3.1 Structure of the political decision making process*

The institutions defined in the Convention are central to this process and the interaction between the separate and joint EU/ACP bodies determine the quality of the decisions taken. In this section we look at the institutions involved in the political decision making process. We will assess how the separate and joint EU and ACP organisations relate to each other and their responsibilities within the decision making process.

CHART 1 *Decision-making structure of the ACP-EU Cooperation Agreement*




Note: the ACP-EU Joint Political Assembly does not exist, but in this chapter it is argued that its establishment would increase the accountability and transparency of the political decision-making process. At present the ACP-EU Joint Parliamentary Assembly does not have control functions, as it should have.

### THE ACP-EU JOINT COUNCIL OF MINISTERS

The ACP-EU Joint Council of Ministers is composed of the EU Council of Ministers plus the European Commission and the ACP Council of Ministers. It is, at present, the highest decision making body of the Convention. Its decisions relating to the Convention are binding on the contracting parties. Its main functions are to:

– establish the broad lines of work to be undertaken in the context of the application of the Convention;
– take political decisions to achieve the objectives of the Convention and to settle problems of interpretation.

The Joint Council of Ministers may take into consideration any resolutions or recommendations on the arrangement and attainment of the objectives of the Convention by the Joint Assembly. It may also delegate any of its powers to the

Committee of Ambassadors. The Presidency of the Council of Ministers is held alternately by a member of the Council of the EU and a member of the ACP Council. Meetings of the Council are called once a year, but in addition the Council may meet whenever it deems necessary.

### THE JOINT COMMITTEE OF AMBASSADORS

The Joint Committee of Ambassadors is composed of the EU member states' Permanent Representatives to the EU and the members of the ACP Committee of Ambassadors plus representatives of the European Commission. Its role is to assist the Joint Council of Ministers in its work. Its main function is to monitor the implementation of the Convention. The Committee also supervises the work of a number of committees and working groups and parties, both ad-hoc and standing. For the negotiations on a successor agreement to Lomé IV *bis*, the Committee set up four working groups through which to conduct the negotiations. A central group dealing with political and institutional issues and three thematic groups dealing with the Private Sector and development instruments; Investment, Economic and Trade co-operation; and Financial co-operation. The position of Chair of the Committee of Ambassadors is held alternately by an EU member state Permanent Representative and an ACP Head of Mission to the EU.

### THE ACP-EU JOINT PARLIAMENTARY ASSEMBLY

The ACP-EU Joint Parliamentary Assembly is composed of a member or representative of parliament from each ACP state and an equal number of Members of the European Parliament. In the absence of a Parliament in an ACP country, the attendance of a representative from the country concerned would have to be approved by the Joint Assembly. The Joint Assembly is a consultative body that is meant to, among other things, reflect on all matters pertaining to EU-ACP co-operation, through dialogue, debate and concerted action. The Joint Assembly has no legislative or budgetary powers. One of its functions is to review an annual report submitted by the Joint Council of Ministers on the achievements made within the framework of the Convention. It may submit any conclusions or recommendations on the issue to the Joint Council of Ministers. The Joint Assembly appoints simultaneously, an ACP and an EU member of the Assembly as its co-Presidents. The Assembly holds a general session twice a year, meeting alternately in the EU and an ACP country. The Joint Assembly can set up working groups, such as one that looked into questions concerning the successor agreement between ACP and EU and one that focussed on regional integration.

### THE ACP COUNCIL OF MINISTERS

The ACP Council of Ministers is the supreme body of the ACP group. It defines the common positions of the ACP Group on the application of the Lomé Convention with the European Community. It is composed of a member of government of each ACP state.

### THE ACP COMMITTEE OF AMBASSADORS

The ACP Committee of Ambassadors is composed of the ACP governments' Heads of Mission to the EU. It is responsible for the execution of decisions of the ACP Council. It represents the ACP group at the ACP-EC Joint Committee of Ambassadors. It negotiates new agreements with the EU on behalf of the ACP Group.

### THE ACP SECRETARIAT

The ACP Secretariat, composed of civil servants from ACP states, is the body assigned to co-ordinate the activities of the different institutions of the ACP group including the ACP Council of Ministers. Its principal duties are to follow the implementation of the Convention and provide technical and administrative assistance for the ACP Group in negotiating a new agreement.

### THE EU COUNCIL OF MINISTERS

The EU Council of Ministers has a similar role to that of the ACP Council, in that it is the ultimate decision making body of the EU. The EU Council sets the EU's political objectives and co-ordinates the member states' national policies. It is composed of a member of government of each EU member state and the European Commission.

### THE EUROPEAN COMMISSION

The European Commission is the management and executive body of the European Union. It is led by a College of Commissioners. In the EU's external relations the Commission has exclusive responsibility for negotiating trade agreements, on the basis of mandates determined by the Council. It also has responsibility for negotiating co-operation agreements, including those with ACP countries. Once concluded the Commission has responsibility for managing their implementation see annex 1).

### EU PERMANENT REPRESENTATIONS

EU Permanent Representations consist of EU member states' delegations to the EU. These delegations are headed by Permanent Representatives. A committee of the delegations (Coreper) is charged with preparing EU Council sessions. COREPER meets weekly and its main task is to negotiate agreements between the member states. Only difficult and sensitive issues are dealt with by the EU Council.

### *10.3.2 Constraints to partnership within the decision making process*

The accountability of the ACP EU decision making process is seriously hampered by the fact that the principal decision making body, the ACP-EU Joint Council of Ministers, is not accountable to any of the joint bodies, not least the Joint Parliamentary Assembly. The role of the Joint Parliamentary Assembly within the decision making process is almost marginal. It has no legislative, budgetary or control functions.

The decision making process also seems deficient in transparency. The Joint Council Ministerial meetings, by their very nature, are closed. Thus there is no automatic means for citizens of both partners to be informed on how decisions were arrived at, or how the different parties to the Convention voted on the broad major issues. Documents from the proceedings of Council meetings are not publically accessible.

Finally the process of decision making does not allow any formal avenue for civil society to play any kind of consultative or informative role in the process. This reduces the credibility of the decision making bodies.

As a result the decision making process has lacked a political process with a high public profile for setting the broad political guidelines of the negotiations. Indeed it can be argued that the future of the Convention is endangered because its beneficiaries are ill informed on the process and there has been a lack of support from the press and civil society. Given that general interest and understanding from the public of both parties is vital in sustaining the whole Lomé process, a stronger political profile should be given to the decision making process by engaging the public.

## 10.4 The ACP and EU negotiating positions for a new agreement

Both the ACP and the EU's negotiating directives for a new Agreement[278] made a number of proposals for expanding the co-operation agreement to encompass a wider political process. They both call for political dialogue to be extended beyond the objectives of the Convention to all questions of common interest to both parties. In addition to typical donor concerns such as peace and stability and the arms trade, one issue on which the ACP is keen on discussing is the treatment of its migrants in the EU.

In addition the ACP in its mandate and in the early stages of the negotiations called for the creation of two new institutions, namely a Heads of State Summit and a Council of Foreign Ministers. According to statements by an ACP ambassador, this reflects the wish to accord the Lomé agreement greater importance, by bringing in Heads of States, as well as addressing the increasing emphasis on political issues. The EU, while not rejecting the rationale behind this proposal, has questioned the need for the creation of new institutions.

Though both parties call for the extension of partnership to civil society, neither proposes any institutional mechanism to link civil society to the decision making process. No proposals have been made to strengthen the powers of the ACP-EU Joint Parliamentary Assembly. In short the question of greater accountability and transparency is not adequately addressed in the proposals offered by the EU and the ACP.

## 10.5 Proposals for enhancing the political decision-making process between the ACP and the EU

A comparison of the political decision making process between the ACP and the EU with political co-operation between the South-east Asian countries (the ASEM process) and the EU is instructive (see also chapter 8). It informs us about the way in which improvements in political co-operation can be made. In ASEM (Asia Europe Meeting) dialogue is conducted at all levels including bi-annual Head of States summits. Joint policy is carried out by officials, managed by the Senior Officials Meeting. The joint policies that are carried out reflect an incrementalist attitude towards achieving change, based on consensus, rather than a conditioned process. For instance, the question of trade liberalisation is firstly approached from the angle of reducing non-tariff trade barriers, as opposed to more conflictual issues such as the removal of trade barriers. This approach seems most interesting and suitable if applied in the context of co-operation between the ACP and the EU.

The ASEM process also demonstrates that a high profile of general decision making summits helps to focus the attention of the press and the public on the benefits of the negotiations. The establishment of a Joint ACP-EU Inter-Governmental Political Assembly would fill this gap within the ACP-EU negotiations. This Assembly would have decision-making powers to establish the broad framework for future agreements and provide broad guidelines on how to achieve the objective of agreements in force. It would also decide on broad frameworks for the development of common policies between the ACP and the EU. The Assembly should be – partially – accessible to all credited observers including civil society so as to ensure that public interest is generated.

Finally, the accountability of the decision-making bodies needs to be enhanced so as to make the political co-operation more credible. In order to improve formal answerability of the decision-makers to the ACP EU constituency, the powers of the ACP-EU Joint Parliamentary Assembly must be extended to exercising parliamentary control over the decisions taken in the Joint Council of Ministers. Specifically the Joint Parliamentary Assembly should have the right to vote on all broad decisions taken by the Joint Council, and to reject concrete proposals made by the Council. The Joint Parliamentary Assembly should also have the right to ratify the whole Lomé agreement before it comes into force.

