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GREEN PAPER

**on relations between the European Union
and the ACP countries on the eve of the 21st century**

Challenges and options for a new partnership

Foreword

Cooperation between the European Union and the countries of Africa, the Caribbean and the Pacific dates back to the origins of the Community. The Lomé Convention, which has been the framework for trade and development aid ties between the EU and 70 ACP States since 1975, is one of the most important facets of the European Union's external activities. This Convention expires on 29 February 2000 and negotiations between the Contracting Parties should start 18 months before that date, namely in September 1998. In view of the major changes that have taken place over the last 20 years, the time has come to take a fresh look at the future of ACP-EU relations.

The world is now a very different place. New challenges have arisen and both we and our partners have new preoccupations.

In a world now multipolar, the Union must make its presence felt in all regions of the world. It is striving to forge its external identity through a more effective and more global common foreign and security policy, an effective and differentiated development policy, and a multilateral trade policy designed to open up markets in accordance with negotiated common rules.

Standards of living in the ACP countries have improved markedly in terms of health, education and access to essential services, but the overall situation remains critical: 41 of the 50 least-developed countries (LLDCs) are ACP countries. These are countries only marginally involved in international trade and where the bleak outlook for tackling poverty is worrying.

The economic marginalization of some ACP countries has gone hand in hand with social disintegration, mounting violence and a proliferation of armed conflicts which often trigger humanitarian disasters, undermining development policies and deflecting the international community's aid efforts towards emergency action and crisis management.

Other countries, on the other hand, and thankfully their number is swelling, have developed their political and economic capacities in a way that opens up new possibilities in their relations with overseas partners, particularly in Europe.

The European Union must be equipped to tackle these differing situations, not only because a spirit of solidarity - in particular with the poorest countries - is part and parcel of its identity, but also because it has objective short-, medium- and long-term interests which require it to act and plan for the future in open and dynamic relations with its partners. What we make of the post-Lomé world is essentially a political choice and the future partnership must meet the new concerns of Europeans and live up to the expectations of the ACP peoples. Public support for an active EU development policy is much higher than is widely believed. However, the public also wants to see results and we must strive to satisfy this concern. The concern for development effectiveness explains why this Green Paper contains an in-depth review of development objectives and of their implementation through cooperation.

In this new environment, the Commission, drawing on the lessons of nearly 25 years of Lomé partnership, thought that the forthcoming institutional milestone in ACP-EU cooperation would be the right occasion for a detailed review and frank and substantial debate on the future of these ties.

The Green Paper reflects these concerns. It contains a summary of the salient topics for discussion and an analysis divided into two parts: the first an assessment of what has been achieved and major political, economic and social trends, the second outlining ideas and options for breathing fresh life into the ACP-EU partnership and recharging it with the relevance and effectiveness needed to face up to the challenges of the 21st century. This does not mean we want a *tabula rasa*: an objective assessment of not only the problems but also the successes of Lomé cooperation will identify guidelines, objectives and policies that should be retained and reinforced. The European Union has achievements to boast of: its broad vision, its commitment to sectoral policies, its strong presence on the ground and its capacity to promote certain policies or influence certain processes all testify to its unceasing efforts to improve the impact of development policy.

The European Union's primary concern must be the integration of the poor into the economic and social life and the integration of the ACP countries into the world economy. This is why our development framework should be extensible to fresh areas of cooperation and other agents of development in civil society, especially the private sector.

The aim of the Green Paper is to provide food for thought, trigger wide-ranging debate and pave the way for dialogue between those concerned by the expiry of the Lomé Convention. It is addressed to **all** those involved in development. **It does not frame any formal proposals and the list of options put forward in no way predetermines the proposals that the Commission may table in due course.** It is part of a debate which has already given rise to seminars, meetings and publications.

Following this debate, the Commission will, at the appropriate time, draw up proposals for a new partnership in a communication to the Council setting out negotiating directives.

Our goal is clear, to revitalize ACP-EU relations; open new horizons and boost the chances of success. ACP-EU relations are still a key part of the Union's identity. The post-colonial era is coming to an end but our responsibilities towards the ACP countries continue, for deep-rooted reasons that the Green Paper sets out to explain. On the threshold of the 21st century the ACP countries are looking forward, perhaps for the first time, to real prospects for development. But at the same time the standing and strength of government structures in these countries are under severe strain. This is not the time to slacken our efforts or downgrade the quality of our partnership. We should rather raise our political sights in the best sense of the term.

Professor João de Deus Pinheiro

Main topics for discussion

The world is in the throes of far-reaching changes. The collapse of the Iron Curtain and the end of the East-West conflict brought about a drastic upheaval in international relations and the world economy, opening the door to closer cooperation on the basis of common values and principles but also leading to a recasting of geo-strategic interests and new, less tangible forms of risk. Economically speaking, the spread of the market economy and the demise of exclusive or privileged ties have altered the terms of supply and demand on international markets. The conclusion of the Uruguay Round trade negotiations created a new multilateral context which is speeding up a **globalization** of the economy driven by technological change and the **liberalization** of economic policies that started in the 1980s. Interdependence is growing and extends beyond the economic and financial to the social and environmental spheres. At the same time, the margin for manoeuvre in national policies has narrowed and new fault lines are being opened up by the effects of social exclusion, by the fragmentation of the social fabric in both industrialized and developing or transitional countries, by widening inequalities and by the marginalization of the poorest countries. These fault lines are destabilizing and lie behind the upsurge in extremism in its nationalist or fundamentalist guises.

