

## 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.”<sup>279</sup> (original emphasis)

This includes development co-operation – but more so in theory than in practice.

### II.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 evi-

dence 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.

## **II.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 (REPA) 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 agree-

ments 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.

## II.II 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 destabilises 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 program-

ming. 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.