## 10.6 Conclusion

It is evident that the effective partnership that is necessary for social development cannot be assumed through the mere provisions of the Convention and declarations of the two partners. Rather it will have to be achieved through measures that increase the transparency and accountability of decision making and enhance the scope of political co-operation. The following proposals will ensure that the co-operation between the ACP and the EU is made more effective:

- Establish a Joint ACP-EU Inter Governmental Political Assembly that sets out broad guidelines for negotiations and joint policy co-operation by ACP-EU officials;
- Mandating Senior Officials Meetings to develop joint ACP-EU policies with a view to incrementally move issues in a desirable direction on the basis of common consensus;
- Develop joint policies on the basis of consensus. This could include the removal of non-tariff trade barriers as a first, more realistic, step to strengthen mutually beneficial aspects of trade liberalisation;
- Strengthen the public profile to demonstrate the benefits of joint ACP-EU political co-operation;
- Open the Joint ACP-EU Inter-governmental Political Assembly to accredited press, civil society organisations and observers to enhance transparency, to engage non-state actors, and to raise the public profile of the co-operation agreement among main constituencies;
- Strengthen the parliamentary role of the ACP-EU Joint Parliamentary Assembly, which should have the right to vote on all agreements reached by the Council of Ministers and the right to ratify the co-operation agreements between the ACP and the EU.

CHAPTER 11

# Conclusions

The European Union is progressively becoming a global player. The EU has competency in an increasing number of policies. Steadily the EU is developing into a single political entity vis-à-vis third countries in most external policies, including Common Foreign and Security Policy. As Commissioner de Silguy stated:

> "By giving itself a single currency, Europe is also giving itself one existence and one voice on the international stage."[279] (original emphasis)

This includes development co-operation – but more so in theory than in practice.

## 11.1 Competition and the force towards re-nationalisation

The current organisation of EU policy includes 15 individual member states programmes and the European Commission as a 16th donor. Many member states are dissatisfied with the EC programme. Having recourse to – and indeed re-interpreting – the principle of subsidiarity, a number of member states advocate the re-nationalisation of development assistance. Subsidiarity, as a principle, is not about a fight over power between Brussels – or the Commission, and member states' governments. Subsidiarity in essence means that decisions should be taken at the most appropriate level. This also applies to development co-operation, because in the current regional European reality, both levels are needed. The EU should be undertaking those measures which cannot be taken by a single country – such as the relations with the ACP and/or other regional groupings, co-ordinated responses to major crises, co-ordinated and coherent macro-economic trade and aid policies etc. At the same time member states need to play their full role both in formulating policy and in complementing actions taken.

Development co-operation has long remained almost exclusively within the competence of the member states. Not until the Maastricht Treaty was development co-operation defined as an EC competence, where it was stipulated that policies implemented by the European Commission should be complementary to, consistent and co-ordinated with member states' policies. However, despite efforts to strengthen common approaches member states continue to attach great importance to the national specificity of their aid programmes. There is little evidence that member states have made adequate investments in creating a more consistent and effective European development programme.

As a result, current European development co-operation is probably best characterised as 'competitive'. Competition between resources for national and European aid, competition between aid for the poorest countries and non-LDCs, and competition over decision-making power in aid programmes. This competition is often at the expense of the quality of the programme.

Competition between member states and the European Commission also leads to undesirable distortions. To satisfy national public opinion, many member states prefer to restrict their aid programmes to the poorest countries, while delegating programmes for Eastern Europe and the Mediterranean to the European Commission. Member states' requirements have resulted in a bureaucratic maze of committees comprising civil servant representatives from member states designed to keep control over the programmes that the Commission implements.

## 11.2 Budgetisation of the EDF in a single European framework

The Lomé Convention is not only the EU's most comprehensive aid and trade agreement but also one which includes the vast majority of LDCs. Nevertheless, member states have refused to include the European Development Fund (EDF) in the normal EU budget – despite repeated urging by the European Parliament, the Commission and the ACP. As a result, it falls outside the European Parliament's legitimate budgetary oversight and control. In addition, since member states maintain sole political control over the Lomé Convention, it is difficult to integrate into a comprehensive and coherent EU development assistance programme.

Member states' voluntary contributions to the EDF are likely to be the hardest hit in times of budgetary austerity and reductions in aid budgets. Moreover, there is a built-in tendency for EDF resources to be disbursed slowly, since money is not called down from the member states until it is needed. The commitments to the financial protocols of the EDF represent paper transactions, which is very convenient to the member states. If the money pledged by the member states were actually transferred to an interest bearing account locked for the use of the ACP countries, not only would the money allocated reach the countries for which the funding is designated, but the interest accruing could also be used according to some properly supervised mutually agreed mechanism. This could include financing emergency aid, assistance to refugees, and debt relief.

## 11.3 Insufficient capacity

Staff capacity in the Commission's external services remains inadequate both in terms of numbers and expertise. In addition, the implementation of the programmes in the Commission is split over four Directorates General and two special services, which makes it more difficult to achieve and maintain coherence in the aid programmes. As a result, the Commission's ability to implement is severely limited, particularly since the programmes to Eastern Europe and the Mediterranean have grown in recent years following decisions by the European Council. This has only exacerbated competition within the Commission over capacity.

The Commission acknowledges that budget decisions need to be translated into the availability of human and administrative resources to implement the budget. The European Parliament has recognised this problem and asked for more staffing for the Commission for many years. But despite cries from the Commission and the Parliament the Council has not increased implementation capacity of the Commission, nor has it taken measures to ameliorate the efficiency and effectiveness of the European Commission. In fact, decisions taken have weakened the Commission's capacity to implement programmes for the poorest countries.

This lack of capacity to implement its assigned programmes leads to a significant loss of resources for aid at the over-all European level. As resources for EC aid are budgeted annually in the member states, but not called for when the implementation is delayed, the unused funds return to the national treasuries. They are effectively lost to development co-operation. Calculated at approximately 3 billion ECU per year, this loss is 50% of the programme implemented by the Commission and 10% of the EC programme as a whole.

This demonstrates how crucial it is to ensure the adequacy of the Commission's implementation capacity. A focus on input targets in itself will not ensure the effective implementation of a development programme. The growing financial backlog shows that the administration is not adequately equipped to implement the increasingly complex CEC programme.

## 11.4 The added value of the CEC development programme

Member states are well aware of the weaknesses of the Commission and continue to criticise the CEC programme. One official was quoted as saying:

> "It is good when the programme of the European Commission is bad, because it makes the bilateral programmes look good."

It undoubtedly raises the question as to whether there is any added value to a European development programme. There are two main reasons why the CEC programme is both important and relevant. First, aid programmes can only be effective if they are coherent with other policies that affect developing countries, notably trade, agriculture, monetary and financial policies. As the EC is increasingly the main actor in these areas, CEC development policy will serve as an anchor for policies whose objectives are social and sustainable development. Without a development programme at the European level, it would be much harder to ensure that these objectives are taken into account in other policies that affect the South. The enlargement of the EU to include countries of Central and Eastern Europe, with national interests of their own and an entirely different relationship to the South, makes it even more important that development objectives are properly enshrined in EC policy as a whole.

The CEC programme is also relevant for another reason. The EU, with inclusion of the member states, provides the largest proportion of ODA from all donors. The Commission and member states currently contribute two thirds of ODA. This reality needs to translate into political influence at the international level to make economic policies more conducive to development. European co-ordination within the multilateral institutions, such as the World Bank Group, and the International Monetary Fund, or even the World Trade Organisation, is still poor, and in some of these fora the role of the European Commission remains unnecessarily limited. Increasingly the EU needs to co-ordinate in these fora as a requirement of trade and monetary policy. The Maastricht Treaty established that these co-ordinated policies must take development objectives into account. This can only be achieved by an effective and comprehensive European approach to strengthen common development activities.

## 11.5 Role of NGOs

In the nineties the role of European Non-governmental Organisations as providers of development and humanitarian assistance has increased. In general terms the funding base of European NGOs has expanded and the geographical scope also. NGOs have clearly responded to changes in Eastern Europe, with many starting activities to the region, but not all. By and large, humanitarian organisations have begun operations in much greater numbers than development organisations. It is suggested that the decision on whether to do so is related to specific characteristics of NGOs, such as origin, year of establishment, and what geographic area the NGO was working in when first established. It also appeared that NGOs are a clear reflection of national characteristics and priorities.

The problems in Eastern Europe are not only of a humanitarian nature. There are complex political, economic and social issues. There is no systematic thinking among the NGOs – and for that matter the EU as a whole, as to how Eastern Europe relates to the rest of Europe. There will be as yet unforeseen implications in accepting some Eastern European countries into the Union while rejecting others. However, the reasons given for justifying both the decision to work in Eastern Europe or not to do so were very similar among the NGOs. Rarely, the motivations reflect an acknowledgement of the particular nature of Eastern Europe, as fundamentally distinct compared to regions elsewhere. The justifications were more a reflection of the specific identity of a given NGO.