This new international environment has prompted the European Union to redefine its political and security interests and give fresh impetus to the political dimension of the European integration process. The Treaty on European Union has given an institutional basis to the framing of a common foreign and security policy (CFSP), a policy which is as yet insufficiently developed to further properly the common interests of the Member States; its machinery is currently being discussed as part of the Intergovernmental Conference (IGC). But the Treaty has also provided an institutional basis for European development cooperation policy.

The European Union is gearing up for major changes

The European Union itself will be in the process of radical change at the time it embarks on a new relationship with the ACP countries.

It has a full programme of work in the years ahead as it readies itself to face the challenges of the 21st century: fine-tuning of the internal market and the prospect of a single currency, revision of the Treaty and other institutional reforms being discussed by the IGC, conclusion of a new medium-term financial agreement and the prospect of enlargement to embrace the associated countries of Central and Eastern Europe, the Baltic States and Cyprus and Malta.

The European Union's external relations have also been marked by new initiatives concerning developing countries and economies in transition. It has concluded association agreements with most European countries of the former East bloc, which are now applying for membership.

At the same time, it is supporting the process of economic and political change in the republics of the former Soviet Union and has concluded trade agreements with several of them.

Relations with non-member Mediterranean countries are now covered by a new, long-term multilateral framework for partnership between 27 countries, which go hand in hand with

closer bilateral relations and cover three sets of provisions: political and security, economic and financial (chiefly the gradual setting up of a free-trade area) and social, cultural and human.

The European Union has also decided to strengthen its links with Latin America as part of a three-pronged strategy involving closer political dialogue between the two regions, encouragement of free trade combine with institutional support for the regional integration process, and technical and financial cooperation focusing on a number of priority fields.

Its new strategy in its relations with Asian countries is aimed at strengthening Europe's economic presence in this region, enhancing mutual understanding and developing a new political approach.

These new policies are the Union's response to the political and economic changes under way on the international scene and reflect the fact that the Union's external relations are not only global in scope but tailored to specific circumstances.

Relations between the European Union and the 70 African, Caribbean and Pacific countries are entering a new phase.

The Lomé Convention has provided the framework for trade and aid between the EU and the ACP countries, now numbering 70, since 1975. But Community development policy goes back to 1957 and has gone through a number of decisive phases since then. After the initial years, during which the aim was to establish ties with the Community's overseas countries and territories, cooperation continued under the Yaoundé Conventions and remained focused on French-speaking black Africa until the middle of the 1970s. After its Community's first enlargement, which took place in a markedly changing world economy, the European Community started to extend the geographical scope of its cooperation policy by opening the first Lomé Convention to other ACP countries and forging association and cooperation ties with other regions of the developing world.

The Lomé Convention has been overhauled every five years to adjust it to economic and political developments, add new cooperation instruments and set fresh priorities. The last revision took place in 1995.¹

The EU has also gradually built up other, non-Lomé instruments for aiding the developing countries in the form of specific budget headings (for desertification control, AIDS, etc.) or components of other Community policies that can also contribute to development policy (scientific policy under the framework research and development programme (FRDP) is one such). The ACP countries are also eligible for these forms of aid.

¹ The first three Conventions were concluded for a period of five years. The fourth covers the period from March 1990 to February 2000 and includes a financial protocol concluded for five years. At the same time as the negotiations for the second financial protocol a mid-term review of the Convention was carried out. The text of the fourth Lomé Convention as revised by the agreements signed in Mauritius on 4 November 1995 was published in the ACP-EU Courier, No 154 of January-February 1996.

New general guidelines have been drawn up for EU policies in a number of sectors or fields of cooperation as a result of the work under way since 1992 "on the outlook for cooperation in the run up to the year 2000"² to implement the new Treaty provisions on European development policy.³

On the threshold of the 21st century the future shape of the EU's relations with the ACP countries needs to be examined in depth. With the current Convention due to expire in February 2000, which is not far distant, and the two parties' contractual obligation to start negotiations at the latest 18 months beforehand, plus the need to establish against the background of the tighter disciplines of the WTO a trade cooperation framework fully in line with the new multilateral rules, we have an ideal opportunity to go ahead with this reappraisal and embark on a wide-ranging debate on the future of relations between the EU and the ACP states.

The debate on the future of ACP-EU relations must first take account of the new global environment

Not only does the new global landscape alter the EU's objective interests and those of its developing partners, it also involves increased responsibilities for a player of the EU's size. These responsibilities are first and foremost political in nature: the EU must actively support the moves towards more openness that started when the cold war came to an end in the second half of the 1980s and in particular help anchor the democratization process, which is still precarious in many ACP countries. **These responsibilities are also of an economic nature:** the EU must complement the effects of globalization by making the necessary adjustments within the Union to improve job prospects and reverse trends towards exclusion by playing an active role in international economic cooperation, helping frame and enforce multilateral rules and easing the gradual integration of developing countries into the world economy. Another aspect of globalization are the changes resulting from progress towards an information society; this is a new economic factor that is opening up extraordinary prospects in areas such as trade, education and health but also threatening to marginalize still further countries that are not locked into international information networks.