The expanded role of NGOs in terms of resources and scope should contribute to a greater political involvement to demand for coherence between European development policies and other policies affecting third countries. This is contrary to the increased attention given to humanitarian approaches which often seek to avoid political processes. Appreciating the particular complexity of problems in Eastern Europe and the region's relationship with the EU, NGOs should develop more coherent visions of the role and responsibilities of the EU towards Eastern Europe. The changes in Eastern Europe point directly to the heart of the EU's identity and responsibility as a global player.

## 11.6 A new compact for investment in social services

Greater co-ordination in the EU of development programmes is a pre-condition for changing the relations between the EU and the South into more mature forms of co-operation. It is desirable that traditional approaches to aid – with projects on the one hand and structural adjustment on the other, be replaced by a new compact between donors and recipients for social investment. In principle, budgetary support would ensure sufficient financial resources in developing countries for structural support to people living in poverty. Budgetary support is particularly attractive, because it strengthens the administrative capacity of developing countries and can contribute to sound fiscal and policy management. However, budgetary support can only be successful if the donor countries follow a common approach, allowing the recipient country to define the terms of a genuine partnership.

The effectiveness of budget support – or 'rolling programming', the approach introduced by the European Commission, to increase investment in social sectors, depends on the coherence of these policies with other policies. It requires that structural adjustment programmes are fundamentally revised, or even abandoned. Within this framework, the debt problem needs to be fully resolved.

## 11.7 Social costs of structural adjustment policies

Structural adjustment policies have high social costs. They have led to rapid liberalisation, which has resulted in a shift of control over agricultural lands, forests and fisheries from those engaged in subsistence production to property owners. This has destroyed livelihoods and food security. The shift in agricultural production to non-traditional exports has undermined the long-term productivity of agricultural lands and domestic food security. Increased global competition, combined with moves to deregulate labour markets has exerted downward pressure on labour standards in many industries and has excluded small entrepreneurs from the market, leading to increased unemployment. Privatisation resulting from structural adjustment has resulted in increased costs for basic social services, which are vitally important for people living in poverty. Women have been most disadvantaged by the combination of these factors. Budgetary support will only help to eradicate poverty, if structural adjustment policies are changed to protect the livelihoods of people living in poverty, or vulnerable to poverty, and adequate investments in health and education are made. Given the share of the EC programme in total ODA, the EC should play a much larger role in overhauling structural adjustment programmes in the multilateral organisations.

## 11.8 Debt problems caused by the EU

Governments of highly indebted countries spend over one fifth of their revenues and 15% of their total expenditure on debt servicing. Budgetary support will only subsidise debt interest repayments and will not structurally improve the fiscal situation in these countries unless the debt problem is resolved. The Community should act both as a creditor and as a donor by developing support mechanisms and instruments to ease the debt burden. It should initiate measures to ensure a deeper, speedier and broader debt relief. The EC should play a much larger role in the HIPC initiative. It should seek to increase the number of countries eligible for comprehensive debt relief, ensure that debt relief is made in the initial decision making stage and press for a shorter time frame for decisions on individual countries. Special treatment should be given to post-conflict countries, landlocked countries and vulnerable island economies. The EU annual under-spending of € 3 billion should be allocated to comprehensively resolve the outstanding debts towards the EU, including the bilateral debts owed to the member states.

## 11.9 A development oriented European trade policy

In the final analysis, a sound fiscal situation in the South requires healthy economic conditions that foster the domestic capacity to grow. It is evident that European trade policies affect developing countries more than the aid policies. It is, therefore, important that trade policies be consistent with the objectives of EU development policies. Unfortunately, the basic direction in which European trade policies are moving causes significant problems for developing countries, particularly LDCs.

The liberalisation being foisted onto developing countries by the EU is fundamentally very one-sided. The European agricultural market is well protected and the current reforms in the CAP will not change that. These reforms will only increase the competitiveness of European producers on the world market. Liberalisation will not give developing countries greater access to the European market, but it will give the EU greater access to the South.

For European trade policies to be consistent with development objectives, the direction of the CAP needs to be radically reformed. Surpluses need to be reduced so as to increase agricultural prices in a natural way. The quality of the products, rather than the lowest production price, should become the central element of a European agricultural policy. Subsidies should be reduced and prices should reflect real production costs in order to protect the incomes of farmers. If prices were to rise and over-production were to be reduced, the dumping of European agricultural products in the South would end. This is necessary for food security in developing countries, to keep employment in the rural areas and to make communities of people living in poverty less dependent on the vagaries of market prices of food products imported from the EU.

## 11.10 Supporting regional integration

In the present circumstance, in which the CAP is a key European policy, the policy to engage in Free Trade Agreements with developing countries or regions is likely to be detrimental to the South. While the European agricultural sector continues to be protected and the Southern markets are liberalised, the greater exclusion of vulnerable producers is inevitable. European trade arrangements need to take much greater account of development objectives, be it in the context of the Europe Asia Meeting, the Free Trade Agreements with South Africa and other regions or the Regional Economic Partnership Agreements (REPAS) with the ACP.

LDCs in particular have nothing to gain from the proposed reciprocal liberalisation. The regional negotiations proposed by the EU in the context of future agreements between the EU and the ACP are bound to be detrimental to the LDCs unless the regions are actually set up and better integrated. Most LDCs are located in regions with non-LDCs. If individual non-LDC countries were to enter into FTA negotiations with the EU, it would directly affect the LDCs within those regions. This would undermine regional co-operation and the liberalisation processes rather than strengthen it. It would not increase the access of LDCs to the European market, but it would give the EU access to the markets of the LDCs.

The problem with current EU trade policies is that they lead to a real contradiction. In principle the LDCs among the ACP will have a choice to enter into a REPA or not. But in reality the choices may be non-existent. Even when there is no hard economic evidence that a REPA would bring any economic benefits, countries in the South will be inclined to enter into negotiations on liberalisation in order not to isolate themselves from the world market. Being a member of the 'club of the poor' does not boost investors' confidence. If this were to happen, it would give the EU plenty of access to the South. But it may confront the developing countries with competition that will undermine their own productive capacity and food security. It will exclude vulnerable producers from the world market.

The strategy of the EU to cut options for the non-LDCs will bring division in the ACP group, and its regions. Rather than supporting regional integration, this will weaken it. The EU should support LDCs to build their own economic capacity and help them to strengthen their capacity regionally, before entering into complex negotiations with powerful economic blocs. The EU should concentrate its efforts in creating mechanisms to facilitate this. First, it could make a serious and co-ordinated effort to ensure that the WTO rules are conducive to regional integration of the LDCs and other developing countries and to secure a waiver for the ACP to be at least extended until 2010. Secondly, the EU could support regional economic integration in the ACP with its expertise and know-how in this matter. And finally, if the EU is so committed to liberalisation, it should begin by putting its own house in order – first and foremost through a radical reform of the Common Agricultural Policy.

## 11.11 Investment

Recent global financial crises in Asia, Brazil and Russia have demonstrated the fatal consequences of structural adjustment programmes, coupled with uncontrolled capital inflows in the developing countries. A control on foreign exchange transactions is badly needed, because it is precisely the volatility of speculative capital that destablises the macro-economic framework of developing countries.

Policies to put a break on the uncontrolled movement of capital flows are essential to generate investments with long-term prospects. International financial instruments, such as the Tobin tax, will not solve the root causes of the financial crises, but they may soften some of the most damaging forms of speculative capital. A World Financial Authority could be a helpful instrument if it would enable national governments to impose restrictions on external capital movements, for instance through taxation of cross-border financial flows.

For European investment policies to be coherent with development objectives a total reversal of current thinking is required. The implicit acquiescence with the international order seen from the perspective of the International Financial Institutions – which have admittedly both created and exacerbated the current problems for developing countries, is no longer acceptable. The EU must take responsibility, as a global player, to create macro-economic frameworks that will allow developing countries to strengthen their domestic and regional economic base before interacting fully with the global economy. This will require countries in the South to take measures to protect national productive capacity against indiscriminate foreign penetration.

## 11.12 Political ACP-EU co-operation

It is evident that the effective partnership that is necessary for social development cannot be assumed through the mere provisions of Conventions and declarations of the EU and its partners. Regional co-operation between the EU and other regions in the South lack political accountability and transparency. Steered mainly by negotiations between civil servants of the different regions attention has to be given to greater involvement of civil society in the political debates taking place between the regions. The profile of political co-operation processes between regions need to be increased, with more adequate mechanisms for transparency and public accountability. This will enhance the political base for co-operation between peoples of the regions, between European Union citizens and the people living in the South.

In the context of the EU relationship with the ACP, a Joint ACP-EU Inter Governmental Political Assembly should be established. This Inter Governmental Political Assembly would set out broad political guidelines for negotiations and joint policy co-operation by ACP and EU officials. This would help to increase political accountability that is currently lacking.

Co-operation in policy areas is also missing in the EU-ACP co-operation, but will become increasingly important with budget support and rolling programming. This should include policies to improve co-operation between the ACP and the EU in a number of areas, such as the removal of non-tariff trade barriers. Senior Officials Meetings should be mandated to develop joint ACP-EU policies with a view to incrementally move common issues in a desirable direction on the basis of common consensus. These officials should be charged with the task to develop joint ACP-EU policies on the basis of consensus.

For the future of the ACP-EU co-operation it is important that the benefits of joint ACP-EU political co-operation are demonstrated more clearly to the public. In this regards it would be desirable to open the Joint ACP-EU Inter-governmental Political Assembly to accredited press and civil society organisations and observers as a means of enhancing transparency. This would engage non-state actors and raise the public awareness of the co-operation agreement among main constituencies.

In an approach towards budget support and rolling programming the EDF Committee does not have a specific role. On the other hand, the parliamentary role of the ACP-EU Joint Parliamentary Assembly should be strengthened. It should have the right to vote on all agreements reached by the Council of Ministers and the right to ratify the co-operation agreements between the ACP and the EU.

## Notes

*1* Reisen, van M., *Global Player EU. Die Nord-Süd-Politik der Europäischen Union*, terre des hommes Deutschland e. V. and WEED, Bonn, April 1999.
*2* Europe, No. 7046, 29 August 1996.
*3* See for instance interviews in early 1999 by development ministers Clare Short (UK) and Evelyn Herfkens (Netherlands).
*4* See for instance: Head, J., *"Ek het niks", I have nothing, The Impact of European Union Policies on Women Canning Workers in South Africa*, University of Cape Town, 1998; Wellmer, G., *On the effects of European beef exports to South Africa on communal farmers in Namibia. A case study on the coherence of European Policy*, Diakonische Werk der EKD, 1998a; Stevens, C., CAP Reforms: Will Developing Countries Benefit?, *Policy Briefing*, Institute of Development Studies, Sussex, February 1998.
*5* Santer, European Commission work Programme for next year: Strong policy priorities, Limited number of new legislative initiatives, *Europe*, No. 2104/2105, 13 November 1998.
*6* Sir Leon Brittan, Conference "Trade, Enlargement and the Multilateral System.", qouted in *Europe*, No. 7325, 19/20 October 1998, p. 3, original emphasis.
*7* European Parliament, Directorate General for Research*, Fact sheets on the European Parliament and the Activities of the European Union,* Office for Official Publications of the European Communities, 1994.
*8* Commission of the European Communities, *Agenda 2000: The Legislative Proposals*, Brussels, ip/98/258, 1997.
*9* As proposed by the Commission Communication to the Council and the European Parliament: Commission of the European Communities, *Commission Communication to the Council and to the European Parliament on the Establishment of a New Financial Perspective for the Period 2000-2006,* March 1998.
*10* The accession of five countries is an assumption made for producing the financial forecasts; the actual decisions still need to be taken.
*11* Source: European Commission.
*12* Speech by Dr. Helmut Kohl, Chancellor of the Federal Republic of Germany at the United Nations Conference on Environment and Development, Rio de Janeiro, 12 June 1992.
*13* The Treaty on European Union (TEU).
*14* Figures based on financial decisions. European Commission, *Infofinance*, March 1998.
*15* OECD, DAC Aid Review of the European Community, *Press Release*, SG/PRESS (95)63, 21 September 1995.
*16* Resolution 8631.
*17* Ministry of Foreign Affairs, Strategies for individual organisations, Annex to the Plan of Action for Active Multilateralism, Danida, Copenhagen, 1996, p. 128.
*18* Reisen, van M., European Union, in: *Reality of Aid 1998-1999*, (eds. German, T., & Randel, J.), Earthscan, 1998.

*19* These figures comprise only aid to developing countries, and exclude most of the countries in Eastern Europe. In 1995 the CEC programme comprised 18. 96 % of the EU total net ODA.
*20* OECD, adapted MVR.
*21* OECD, adapted MVR.
*22* *Europe*, No. 7310, 28/29 September 1998, p. 8.
*23* Bilateral aid is given from one country to another country. Multilateral aid is given from a groups of donors to individual or a group of countries through a multilateral organisation, such as the UN specialised agencies or the World Bank Group.
*24* This issue is further elaborated in chapter 8.
*25* *Official Journal of the European Community*, L220, 11 August 1997.
*26* Commission of the European Communities*, Financial Cooperation under the Lomé Conventions, Review of Aid at the end of 1994*, Office for Official Publications of the European Communities, Luxembourg, 1995; Protocol Financière, 1995/2000 (en MECU), table sheet provided by the European Commission.
*27* Commission of the European Communities, *Green Paper on relations between the European Union and the ACP countries on the eve of the 21st century: challenges for a new partnership*, Brussels, November 1996.
*28* The EU has decided that it will not break relations with ASEAN over the issue of it granting membership to Burma; membership is considered as an internal matter of ASEAN. There is no reason why this rule, generally observed, that regional partners of the EC choose their own membership, should not be applied in the context of the ACP.
*29* Court of Auditors – Annual Report concerning the financial year 1997, *Official Journal of the European Communities,* C 349, Vol. 41, 17-11-1998.
*30* Article 1. *Official Journal*, No. L 052, 27/02/1992, P. 0001-0006.
*31* No. 2259, *Official Journal*, No. L 306, 28/11/1996, P. 0005-0008.
*32* The European Commission was also given the task to co-ordinate aid to Eastern Europe from 24 donors, the Group of 24 (G-24).
*33* Includes the PHARE and TACIS programmes; excludes aid to the successor states of former Yugoslavia. Court of Auditors, 1998, ibid.
*34* Court of Auditors, 1998, ibid.
*35* No. 1292/96 of 27 June 1996.
*36* European Community, Council Regulation (EC) No. 1292/96 of 27 June 1996 on food-aid policy and food-aid management and special operations in support of food security, *Official Journal* , No. L 166, 05/07/1996. This regulation excludes food aid provided in humanitarian operations.
*37* This was the result of an inter-service working group consisting of representatives of the different Directorates General and ECHO.
*38* Commission of the European Communities, *Communication from the Commission to the Council and the European Parliament on Linking, Relief, Rehabilitation and Development (LRRD),* Com (96) 153 final, Brussels, 30.04.96.
*39* This regulation concerns 7 budget lines. European Community, Council Regulation (EC) No. 1257/96 of 20 June 1996 concerning humanitarian aid, *Official Journal of the European Communities*, No. L 163/1, 2.7.96.
*40* The Committee of member states Representatives is now called the Humanitarian Aid Committee (HAC).

*41* In 1996 the USA budgeted 995 million ECU, while total EU financial decisions totaled 1109 million ECU. ECHO, *Annual Review*, 1997.

*42* Commission of the European Communities, *Communication from Mrs. Bonino to the Commission, Framework Partnership Contract in the field of humanitarian aid,* 24.02.98 and *Framework Partnership Contract*, 11.02.98.

*43* For figures of USAID staff see: DAC, United States, *Development Co-operation Review Series,* No. 28, OECD, Paris, 1998

*44* The monitoring and assessment of projects for PHARE and TACIS would already be contracted out. Information provided by the Commission.

*45* Montes, C., et al., Evaluation of European Union Aid managed by the Commission to African, Caribbean and Pacific Countries, *Synthesis Report*, Investment Development Consultancy, November 1998, p. 46.

*46* DAC, European Community, *Development Co-operation Review Series,* OECD, 1998, No. 30, p. 565.

*47* Competitive recruitment will take place again. Montes, C., 1998, ibid.

*48* With one assistant.

*49* European Parliament, Working Document on Staff Policy at the Commission (Annual Report of the Court of Auditors concerning the financial year 1997: OJ 349, 17.11.1998), Dis*charge procedure for the financial year 1997, Committee on Budgetary Control*, (Rapporteurs M.J. Bourlanges and L. Brinkhorst), PE 229.367, 4 February 1999.

*50* Court of Auditors, Annual Report concerning the Financial Year 1995 together with the Institutions' Replies, *Official Journal of the European Communities*, C 340, Vol. 39, 12 November 1996.

*51* European Parliament, Report on Comitology, (rapporteur: Terry Wynn MEP), 25 July 1995.

*52* EuroCidse, *Newsbulletin*, February 1996

*53* Internal document CEC.

*54* Committee of Independent Experts, *First Report on Allegations regarding Fraud, Mismanagement and Nepotism in the European Commission*, Brussels, 15/3/1999.

*55* These are: the sustainable and social development of the developing countries; the integration in the world economy, the campaign against poverty.

*56* Results to Questionnaire on Implementing Gender Resolution, Responded to in September/October 1997 by EU Permanent Representatives in Brussels. In some cases responses were provided by civil servants from ministries in EU member states.

*57* Document 5811/98, DGI.

*58* DHA 14 point format, can be found on: europa.eu.int./en/comm/echo/docs/14ptvm.htm.

*59* The pilot countries were: Peru, Nicaragua, Bangladesh, Ethiopia, Ghana, Mali, Mozambique. This should not be confused with the countries in which pilot projects took place on co-ordination, which overlaps.

*60* Council of the European Union, *Conclusions of the EU Development Council*, Press Service of the EU Development Council, 18 May 1998. More specific measures are announced in these conclusions.

*61* See: Commission of the European Communities, Mainstreaming a Gender And Equal Opportunities Perspective into all Community Policies, *Strategy Paper*, January 1997; Commission of the European Communities, Integrating Gender Issues in Development Co-operation, *Progress Report 1997*, October 1, 1997.

*62* Adopted 20 December 1995.