For the European Community - faced with the difficult task of adjusting its economic and social systems and having to frame its political action to fit a multi- rather than bipolar world and prepare for eastward enlargement - there is now a new dimension to development cooperation, particularly with the ACP countries, viz how can we take on a global role without responsible strategies for the different regions of the developing world, notably those worst hit by poverty and marginalization?

The EU's efforts to reduce poverty and inequalities in development around the world are also closely linked to the quest for peace and stability, the need for better management of global interdependence and risks, and promotion of a kind of world development that is more compatible with European political and social values.

² SEC(92) 915, 15 May 1992, and Council Declaration of November 1992.

³ Articles 130u to 130y of the Treaty.

The EU's development policy offers Europe a gateway to regions with enormous development potential which are now starting to bestir themselves.

As the 21st century dawns, relations between the EU and the ACP countries should be put on new footing to take account not only of changed political and economic conditions for development but also of changed attitudes in Europe. The colonial and post-colonial period are behind us and a more politically open international environment enables us to lay down the responsibilities of each partner less ambiguously.

Second, with the primary aim of making cooperation more effective, we must draw on the lessons of over four decades of cooperation with the ACP countries

In view of the patchy achievements of ACP-EU cooperation and a degree of scepticism about the scope for developing the ACP countries against the background of tight budgets in donor countries and an inward-looking tendency borne of social difficulties in Europe, partners on both sides are now seeking to place more emphasis on the effectiveness of cooperation and to review their priorities with an eye to better reflecting the concerns of European and ACP societies.

Community aid is of major importance for many ACP countries and has unquestionably helped to improve living standards. It has often been a testing ground for new ideas and universally acknowledged expertise has been built up in certain areas. But like any form of aid it has had failings, which a critical analysis of the results of ACP-EU cooperation has identified at three levels.

1. The general framework within which development operations are carried out: it has to be admitted that the principle of partnership has lost its substance and been only partly put into practice. Aid dependency, coping with short-term needs and managing crisis situations have increasingly coloured political relations between the two sides. Dialogue on economic and social policies has proved difficult to put into practice with countries with little institutional capacity and ineffectual public administration with the result that partnership is limited to day-to-day resource management.

2. EU-commissioned evaluation reports on cooperation policies have generally concluded that financial and technical cooperation matches Community objectives and the needs of the recipient countries and that effectiveness is relatively high, **notably as regards infrastructure and social projects. However, the state of the institutions and economic policy in the recipient country have often been major constraints**, making Community aid less effective in raising living standards and the level of development.

The impact of trade preferences has been disappointing by and large. Preferential arrangements, especially the protocols on specific products, have certainly contributed significantly to the commercial success of some countries⁴ which managed to respond with appropriate diversification policies. **But the bulk of ACP countries have lacked the economic policies and the domestic conditions needed for developing trade.** Furthermore, three new factors now have to be taken into consideration in designing a new trade regime: (i)

⁴ Examples are Côte d'Ivoire, Jamaica, Mauritius and Zimbabwe.

the Marrakesh agreements and tougher dispute settlement procedures could put the future of differentiated, non-reciprocal preferences schemes in doubt; (ii) the speeding-up of liberalization at multilateral and inter-regional levels; (iii) the growing importance in international trade talks of new issues, such as the environment, competition policies, investment codes, technical and health standards and compliance with basic social rights. These developments affect the relative value of tariff preferences.

3. Where financial and technical cooperation is concerned, the fact that some financial resources are granted automatically (the proportion has now been cut) and the EU's tendency, in common with other donors, to take the initiative away from its weaker partners, have not encouraged ACP governments to display the genuine political commitment expected of them. There has been a drift towards **a tendency for development instruments to dictate policy rather than the other way round**. A lack of flexibility has meant that our cooperation does not adjust easily to a rapidly changing political and economic scene and is slow to produce new political initiatives reflecting the concerns of society in Europe and the ACP countries and the desire to make aid more effective in the long term.

The debate should also take into account the new political, economic and social outlook in the ACP countries

In a rapidly changing global and regional environment, the ACP countries have to face up to many challenges: halting their economic marginalization and integrating into international trade, implementing the domestic, political, economic and social changes needed to build a democratic society and a market economy, and creating the conditions for sustainable development and poverty alleviation in a context of still high population growth.

The widening gap between developing countries in general, and within the ACP group in particular, is undoubtedly a crucial factor. Political and economic transition has gone further in some countries than in others and the EU's efforts will be gauged in terms of its ability to ease the constraints on the development of the ACP countries while supporting the factors of change emerging in a growing number of countries. Above all, in more political terms, they will be judged by whether policy for the ACP countries, especially sub-Saharan Africa regains a strong sense of purpose. **The negative image that many have of a continent that has lost its way does not reflect the real Africa.** Africa is not all of a pattern. The unprecedented political developments and the recent improvement in growth performance in some countries,⁵ stemming chiefly from better management of economic policy and the implementation of structural reforms, are promising signs.

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⁵ Côte d'Ivoire, Uganda and Benin spring to mind.

In the light of a decline in the general acceptance of the very principle of development aid in a global environment beset with risks and new opportunities, the European Union and its ACP partners must strive to make their cooperation more successful. **This will entail identifying the ACP-EU cooperation achievements that are worth preserving, making further progress in refining and implementing recent guidelines and initiatives, and determining which of the various possible options for future reform are most consistent with mutual objectives and undertakings.**

A stronger political relationship between the EU and the ACP countries is needed to breath new life into the partnership

The difficulties of putting "partnership" into practice should not call into question the value of this form mutual political commitment. **The circumstances and huge challenges facing many ACP countries are good reason to preserve the strengths and qualities of the present relationship,** in particular the predictability and contractual nature of the aid. **But this political commitment must be made more explicit and more effective.**

Are the European Union and its ACP partners ready to do this?

On the EU side, the political dialogue with the ACP countries must be part and parcel of its common foreign policy. A more relaxed framework for dialogue where issues of good governance, democracy and human rights, and the consolidation and maintenance of the rule of law can be broached, along with the development of a genuine European conflict prevention and resolution policy, would seem to be preconditions for a more effective European policy. **On the ACP side, commitment to push through institutional reforms and conduct economic, social and environmental policies reflecting the major undertakings made at the Rio, Vienna, Cairo, Copenhagen, Beijing, Istanbul and Rome international conferences,⁶ must be the foundation of the new partnership.** The EU's aid activities, in common with those of other donors, can have major political repercussions for these countries; their relevance depends on a range of conditions, notably political conditions. The parties' respective responsibilities in the context of these activities must be expressed in political terms.

If a mutual political commitment is made on this basis, the principal subjects of the proposed dialogue (such as domestic security issues, migration, the fight against drug trafficking, etc.) and most appropriate geographical configuration (global dialogue or dialogue tailored to groups of countries) must be established.

North-South relations are part of the external face of the European Union and the special relations between the EU and the ACP countries fall within this wider relationship. The link between the politics and aid and with multilateral commercial policy is an application of the general principle of consistency in external action. Strengthening the Union's capability for external action is one of the key subjects broached in the Intergovernmental Conference (IGC). In its opinion on the IGC, the Commission argued in favour of bringing together "the various strands comprising foreign relations in a single effective whole, with structures and procedures

⁶ Earth Summit, Human Rights Conference, Population, Social Development, Women, Habitat II, World Food Summit.

designed to enhance consistency and continuity".⁷ Each strand should, however, retain its distinctive features. Community development cooperation policy, in particular, must retain sufficient autonomy to pursue its own objectives, which require a long-term view and continuity of action. This linkage does, however, **entail greater selectivity in Community aid** with a view to improving its effectiveness and this would lead to changes in the actual implementation of cooperation.

The framework of cooperation should also be adjusted to help the ACP countries open up to international trade

A number of new principles would facilitate this process.

First, the principle of differentiation: not all ACP countries can at present engage in political and economic partnership with the European Union on the same basis. Policies and methods of cooperation have to be suitably tailored for reasons of efficiency.

Second, European and ACP partners must strive to reconcile two requirements: (i) ultimate responsibility for reforms and development policies must be shouldered by the recipient countries; (ii) the EU, however, must be able to account to the citizens of Europe for the use made of the aid it gives. In this case, **the only alternative to traditional forms of aid is to step up the policy dialogue, improve local capacity for policy-making and planning, and refocus Community monitoring of aid on results and progress rather than the means deployed.** The implementation of sectoral policies that will put resources to better use and more coordination between donors is part and parcel of this process.

The EU and the ACP countries must set themselves the target of developing new forms of cooperation: the EU is unique in being able to put forward an array of instruments and promote scientific, economic and technological cooperation. New forms of partnership could be promoted in innovative fields such as new technologies; pilot projects would be a way of stimulating information flows between individual communities (research on the Internet) and providing practical opportunities for cooperation (in telecommunications services, for instance).

Finally, in a similar vein, **more active participation in development by non-governmental players (private sector and other representatives of civil society)** could be envisaged, either in the form of a dialogue on cooperation priorities or in the shape of direct access to some of the funding.

The geographical scope of the future partnership agreement could change

The ACP group is in reality neither a political group nor an economic entity. It grew up for essentially historic reasons and exists only in the framework of relations with the European Union.

⁷ COM(96)90, Commission Opinion "Reinforcing political union and preparing for enlargement".

Will it remain a relevant partner for the Union in the future? In other words, should the present framework for relations between the seventy ACP states and the EU be maintained?

The answer certainly lies partly with the ACP countries themselves, which must adopt their position on the matter on the basis of their common interests and their desire to develop a negotiating capacity as a political or economic group on the international stage outside their relationship with the EU.

For the EU the choice is above all a political one, taking account of the way in which cooperation with the ACP countries meshes with the totality of the EU's relations with developing countries.

Other factors should also be taken into account.

The geographical coverage of the cooperation agreement might be changed to take on board factors such as the diversity within the ACP group, the need for differentiation of cooperation objectives and priorities and, possibly, trade regimes, plus the prospect of reduced aid requirements for certain countries and graduation. Changing the non-reciprocal preference arrangements which are different from those of other developing countries could become unavoidable and involve different trade arrangements tailored to the type of economy concerned.