*63* In the period May-October 1996 80% of proposals annexed the gender questionnaire. Only 3 out of 24 projects could be classified as gender integrated or gender specific.
*64* 51% of all the ALA projects used this form in the period Jan. 1995 – June 1997. Of these 11% scored as 'women-specific', 39% as gender-integrated and 23 % as gender oriented. Only 22% of the MED projects used this form in the same period. None of the MED projects scored as being gender-specific, 36% of those for which the form was used scored gender-integrated, and 43% as gender-oriented.
*65* Commission of the European Communities, Sectoral Development Programmes for Education, (SDP-Ed), "Platform" for SDPs agreed by the Horizon 2000 Meeting of Experts of the Commission and the Member States, October 1996, p. 4. See also: Cassels, A., *A guide to sector-wide approaches for health development. Concepts, issues and working arrangements*, WHO, Danida, DFID, European Commission, 1997. A good example of an SDP in the health sector is Zambia.
*66* For an overview of developments in programme and budget support see: Reisen, van M., The EU and Africa, *Reality of Aid 1997-1998*, (eds. German, T., & Randel, J.), Earthscan, London, 1997.
*67* Ibid., p. 3.
*68* European Commission, Implementation of European Policy on Education and Training in Developing Countries, undated.
*69* See chapter 7.
*70* In India also a pilot SDP-Ed was established.
*71* Establishing an Education Sector Development Programme, Provisional Guidelines emerging from a discussion by the EU Horizon 2000 Meeting of Education Experts of the Commission and member states, Brussels, 10-11 November 1997.
*72* Sectorwide approaches to health development: implications for the European Union. Unpublished, undated (1997), internal document.
*73* Ibid.
*74* European Commission, Note to Heads of Units on enhanced collaboration with the WB-Agreements of April 2 Meeting, letter from Philip Lowe, Director General DG8.
*75* The results of research presented in this chapter have earlier been presented in: Reisen, van M., Regional Programme Changes of NGOs in the European Union in the Period 1989-1995, Catholic University of Nijmegen, Department of Policy Studies, *Occasional Paper*, Nijmegen, March 1997.
*76* Theunis, S., *Non Governmental Development Organizations of Developing Countries, and the South Smiles*, Unitar, Novib, Martinus Nijhoff Publishers, Dordrecht, 1992, p. 15. To emphasise the aspect that it concerns a group engaged in humanitarian or development activities in relation to the developing countries these organisations are also called Non Governmental Development Organisation (NGDOs), though this is less commonly used. Biekart, K., uses the term Private Aid Agencies – but this terms does not necessarily bring further clarity in the area where NG(D)Os are hardest to define: the feature for some of them to have strong links with government, and to receive large amounts of public funding. Biekart, K., *The Politics of Civil Society Building. European Private Agencies and Democratic Transition in Central America,* International Books, TNI, Utrecht, 1999. This book provides an excellent overview of European NGOs. For further reading see also: Arts, B., *The Political Influence of Global NGOs. Case Studies on the Climate and Biodiversity Conventions,* International Books, Utrecht, 1998. The research presented in this chapter suggests that it is more important to make an analytical distinction between humanitar-

ian and development organisations, both included in the survey. See: Reisen, van M., *The Logic of Coincidence. An Analysis of EU Decision-making in Aid Policies (1990-1995)*, Ph.D. dissertation, forthcoming (provisional title).

*77* The CLONG is largely funded by the European Commission. It has the objective to be a bridge between the European Commission and the European NGDOs.

*78* *"..though not all NGDOs will have these characteristics or achieve these high standards all of the time the Charter can be used as a guide to what the term 'NGDO' is generally understood to mean by NGDOs themselves."* NGDO-EU Liaison Committee, NGDO Charter, Basic Principles of Development and Humanitarian Aid NGOs in the European Union, March 1977, p. 3. This exercise was initiated by the European Commission in order to get an instrument to assess NGOs which request financing.

*79* EuroCidse does not exist as a separate organisation any longer. Since 1998 it is part of the international network Cidse.

*80* During the period of the research Eurostep was a co-ordination of 21 members, some of which are themselves large national co-ordinations. In this survey some of these members, large in size, were approached separately.

*81* The figures portray the number of West European members. Clearly there is overlap between the groups. Withdrawn from the population were: (1) the German Political Foundations – related to political parties, which responded that they did not categorise themselves as NGOs and (2) 15 very small NGOs whose addresses could not be traced, or which had ceased to exist, or had only just started.

*82* As the data relate to the period until 1995 Intermon is not included as an Oxfam member in this survey because it joined the Oxfam family in 1996/7.

*83* Political foundations, also a large source for non governmental development finance were not included in the survey, since they are affiliated to political parties.

*84* This can be concluded from the fact that the mean and the median are far apart. The mean is 23.2 million ECU while the median is 13.6 million ECU

*85* These figures are a conservative estimate. 19 respondents are missing.

*86* Missing cases: 22.

*87* Missing cases: 18.

*88* This is based on conservative estimates since 26 organisations did not respond to this question.

*89* Cases weighed for origin, in percentages per row.

*90* 2 in Belgium (CNCD and NCOS), 1 in Italy (Movimondo), 1 in Sweden (Forum Syd), 1 in Finland (KEPA), and outside the EU: Switzerland (Swiss Coalition, although its members were approached separately). EuroCidse also has one large co-ordination in Italy (OVCI).

*91* The total number of North European organisations included in the analysis was 34 compared with 64 from Southern Europe. The working language of the organisation, and its constituency have been the criteria for grouping the North and the South. Of Belgium 6 organisations/networks of Latin origin and 2 of Non Latin are included. The organisations in Switzerland all appeared to be related to the German constituency and have been categorised as Non Latin accordingly. Greek organisations have been included in the 'Latin group' since its Mediterranean character suits these shared characteristics best. Irish organisations have been categorised as Non Latin, because of its geography and because the working language of the organisations is English, but the organisations follow a lot of the Southern characteristics.

*92* All the organisations included: n=82.

*93* It clearly shows that similar arguments are utilised to support either decision. These arguments can be divided in the following categories: perceived need, received requests, mandate, traditional regional focus, original organisational mission, experience, feasibility, priority.
*94* The argument of solidarity is first used as a justification for decisions in this period, and was not before.
*95* In these categories France behaves as a 'Northern' country, and Ireland as a 'Southern'.
*96* Original in French: "d'Autres organisations existent pour cela. A chacun son metier."
*97* Some sections or ideas of this chapter have earlier been published in: Reisen, van M., The European Union and the ECDP, In: *Reality of Aid 1996* (eds. German, T., & Randel, J.), Earthscan, 1996; Reisen, van M., European Union, In: *Reality of Aid 1997-1998* (eds. German, T. & Randel, J.), Earthscan, 1997b; Towards a poverty focus in EC development policy: A critical analysis on the Financial Perspective 2000-2006, *paper* of European networks, Brussels, December 1998 (ed. Reisen, van M.).
*98* European Parliament, 1994, ibid.
*99* EURO-CIDSE, *Newsbulletin*, June 1995, based on official documents of the Cannes Summit.
*100* Information provided by the European Commission.
*101* European Communities, *InfoFinance,* This table does not include destination of other budget lines, some of which are relatively large, such as food aid, humanitarian assistance, NGOs, Southern Africa, etc. Commission Européenne, Compte de Gestion et Bilan Financier, Afférents aux Opérations du budget de l'exercise 1997, Volume I (section III – Commission), SEC (98) 519, Bruxelles, 1998; Commission Européenne, Compte de Gestion et Bilan Financier, Afférents aux Opérations du budget de l'exercise 1998, Volume I (section III – Commission), SEC (99) 412, Bruxelles, 1999.
*102* This proportion does not include aid from other budget lines, to either developing or Eastern European countries.
*103* This proportion does not include aid from other budget lines, to either developing or Eastern European countries.
*104* Speech by Philip Lowe to the Development Committee of the European Parliament, Director General DG 8, January 19th 1999. The problem was also addressed by Mr. Paul Nielson, the Minister of Development Cooperation in Denmark in the Danish television news (January 27th 1999), now EC Commissioner for Development.
*105* Commission of the European Communities, *Preliminary Draft General Budget of the European Communities for the Financial Year 1998,* SEC(97)600, May 1997: 5. projections budget lines based on figures past years, demonstrating that about half of the budget appropriations are used. Projections for EDF come from the Commission, on the basis of which the member states can plan their budgets.
*106* Letter from the Commission to the author, unpublished.
*107* Commission, May 1997, unpublished information.
*108* Ibid.
*109* Ibid.
*110* Letter of the European Commission to Eurostep, XIX/02/JPB D 12003 (99).
*111* Letter of the European Commission to Eurostep, 1999, ibid.
*112* Resolution EP, JOCE No. C 14, 27 March 1973, pp. 25-6.
*113* Commission des Communautés Européennes, *Rapport sur les Possibilités et les Modalités de Budgétisation du Fonds Européen de Développement,* SEC (94) 640 final.