The importance that the EU attaches to the cooperation and regional integration process for economic as well as political reasons will also influence the shape of a new accord.

There are four possible options:

1. **the status quo**, with a few adjustments. The principle of an overall agreement with all the ACP countries could be maintained, but with different arrangements and priorities;
2. **an overall agreement supplemented by bilateral agreements.** Differentiation would be taken a step further and the overall agreement would contain only undertakings of a very general nature;
3. **splitting up the Lomé Convention into regional agreements.** An agreement with sub-Saharan Africa that embraced South Africa would clearly be meaningful for Europe. Where the progress of regional cooperation allowed, subregional agreements could also be envisaged. There are a number of options in the Caribbean, notably the idea of an enlarged cooperation arrangement for the whole of the Caribbean area leading ultimately to integration of cooperation with these countries into the framework of relations with Latin America. In the Pacific region, enlargement of the framework of cooperation to other island states would increase the effectiveness of European policy, especially as regards trade with the APEC countries.⁸
4. **a specific agreement for the least developed of the ACP countries**, possibly open to other LLDCS. This option, which does not exclude elements of the other three options,

⁸ Asia Pacific Economic Cooperation.

would recognize the LLDCs' special circumstances and offer the possibility of policies better suited to their problems and needs, in the case of trade especially. But in terms of political and financial cooperation it seems an inappropriate solution. Another consideration is that a regional approach has always been adopted in relations with the ACP countries. The global perspective of European development cooperation is not what it was in 1957 or 1975: the EU now has cooperation links with a large number of countries and is present in all regions of the world.

The European Union should adopt a more coordinated and consistent approach to the ACP countries in order to be more effective

The general discussion about the consistency of European policies as they affect the developing countries has in recent years led to a number of initiatives to assess the effects of Community policies other than development cooperation on development objectives and to strengthen coordination between the Community and Member States and other donors in order to improve the effectiveness of cooperation overall.

Even if the current situation is often deemed unsatisfactory, **consistency - in the strict sense of the term, i.e. taking into account the external effects of the other policies, cannot be the subject of an international undertaking by the Community.** Consistency is a matter for political appraisal in the face of sometimes conflicting objectives.

The lack of coordination could, on the other hand, be remedied not only by actively continuing the EU's efforts to improve coordination of policies, operations and participation in international forums but also by making specific new undertakings when the time comes to renew the ACP-EU agreement. There are two possible options here:

- the Union could set itself the objective of formulating an overall European strategy for the ACP countries which would commit both Member States in their national operations and the Community. A framework of common understanding would facilitate efforts to achieve greater complementarity, a principle laid down in the Treaty, and would gradually boost operational effectiveness across the board;
- it could also propose to its partners putting in place machinery to provide information, monitoring and coordination services for Member States' and Community development activities and policies. The Union would thereby commit itself to providing the means for better coordination.

Stepped-up European coordination could also underpin efforts to improve coordination within the whole donor community and within the multilateral system in the framework of inter-institutional rapprochement decided at the recent G7 summit, which singled out Africa for particular attention.

New priorities have to be established for development policy in the light of the new international context, past experience, and social and economic developments in the ACP states

The Union has adopted new policy guidelines in recent years that deal with new topics or redefine the objectives pursued in the various sectors or areas of cooperation.⁹ These guidelines are likely to remain relevant in the year 2000 even if experience gained in the interval leads to adjustments or the development of certain facets.

But over and above this "acquis", the EU and its ACP partners can now consider setting themselves new priorities, taking into account the overall objectives of Community development cooperation policy enshrined in the Treaty, past successes and failures, and the ACP countries' handicaps and potential for future development. **ACP-EU cooperation policy can be reformulated under three broad headings: (i) economy, society and the environment; (ii) institutions; (iii) trade and investment.**

Distinguishing between these three areas in Community support should not of course lead to a compartmentalized approach. On the contrary, **the different components should be mutually reinforcing**; for instance, the necessary improvement in the competitiveness of the ACP economies is to be achieved by a combination of external and internal policy measures. Likewise, job creation and social progress are intertwined with private-sector development and improvements in the workings of government.

Yet the European Union cannot - indeed must not - do everything. Greater differentiation between the ACP countries should rather prompt it to adopt a cooperation policy tailored to circumstances and to act in fields that may differ from one country to the next.

Community aid for the ACP economies should promote their integration into the global economy

An aid strategy centred on enhancing the competitiveness of the ACP economies and developing the private sector and trade should comprise a package of measures aimed at ensuring the continuation of the reforms undertaken by these countries and boosting their credibility. The first such action should certainly involve support for the establishment of a stable, non-inflationary and growth-generating macroeconomic framework.

Among the various possible options, the following areas could be looked at in greater depth:

- **a more systematic approach to the causes of low investment in most ACP countries.** The EU could play a positive role by supporting administrative and institutional reforms that would encourage the mobilization of private investment, i.e. framing of competition policies, development of capital markets, modernization of

⁹ See the texts and resolutions on gender issues (COM(95) 423), health (COM(94) 77), education (COM(94) 399), food security (COM(94) 165), the fight against poverty (COM(93) 518), support for structural adjustment (COM(94) 447), the environment (June 1992 report on the Rio Conference and follow-up to Agenda 21, COM(96) 569) and the link between emergency aid, rehabilitation and development (COM(96) 153).

business and property law, consumer protection, education, training and development of industrial cooperation;

- support, tailored to local circumstances, for **restructuring of public enterprises and privatization** in the wider context of the changing role of the state in the economy;
- **greater support for an opening-up to international trade and for regional integration**. Such an overall strategy should support both capacity building (at regional and national levels and provide aid towards the costs of transition.
- seeking partnerships between EU and ACP countries that would mobilize private-sector resources for the **development of infrastructure, especially telecommunications infrastructure**, and their operation in economically viable conditions;
- aid for building up scientific and technical skills;
- **macroeconomic and monetary cooperation**;
- support to help reduce levels of **external debt**, although the Community itself accounts for very little of the ACP countries' debt because its aid is highly concessional.

Community aid in the social sphere should be stepped up

There are strong arguments for focusing cooperation with the ACP countries on poverty reduction. This objective already features prominently in current cooperation policy but in future the European Union and its ACP partners should look at ways of enhancing the impact of Community cooperation on poverty.

The principle of a multi-pronged approach involving a wide range of operations should be retained, but a more strategic approach could be adopted for each of the partners by acting on two fronts.

First, the EU could support packages of reforms and initiatives designed to promote equitable and job-creating growth, improve access for all to productive resources, notably through education and vocational training.

Second, it could adopt a more comprehensive sectoral approach based on in-depth dialogue on policies with significant social impact and on aid directed towards the financing of current expenditure in the social sectors.

The effort put into achieving social development objectives could also be one of the criteria taken into account for the granting of Community aid, assuming that the option of greater selectiveness linked to an assessment of good governance is taken up.

Protection of the environment should also be given greater prominence in Community aid

A clearly defined strategy would help translate into practice the principles of sustainable development. In addition to continuing the current efforts in the form of impact studies and specific positive measures, a new policy in this field would focus on certain priorities: **the link between poverty and deterioration of the environment, the internalization of environmental costs, capacity development and a participatory approach.**¹⁰

The EU could play a constructive role here by encouraging and supporting ACP governments, in the context of a policy dialogue, to develop their own capacity to assess and manage environmental problems.

There are particular issues, such as the quantity and quality of water supplies, deterioration of the soil as a result of population pressures, the destruction of forests and the problems of cities, which merit close attention.

The EU could play a more active role in institutional development

The institutional aspects of cooperation need developing because of administrative dysfunctionality and governance problems in many countries and because the rule of law needs to be restored or consolidated to bring about the conditions for development and a reduction in inequality and poverty.

But the EU must also think carefully about the impact of such action. **Stronger political relations between the EU and ACP countries** are integral to any action to support the building of a country's institutional and administrative capacities. As the process is essentially a political one, this type of reform affects power structures and inevitably encounters stiff resistance.

Is the EU ready to adopt a more strategic approach to its support for the necessary political and social transition?

Aside from its political dimension, support for institution building also has a more technical side. From that point of view, the European Union is relatively well-placed to offer its services because, given the diversity of social and political organization in the Member States, it has no one model to "sell", because it has know-how gained from building the Community and because partnership is an appropriate framework for this type of cooperation.

EU action could be focused on themes connected with its main areas of cooperation where it could offer "added value" compared with other donors. These themes include: promoting observance of human rights, support for regional organizations, improving capacity for economic- and social-policy analysis and formulation/preparation of reforms, budget management, improving the workings of the legal system, competition rules, investor

¹⁰ The Protocol on the sustainable management of forest resources, which was added to the fourth Lomé Convention during the mid-term review, is a step in this direction.

protection, education and training, environmental protection, consumer policy and developing the institutions of civil society.

The Union could also look at the development of local capacity as one of the criteria determining the choice of arrangements for implementing financial and technical cooperation.

Need for new trade arrangements that are consistent with the strategic choices made by the ACP countries in their bid to integrate into the world economy

In most ACP countries the economic and institutional environment has not usually been propitious to the development of a competitive private sector, the growth of investment or diversification of production, and so **they have not been able to take advantage of all the opportunities offered by the special preferences granted under the Lomé Convention.** ACP exports to the EU have been no exception to those countries' generally poor trade performance and their share of the EU market has declined appreciably, dropping from 6.7% in 1976 to 2.8% in 1994. Although the situation varies markedly from one country or region to another, the European market still accounts on average for more than 40% of ACP sales.

For the future, there are various options involving one or more trade regimes. They should be assessed in terms of their implications for ACP-EU relations and whether they can help the ACP countries diversify their external economic relations and avoid the risk of growing marginalization.

There are four main options:

1. **the status quo.** The present contractual system of non-reciprocal preferences, specific to ACP's, could be supplemented by cooperation activities in trade-related fields (standards and certification, the environment, competition, intellectual property rights, etc.).
2. **application of the Community's generalized scheme of preferences (GSP)** on a bilateral or multilateral basis. This would entail removing trade from the cooperation agreement, and therefore from the negotiations, as the GSP is a matter for unilateral (or perhaps, one day, multilateral) policy.
3. **uniform reciprocity.** After a transitional period, all ACP countries would extend reciprocity to the EU in line with WTO rules. As in the first option, cooperation could also be developed in new areas.
4. **differentiated reciprocity.** Reciprocal preference arrangements could be envisaged between the EU and different groups of countries or between the EU and individual countries. This option could be supplemented by cooperation in new fields on the WTO agenda.