*114* Council of the European Union, 'Declaration on the European Development Fund, Final Act'*, Treaty on European Union*, Office for Official Publications of the European Communities, 1992, p. 224.
*115* The own resources ceiling is determined as 1.27 % of EU GNP in order ensure a maximum to the growth of resources and taxes collected directly by the Commission. The financial perspectives depart from the assumption of a GNP economic growth rate of 2.5% a year and a GNP deflator of 2% a year. For the pre-accession countries a growth rate of 4% a year has been applied – which is relevant to the financial perspective after accession. The financial perspective is drawn at 1999 constant prices.
*116* Council of the European Union, *Presidency Conclusions*, Berlin European Council, 24 and 25 March 1999.
*117* The DAC definition of ODA and OA includes development aid and humanitarian assistance.
*118* Commission of the European Communities, EU-ACP Co-operation in 1994, Special issue*, Le Courier*, July 1995.
*119* Maxwell, S., Catch the Tiger by its Tail, Counterpart Funds in the Evaluation of Programme aid, *IDS Bulletin*, Vol. 27, No. 4, 1996: 40.
*120* DAC, *Development Assistance Manual, DAC Principles for Effective Aid*, OECD, Paris, 1992, p. 67.
*121* DGIS, Dutch Ministry of Development Co-operation, Samenvatting van het DAC-rapport 'Evaluation of Non-Project Assistance (NPA)', DAC, OESO, 1987, in: *Importsteun, Evaluation*, Inspectie ter Velde, 1989, bijlage 1.
*122* In recent years, regulations of import support programmes have been relaxed to allow recipient governments some more flexibility on how the aid is being used. At the same time, debt relief has grown as a means of balance of payment support, particularly in Japan.
*123* Ministerie van Buitenlandse Zaken, *Programma Hulp*, Den Haag, 1997, p. 4.
*124* For instance the '5th dimension' is assistance to support service of debts owed to the World Bank; the resources are directly paid into a fund in the World Bank.
*125* See also: David Reed*, Structural Adjustment, the Environment, and Sustainable Development*, Earthscan, 1996.
*126* Development Researchers' Network, In collaboration with the Institute of Economic Affairs, ACCRA, Evaluation of STABEX Transfers to Ghana (1990-1991), *Final Report,* Rome, November 1994, p. 47.
*127* Commission of the European Communities, Europe Information, Development, Lomé IV, 1990-2000, Background, Innovations, Improvements, DE 64, March 1990; according to Enzo Caputo Balance of Payment programmes implemented under Lomé III were worth 807 million ECU. Caputo, E., The Case of the European Union, *IDS Bulletin*, Vol. 27, No. 4, 1996.
*128* Doc. 6453/89
*129* The amount may be supplemented by a (theoretically) limited proportion of each country's national indicative programme, and by other counterpart funds generated from Community instruments. Commission of the European Communities, 1990, ibid.
*130* Lomé IV Convention, as revised by the agreement signed in Mauritius on 4 November 1995*, The Courier,* No. 155, January-February 1996.
*131* Council doc. 7711/95). Earlier resolutions date from May 1988 (Council doc. 6453/89) and May 1991 (Council doc. 6038/92).
*132* This resolution applies to all developing countries undergoing structural adjustment.

*133* Council of the European Union, *Negotiating directives for the negotiation of a development partnership agreement with the ACP countries*, 10017/98, 30 June 1998, p. 32.
*134* Commission of the European Communities, Slide show presentation of the EU proposals on rationalisation of the instruments and rolling programming, negotiating group 4, financial co-operation, 11 January 1999, Brussels.
*135* Court of Auditors, 1996, ibid.
*136* Undertaken in 1994, in Ghana, Uganda and Cote d'Ivoire, followed by Tanzania, Cameroon and Zambia. This evaluation problem is, of course, not specific to the EC, but a general problem of evaluating budget support, see White, ibid.
*137* See also: Caputo, E. ,1996, ibid, p. 62.
*138* See also: European Parliament, *Opinion for the Committee on Budgetary Control, on the Discharge of the 1995 financial year concerning title 7 of the general budget of the European Communities and the EDF*, (rapporteur Kinnock, G.), Committee on Development and Co-operation, 25 February 1997.
*139* Art. 244 (f) Lomé VI Convention.
*140* Court of Auditors, 1996, ibid., p. 302.
*141* Ibid, p. 303.
*142* Cox, et al., ibid. p. 94
*143* Maxwell Stamp PLC, Evaluation of Stabex operations in Uganda, *Final Report*, Prepared for European Commission DG VIII, Evaluation Unit, Brussels, April 1995, p. Ex Sum 7.
*144* Danida, Ministry of Foreign Affairs, 1997, ibid.
*145* This proposal to address debts owed to the European Community was very cautiously reflected in the Green Paper on relations between the European Union and the ACP countries: "the Community could act both as creditor and donor by developing support mechanisms and instruments to ease the burden of debt..." European Commission, 1996, ibid., p. 57. In this proposal the European Commission takes an important step forward, namely to regard the European Community not just as a donor of aid – as it has done so hitherto but also to consider itself as a creditor. This proposal is further elaborated in the Communication from the Commission on Support for Structural Adjustment and Debt Relief in Heavily Indebted Countries. Commission of the European Communities, *Communication from the Commission on Support for Structural Adjustment and Debt Relief in Heavily Indebted Countries – A Community Response to the HIPC Debt Initiative*, Brussels, 14 March 1997, VIII/ 175/97/EN.
*146* Special loans were changed into grants in Lomé IV. Outstanding special loans to the 11 ACP countries eligible to the HIPC Debt Initiative amount to 410 million ECU (excluding loans to the private sector). These reflows are returned to the member states, via the EIB.
*147* Declaration of the Conference of the ACP Ministers of Finance on Monetary and Financial Issues, ACP/88/026/98 -Rev.1-final, 25-26 June 1998, Brussels, Belgium. The G-7 adopted in June 1999 a proposal for a fund of $70 billion for debt cancellation to more countries than those eligible under HIPC.
*148* Council of the European Union, Council Decision of 6 July 1998 concerning exceptional assistance for the heavily indebted ACP countries, *Official Journal of the European Communities,* L 198, 15/07/1998, p.40-41.
*149* European Commission, negotiating group 4, financial co-operation, 11 January 1999, Brussels, p. 7.
*150* Ibid.
*151* Ibid.

*152* Sumnonu, H. A., Secretary-General of the Organisation of African Trade Union Unity (OATU), in ECA, *African Charter for Popular Participation in Development and Transformation*, Arusha, 1990: 11.
*153* European Commission, 1999, ibid.
*154* This is not necessarily the case at present. See for instance: IDS, IDR, An Evaluation of Development Cooperation between the European Union and Ethiopia, 1976-1994, *Main Report*, Sussex, Addis Ababa, June 1996.
*155* Transparency International, letter, 3/7/97.
*156* Guggi Laryea, Eurostep, and Eileen Sudworth assisted in producing this chapter.
*157* Titles I-VII of the TEU.
*158* International Monetary Fund, *World Economic Outlook*, Washington DC, October 1998.
*159* Stresa Agreements, 1963, restated in the Amsterdam Treaty, 1997.
*160* A report as requested by the Council on progress made on coherence is being prepared by the CEC.
*161* Panyakul, V., The Rise and Fall of Thai Cassava: EC's CAP and Export Quota, In: *Europe-Asia Trade: The Real Costs of Greater Growth*, (eds. Brennan, B., et al.), Transnational Institute & Initiatives for International Dialogue, Amsterdam, 1998. For other examples of CAP policies incoherent with development objectives see: Eurostep, Eurostep Dossier on CAP & Coherence. Coherence in EU Policies towards Developing Countries, *paper*, Brussels/The Hague, April 1999.
*162* C. Stevens, 1998a, ibid.
*163* Commission of the European Communities, *Proposal for Council Regulations (EC) concerning the reform of the Common Agricultural Policy*, presented by the Commission, Com(1998) 158 final, Brussels, 18.03.1998. In December 1995 the European Commission presented an Agricultural Strategy Paper to the Madrid European Council expressing the wish to deepen the 1992 reforms. These proposals were further developed in July 1997 when the Commission published its proposal for the financial framework beyond the year 2000 known as "Agenda 2000".
*164* See also: Stevens, et al., *Levelling the field. Will CAP reform provide a fair deal for developing countries?* Discussion Paper, CIIR, 1998b.
*165* Council of the European Union, Council Regulation (EC) No. 12190/98 of applying a multiannual scheme of generalised tariff preferences for the period 1 July 1999 to 31 December 2001, Brussels, 15 December 1998; European Parliament, *Report on the Communication from the Commission to the Council on the trading system and internationally recognised labour standards*, PE 228.265/fin, 11 November 1998; Commission Européenne, *Amélioration de l'Access au Marché des Pays les Moins Avances*, *Communication de Sir Leon Brittan*, Com(97)156/7, Bruxelles, Le 15 Avril 1997; Letter from the Commission dated 26 June 1997.
*166* The list is close to the one established by the UN (48 LDCs). Under the EU GSP scheme Botswana and Tonga are by mistake eligible as LDC, while Angola has wrongly been left out of the list of the industrial scheme. This situation will be corrected 'at short notice'. Letter of the Commission dd. 26th June 1997.
*167* These are all in Asia: Yemen, Bangladesh, Afghanistan, Bhutan, Nepal, Laos, Cambodia, Maldives, Burma. The benefits of the GSP to Burma have been temporarily withdrawn because of the practice of forced labour (Council Regulation EC No. 552/97 of 24.3.1997). This includes the scheme for industrial and agricultural products.
*168* This does, for instance, affect China.
*169* Following Council Regulation (EC) No. 602/98, OJL 80 18.3.1998, p.1.