These options are not mutually exclusive and could be combined in various ways so that the arrangements can be adjusted to the level of development of the countries concerned and their willingness to strengthen relations.

Before choosing one or other of these options, we must make a detailed analysis of the potential impact on both the EU and the ACP countries.

The European Union could also support the adoption of an agreement on the protection of foreign private investment

Proposals on this have already been under consideration since adoption of the fourth Lomé Convention. International agreements are being negotiated and the Commission is pushing for progress in the WTO context. Negotiations are also under way in the OECD with a view to a Multilateral Agreement on Investment.

In the meantime, cooperation at subregional level or by groups of countries would significantly streamline negotiations, which at present take place only at bilateral level. Such an initiative would give a significant stimulus to private investment.

The European Union should also review the procedures for implementing its financial and technical cooperation

The move towards a more "responsible" partnership, demands for greater effectiveness and recognition of the significant differences in levels of development reached by different ACP countries all point to the need for a radical review of the arrangements for implementing Community aid to ACP countries.

A fresh look at aid instruments

The Lomé Convention today provides for a wide range of instruments designed to achieve specific objectives and subject to different, sometimes complicated, management procedures. Their simultaneous use in the same country makes EU policy less than transparent. We should ask ourselves whether the EU should not switch to offering overall financial packages, perhaps retaining the distinction between crisis situations and long-term operations and between public- and private-sector operations.

Greater selectiveness

The allocation of programmable aid resources is already much less automatic since the mid-term review of Lomé IV and a new performance criterion has been introduced, meaning that the amounts of aid allocated to a country are adjusted in relation to the effort made by the government in its sectoral and macroeconomic policies. This reflects the EU's concern to achieve greater effectiveness. It also corresponds to a new notion of partnership based on reciprocal undertakings and the view that external aid should support domestic reform efforts. The EU should therefore be inclined to continue along this road. At the same time, the advantages of programming in terms of predictability of external financial flows for the ACP countries and the fact that it builds on approved frameworks of country strategy should prompt it to maintain a multiannual programming system. **In determining country allocations, the EU should decide to what extent it wishes to supplement the needs criterion - based essentially on development indicators - with performance and management criteria. It should also consider whether to make its country policy more flexible** by adopting for example a system of rolling programmes.

Project aid or direct budget aid

The evaluation of Community instruments has produced a number of operational conclusions: the advantages of a more sectoral approach and support for reforms - already acted on under Lomé IV - and of focusing on improvement of the institutional framework and local capacity to devise economic and social policies integrated into a long-term strategy. **This raises the question as to whether the EU should gradually abandon the project approach once and for all and instead try to create the right conditions for giving support in the form of direct budget aid for the states concerned and sectoral aid.**

Any such development should certainly go hand in hand with a reform of conditionality to be coordinated with the whole donor community. Consensus needs to be reached on a small set of essential criteria to avoid a continuation of the recent proliferation of often very specific conditions. If conditionality is to have a real impact on a country's policies, it must be both realistic (i.e. takes account of political and institutional as well as economic and social factors), comprehensive (the product of an assessment of all the government's macroeconomic and sectoral policies) and rigorous. The Commission has a scheme for Africa (SPA), the aim being to find a new approach that best accommodates long-term development objectives and short-term imperatives, while encouraging recipients to internalize reforms.

Towards new management arrangements

Joint management as practised hitherto with Lomé has revealed its limitations. It has hampered the effective management of disbursements and has discouraged the internalization of reforms or development programmes by their beneficiaries. It should therefore be overhauled. **What are the alternatives that will ensure both sound management of resources and the assumption of responsibility by the recipients, a *sine qua non* for more effective aid?** One possibility is a differentiated, progressive approach that would enable us to find the most appropriate management method on a case-by-case basis, using criteria such as quality of policy dialogue, progress in implementation, the relative shares of Community aid vis-à-vis the national resources and the existence of machinery to coordinate external aid in the recipient country.

The Commission reiterates its recommendation that the European Development Fund (EDF) be incorporated in the Community budget.¹¹ "Budgetization" would give true Community status to the aid managed by the Commission and make for beneficial synergies between different EU policies. Similarly, EIB lending to ACP countries could then be subjected to the same

¹¹ Budgetization of the EDF, which has been repeatedly proposed by the Commission, is not broached as such in this Green Paper. This issue will be discussed at the same time as the financing of a future partnership. See on this subject "Report on arrangements and possibilities for budgetizing the European Development Fund" (SEC(94) 640 final).

procedures as used for its operations in other non-member countries, especially in respect the replenishment of the guarantee fund for external operations.

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PART I A WORLD IN TURMOIL

CHAPTER I. GLOBAL CHANGES AFFECTING ACP-EU RELATIONS

A. The international context and its consequences for the ACP countries and Europe

Unprecedented changes have occurred on the international scene since the beginning of ACP-EU cooperation, the scale of which is illustrated by:

1. Economic globalization and interdependence

The growth of trade, the unification of capital markets and the globalization of production and distribution networks represent both opportunities and new risks for Europe and the ACP states.