*170* Burma has not been admitted to apply for regional cumulation.
*171* International Monetary Fund, *World Economic Outlook*, Washington DC, 1997.
*172* Parts of the following sections have been published earlier in: Reisen, van M., and Laryea, G., ASEM and Europe-Asia trade: a development perspective, In: *Europe-Asia Trade: The Real Costs of Greater Growth*, (eds. Brennan, B., et al.), TNI, Amsterdam, March/April 1998.
*173* ASEAN is currently composed of: Thailand, Brunei, the Philippines, Malaysia, Indonesia, Vietnam, Singapore as well as Burma and Laos (since July 1997).
*174* European Commission, *Towards A new Asia Strategy, Communication from the Commission to the Council*, OM(94) 314 final, 13.7.1994.
*175* Commission of the European Communities, 1994b, ibid., p 2.
*176* European Commission, The ASEM process from Bangkok to London, *Memo/98/23*, 1 April 1998. See also: DGI Website : http://europa.eu.int/en/comm/dg01/pol70.htm.
*177* Commission of the European Communities, 1994, ibid.
*178* Ministry of Foreign Affairs, official communiqués, Bangkok, 1 March 1996.
*179* Commission of the European Communities, Perspectives and priorities for the ASEM process, *Commission Working Document*, SEC (97) 1239 final, 26.6.1997.
*180* APEC now comprises the following 21 countries : Australia, Brunei Darussalam, Canada, Chile, China, Hong Kong, Indonesia, Japan, South-Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Philippines, Russia, Singapore, Taiwan, Thailand, United States, Vietnam.
*181* Commission of the European Communities, *EU-ASEAN relations: a growing partnership*, Brussels, 1998.
*182* Rocamora, J., Asia-Europe Economic Relations: Challenges to Progressive Solidarity, In: *ASEM Trading New Silk Routes*, published by the Transnational Institute and Focus on the Global South, (eds. Brennan, B., et al.), Amsterdam, 1997. See also: Sideri, S., ASEM and Asian prospects within the evolving world economy, *Working Paper Series No. 241*, Institute of Social Studies, Den Haag, March 1997.
*183* WHAT IS ASEM? Background brief, 2-4 April 1998.
*184* This is particularly important since China, like Vietnam, Cambodia and Laos, are at present only observers in the World Trade Organisation (WTO), pending the conclusion of negotiations for full membership.
*185* ASEAN comprises the following countries: Brunei Darussalam, Burma, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand and Vietnam.
*186* Singapore Government, Background to the 12th ASEAN-EU ministerial meeting, February 1997.
*187* The 12th ASEAN-EU ministerial meeting (AEMM), Singapore, 13-14 February 1997, Joint Declaration. *A Press Communiqué of the European Union and ASEAN*, 6018/97 (Presse 45).
*188* It is useful to note here that EU-ASEAN relations are on a formal region-to-region basis. At the same time, within this relationship, there are two distinct components. The first is political dialogue in which all members of the two regions automatically participate. The second is the EC-ASEAN Co-operation Agreement and the institutions relating to it. In this latter instance, participation, on the ASEAN side, is through the negotiation and agreement of a special protocol to the Agreement.
*189* ASEAN as a formal structure has member nations. ASEM, as an informal structure, refers to participating countries. APEC, whilst describing itself as an informal dialogue group from its inception in 1989, has over time become more formalised so that APEC now refers to new membership.

*190* Asia Europe Meeting (ASEM), Chairman's Statement, Bangkok, 2 March 1996.
*191* Santer, J., 'Asia and Europe: the Road from Bangkok to London and Beyond', the inaugural ASEF Lecture, January 1998, p. 2.
*192* Searles, A Lawyer's Perspective on Individual Treatment in EU-Anti Dumping Cases, *International Law and News*, Presented at the Seminar "The anti-dumping of the EU", Brussels, 21 April 1997.
*193* It has been claimed that Anti-dumping duties in Chinese cases in particular are extremely high because the Commission often compares the Chinese export price with a normal value of prices in countries like Japan and the United States to determine the margin of duty. The EU rule over the choice of reference country is said to be ambiguous.
*194* This is called the reference country rule.
*195* Swedish Export Authority on Foreign Trade and Trade Policy, 1998.
*196* Searles, 1997, ibid.
*197* European Parliament, *Working Document on the State of Negotiations between the European Union and South Africa*, Committee on Development and Cooperation, (Drafstman: Kinnock, G.), 15 July 1997, PE 223.242.
*198* Council of the European Union, Council Regulation (EC) No. 2259/96 of 22 November 1996 on Development Cooperation with South Africa, *Official Journal of the European Communities,* No. L 306, 28/11/1996, p.0005-0008.
*199* ACP-CE, Accession of South Africa to the Convention of Lomé, ACP 42/016/97, *Press Release*, 7566/97, Presse 122-G, Luxembourg, 24 April 1997.
*200* Council of the European Union, *Negotiation mandate on a Free Trade Agreement with South Africa,* June 12, 1995.
*201* Eileen Sudworth, EU South Africa Relations, *update – non-document 2*, May 5 1998.
*202* *Europe*, No. 7148, Thursday, 29 January 1998, p. 8.
*203* According to the European Commission. *Europe*, No. 6696, Wednesday 27 March 1996.
*204* *Europe,* No. 6676, Wednesday 28 February 1996, p. 4.
*205* 'Additional' means beyond existing Uruguay Round tariff reduction commitments. For non-agricultural products, the EU initially stated a position in which it would only eliminate tariffs on approximately 4.7% of its present imports from South Africa, while South Africa will remove tariffs on around 36% of its present imports from the EU. Council of the European Union, 1995, ibid.; ERO, the final mandate – some preliminary concerns, *briefing paper,* Brussels, April 1996; Parliament of the Republic of South Africa, *Submission on Preparation of a South African Mandate for Negotiations of a Bilateral Trade Agreement with the European Union,* 1996.
*206* National Assembly of the Republic of Namibia, *Report of the Parliamentary Standing Committee on Economics on the Possible Implications of the Proposed EU – South Africa Free Trade Agreement,* National Assembly, Windhoek, September 1996, p. 7.
*207* Sudworth, E., European Union – South Africa trade negotiations, *briefing paper*, ECDPM, Maastricht, April 16, 1998.
*208* Head, J., 1998, ibid.
*209* In fiscal year 1993-4 customs revenue accounted for 46% of the entire government revenue. In: European Parliament, 1997, ibid., p. 4.
*210* In fiscal year 1994/95. National Assembly of the Republic of Namibia, 1996, ibid., p. 12.
*211* Wellmer, G., 1998, ibid.
*212* When the South African Rand devalued, the subsidies from the EU were increased. This demonstrates that the objective was to gain access into the market.

*213* *Europe*, No. 6939, 21 March 1997, p. 9.
*214* Ibid.
*215* 18 March 1997.
*216* Council of the European Union, *Council Decisions*, 22 February 1999. Tony Blair had written to the heads of Government of Spain, France and Italy to ask them to drop their reservations. *Europe*, No. 7410, 22&23 February 1999.
*217* Department of Trade and Industry, Trade, Development and Co-operation Agreement. *A briefing document by the Department of Trade and Industry on the conclusions of the agreement*, Cape Town, 25 March 1999.
*218* Brussels, 16/3/99.
*219* Council of the European Union, 1999b, ibid. *Europe*, 27 March 1999, p. 17.
*220* Eurostat, *External and intra-European Union Trade, Statistical Yearbook 1958-1997*, Office for Official Publications of the European Communities, L-2985, Luxembourg, 1998: p. 14-15.
*221* 1990 figures. UNCTAD, *Trade and Development Report*, United Nations, New York/Geneva, 1998, p. 135. This is a stark contrast with South Africa, for instance, where only approximately 13% of the labour force is employed in the agricultural sector.
*222* According to 1996 FAO figures: Burkina Faso, Burundi, Guinea Bissau, Malawi, Sudan, Uganda, St Vincent and Vanuatu &75-100%) and Chad, Comoros, Côte d'Ivoire Kenya, Madagascar, Mali, Reunion, Sao Tome & Principe, Somalia, Tanzania, Togo, Belize, Dominica, Dominican Rep, Grenada, St. Lucia, Samoa and Tonga (50-75%). In: Gordon, A., et al., International Trade in Agricultural Commodities: liberalisation and its implications for development and poverty reduction in the ACP states, *Draft for Discussion*, November 1998.
*223* Ibid.
*224* 1994-1996 figures, FAO, ibid.
*225* ECDPM, The EC's Impact Studies on Regional Economic Partnership Agreements, *Lomé Negotiating Brief*, Maastricht, February 1999.
*226* The following countries were not included in any study: Burundi, Cape Verde, Comoros, Djibouti, Eritrea, Ethiopia, Gambia, Guinea, Liberia, Madagascar, Mauritania, Nigeria, Rwanda, São Tomé & Principe, Sierra Leone, Somalia, Sudan.
*227* IDS, Study of the Economic Impact of Introducing Reciprocity into the Trade Relations between the EU and CARICOM/Dominican Republic, *Final Report*, Sussex, September 1998.
*228* Imani Development, Study on the Impact of Introducing Reciprocity into the Trade Relations between the EU and the SADC Region, *Final Report*, Mauritius, September 1998.
*229* CREDIT School of Economics, Study on the Economic Impact of Introducing Reciprocity into the Trade Relations between the EU and EAC countries, *Report*, University of Nottingham, October 1998.
*230* Groupe Planistat, Etude de l'Impact Economique sur l'UDEAC-CEMAC de l'Introduction de la Réciprocité dans les Relations Commerciales UE-ACP, *Final Report*, Bruxelles, 1998.
*231* Centre d'Etudes et de Recherches sur le Développment International, Etude de l'Impact économique de l'Introduction de la Réciprocité dans les Relations commerciales entre l'únion Europeénne et les pays de l'Union Economique et Monetaire Ouest Africaine et le Ghana, *Rapport*, Clermont Ferrand, 1998. Interviews, February 1999.
*232* Netherlands Economic Institute, Introducing Reciprocity into the Trade Relations between the EU and the Pacific ACP Countries, *Final Report*, Rotterdam, 1998.
*233* McQueen, M., *The Impact Studies on the Effects of REPAs between the ACP and the EU*, University of Reading, March 1999; Laryea, G., Comparison of REPA Impact Studies, *paper*,

Eurostep, January 1999. Since the methodologies applied to the REPA-studies use different methodologies and are sometimes based on different assumptions. The sectoral and macro impact relates to the quantifiable effects on trade of the REPAs, while the dynamic effects relate to less quantifiable results.

*234* Stealing from the Poor, *The Economist*, April 24th 1999, p. 80-85.

*235* Keet, D., The implications of a reciprocal free trade agreement with the EU in relation to regional integration and development in Southern Africa. *Presentation* to the International Hearing and Workshop on the Implications of the EU's Proposed Alternatives to the Lomé Convention – Königswinter, 23-25 April 1999; Greenidge, C., What trade agreements between the EU and the ACP would be most desirable in view of the conclusion of the SA-EU Free-Trade Agreement, *Paper* for a Seminar on the conclusion of the EU-SA Free Trade Agreement organised by Eurostep, Hotel Dorint, Brussels, 5th May, 1999.

*236* Stevens, Ch., The present state of the Lomé negotiations: the position of the EU and of the ACP states, *Paper* presented to Lomé Hearing, Königswinter, 23 April 1999.

*237* Ibid.

*238* Keet, D., 1999, ibid.

*239* Commission of the European Communities, Trade and Development in the new Round: Proposals for an EU comprehensive policy approach, *non-paper*, 4 May 1999. See also: Commission of the European Communities, *Discussion Paper on Trade and Development in the new WTO Round*, DGI, Brussels, 26 May 1999, I.G.1/(99). Clearly, these Commission proposals have not been approved by the member states. The European Council reaffirmed the importance it attaches to a new WTO Round of trade negotiations which would, among others, include sectors and issues of *"particular interest to developing countries."* General Affairs Council, *Council Conclusions*, 2192nd Council meeting, Luxembourg 21-22 June 1999, 9008/99 (presse 198), Provisional version.

*240* Eurostep, *Report of a Meeting with the Commission on the WTO,* Brussels, June 1999.

*241* Eileen Sudworth assisted in the writing of this chapter. This chapter is informed by interviews with civil servants from the European Commission and other resource persons that have been interviewed.

*242* For a more detailed discussion on the origins of ASEM, see chapter 8.

*243* Asia Europe Vision Group, For A Better Tomorrow. Asia-Europe Partnership in the 21st Century. *Draft Report* (4) 25/1/1999.

*244* See UNCTAD, *World Investment Report 1998. Trends and Determinants,* UN, Geneva, 1998.

*245* WTO, *Report* of the working group on the relationship between trade and investment to the general council, Geneva, 8 December 1998.

*246* Ibid., p. 19.

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*248* UNCTAD, 1998, ibid.

*249* Ibid., table adapted by MVR.

*250* Transnationality is calculated as the average of three ratios: foreign assets to total assets; foreign assets to total sales; and foreign employment to total employment. There is no direct correlation between the amount of foreign assets of a company and its score on the transnationality index. UNCTAD, 1998, ibid.

*251* UNCTAD, 1998, ibid.

*252* Ibid.

*253* Ibid.
*254* See also: Lee, D.F., Post-IMF Crisis in South Korea, *paper*, 27/4/1999.
*255* Bullard, N., Bello, W. & Malhotra, K., *Taming the tigers : the IMF and the Asian crisis,* CAFOD and Focus on the Global South, London, March 1998.
*256* Internal memo reported in the New York Times on 14 January 1998 qouted in: Bullard, N. et al., 1998, ibid.
*257* Khor, M., Needs for global financial regulation, In: *Social Watch,* (ed. Bissio, R.), Montevideo, 1998, pp. 57-58; Bullard, N., The economic necessity of social justice, In: *Social Watch,* (ed. Bissio, R.), 1998, p. 59-61.
*258* ASEM 2 Financial Statement: the financial and economic situation in Asia, London, 3 April 1998.
*259* Foreign & Commonwealth Office, Asia-Europe Meeting: From ASEM2 to ASEM 3, *Background Brief*, London, August 1998; see also: Chairman's Statement of the Second ASEM Foreign Ministers' Meeting, Berlin, March 29. 1999.
*260* See table A.VII.2 in UNCTAD, 1998, ibid.
*261* Fitzgerald, 1998, ibid.
*262* The general concern regarding the impact of globalisation on developing and LDCs and the specific concern regarding the issue of incentives have been the subject of considerable debate and contention in the WTO Working Group on the Relationship between Trade and Investment: "*... there was growing concern that globalization of the world economy posed not only an opportunity but also a potential threat to developing countries because these countries would have to face mounting international competition in both their export and domestic markets. The risk was particularly serious for sub-Saharan African countries and the least developed countries elsewhere*." WTO, 1998, ibid.
*263* OECD, The multilaterial agreement on investment : frequently asked questions and answers, Paris, May 1998.
*264* This was clearly spelled out in a letter to the authors of 3 March 1999 from M. Philippe Cloitre, le Chef du Services des Interventions, writing on behalf of the French Prime Minister. See also, by Wallach, L, & Doctorate, J., OECD multilateral agreement on investment, Friends of the Earth-US, February 1997; The NGO pocket trade lawyer for the multilateral agreement on investment, Harvard Law School, undated; *European Parliament, Resolution on the MAI*, 1998, ACP-EU Joint Assembly, *Resolution on the MAI*, 24 September 1998 in Brussels ACP-EU 2541/98/fin.
*265* Lalumière, C. & Landau J.P., *Report on the multilateral agreement on investment (MAI),* September 1998. Catherine Lalumière was MEP and Jean-Pierre Landau was general inspector of finance.
*266* Ibid.
*267* Ibid.
*268* It is worth noting in this regard that competition is the Achilles heel of the United States which is pressured by many powerful lobby groups not to enter into a competition agreement, in particular, with regards to anti-dumping practices (particularly the steel industry).
*269* ASEM, The Asia-Europe Investment Promotion Action Plan, July 29, 1997.
*270* ASEM, Ibid., July 29, 1997, p. 18.
*271* Article 30.2 of the Convention of Establishment, the contract between the government of Cameroon and the oil Consortium COTCO (in short: 'the Convention'), states: "*In addition, all ordinary law provisions of the Republic of Cameroon which are not contrary to nor inconsistent with*

*the provisions of the Convention apply to activities undertaken under this Convention.*" And article 27.12: *"In case of emergency (...) COTCO (...) is allowed, under its sole responsibility to have access to any private or public land, (...) for the purpose of (...) remedying the emergency (...), without prior authorisation, and with the possible assistance of the public or private emergency services.*" In: Journal Officiel de la Republique de Cameroun, 1 October 1997, p. 1246-1249, Cited in: Bloemink, I., The Law in Whose Hands? Oil in Chad and Cameroon, In: *Farewell to Lomé. The Impact of Neo-Liberal Policies on the ACP Countries. Documentation International Hearing and Workshop, Königswinter/Bonn*, April 23rd-25th, 1999.

*272* Schmidt, R., *A feasible foreign exchange transactions tax*, North-South Institute, Ottawa, March 1999; European Parliament, Directorate General for Research*, The feasibility of an international "Tobin tax*", *Economic Affairs Series*, ECON 107 EN, Working Paper, Luxembourg, March 1999.

*273* See: Malhotra, K., Renewing the Governance of the Global Economy, *Paper* prepared for the Conference on "Economic Sovereignty in a Globalized World," Chulalongkorn University, Bangkok, March 23-26, 1999; Bienefeld, M., Can Finance be Controlled? *Paper* prepared for the Conference on "Economic Sovereignty in a Globalized World," Chulalongkorn University, Bangkok, March 23-26, 1999.

*274* Bello, W., et al., Notes on the Ascendency and Regulation of Speculative Capital, *Draft Paper* prepared for the Conference on "Economic Sovereignty in a Globalized World," Chulalongkorn University, Bangkok, March 23-26, 1999.

*275* Ibid.

*276* Co-author of this chapter is Guggi Laryea. This chapter was published in an earlier version in : *Social Watch 1998* (ed. Bissio, R.), Montevideo, 1998. Research for this chapter was informed by a series of interviews with civil servants from the ACP Secretariat, the ACP Committee of Ambassadors, the European Commission, the EU permanent representatives to the EU and the Joint ACP-EU Parliamentary Assembly.

*277* In the last revision of the Convention the EU has sought to make funding more conditional on the ACP meeting certain criteria, in accordance with concerns of the EU.

*278* Council of the European Union, *Negotiating Directives for the Negotiation of a Development Partnership Agreement with the ACP countries*, June 1998; ACP, *ACP Group Negotiating Mandate*, September 1998.

*279* See Europe, No. 7046, 29 August 1996.

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