The emergence of new motors of development in Asia and Latin America - itself a factor of globalization - modifies both the geography of international growth and the direction of private capital flows. Many countries which in 1960 were included among the world's less developed states, often with large populations, now have greatly reduced poverty and significantly improved human development indicators.

The new economic constraints are forcing all states and societies to adjust by implementing radical reforms. EU countries must make their economies more competitive, reform their social systems, and tackle the problem of declining social cohesion. High unemployment, rising poverty and social exclusion are a major concern and may lead to both countries and individuals to turn in on themselves. Budgetary constraints, linked ultimately to the pressure of an ageing population on social security systems, do not make the task of reform any easier.

The ACP states are only marginal players in global trade (2%) and international investment flows (less than 1%). They must integrate more fully into global trade, diversify their production base and their export outlets. As in other regions, regional synergies and cooperation, both economic and political, would contribute to this process.

Action on a national scale appears increasingly inadequate as the growing interdependence between the social and economic systems of various regions, the appearance of new systemic environmental dangers, migration, terrorism, drugs, and international organized crime, call into question the notion of national sovereignty. Global regulation is progressing very slowly; it seems likely that the parallel trends apparent today - a stronger multilateralism and regionalism - will continue.

2. The ever faster spread of technological innovation

The information society is a spectacular aspect of globalization which could accelerate change, reduce technological gaps and open new roads to development. Conversely, the lack of basic infrastructure in the poorest countries, the concentration of production of new

technologies in certain industrialized countries and the possibility of a culturally-motivated rejection of these technologies risk widening the gap between poorer and richer countries and increasing social inequality.

Europe is striving to be ultra-competitive in high-technology sectors. ACP countries must create the right conditions for technology transfers and adapt new technologies to their own needs. These two aims are complementary, as the notion of what constitutes "advanced technology" is constantly evolving. The most advanced technologies can now be used to solve problems in developing countries without a prior transition period.

Technology plays a crucial role in the quest for sustainable development. However, the cost of protecting the environment may, in the short term, be in conflict with the aim of increasing the competitiveness of ACP countries. It is imperative to reach international agreement on clean technology and how to share the costs of environmental protection between industrialized and developing countries.

3. Uneven demographic trends

The world population is growing at an unprecedented rate: from 2 billion people in 1930, it reached 4 billion in 1975 and is close to 6 billion today. According to recent projections, the figure will be near 8 billion in the year 2020. Should the entire world population attain the standard of living and levels of consumption of industrialized countries today (including certain newly industrialized countries), pressure on the environment would become intolerable. Moreover, population growth is accompanied by an increase in urbanization, especially in poorer countries.

The imbalance between the populations of the North and South will be reflected in the balance of power in the multilateral system, especially if accompanied by economic performance, as exemplified by Asia's new prominence.

While the global rate of population growth is expected to fall, sub-Saharan Africa is a notable exception. This region still has very strong population growth (2.9% annually), which is not easily compatible with the aims of sustainable development. Rising urbanization is putting acute pressure on infrastructure and social services, especially education. Getting to grips with urban development and managing the local environment will increasingly be a prerequisite of political stability in Africa.

Massive inter-African migration is a factor promoting economic integration. However these movements are often uncontrolled and may also become an important cause of political risk and instability.

North-South migratory pressures, especially between Africa and Europe, are likely to rise considerably; this prospect underlines the relevance of development.

4. The end of the Cold War and the emergence of a multipolar world.

Economics plays an ever greater role in external relations, while the end of East-West rivalry has rendered ideology-based support obsolete and given middle-sized nations more

influence and a degree of autonomy in foreign affairs. The direct responsibility of states for their internal and external security has been reestablished in both North and South.

The new geopolitical reality is taking shape as the coexistence of regional entities. Asia, in particular, has become an economic player of the first order and is expected to reinforce its political presence on the international scene in the years to come.

While the European Union is engaged in an important phase of stepping up the process of integration, it is also transforming its identity. On the one hand, the events that led to its founding are receding into the past; on the other, it is preparing to deal with the fundamental questions posed by its eastward expansion, which will make the Union more diverse and will call for special efforts to ensure the acceptance of its values of peace, solidarity and cooperation.

In this new context, both for internal reasons and in order to respond to external demands, the European Union will affirm its political standing by adopting a more effective, more global common foreign policy. North-South relations will be one of the first strands of this policy: Europe can thus affirm its identity in adding a new dimension to the special relationship between the Union and ACP countries. The end of the Cold War will give a new strategic and security dimension to development cooperation. At the same time, Europe will be shouldering new tasks which will increase its economic responsibilities in fields other than development. Development policy and multilateral trade policy should be consistent and seen as two facets of the Union's external identity.

B. The external action of the Union and development cooperation policy

1. Development cooperation: a cornerstone of coherent external policy

The Union's external policy has three main components:

- the common commercial policy, based on uniform principles, especially with regard to the conclusion of tariff and trade agreements and measures to protect trade: the Union has adopted a broadly liberal overall policy centred on compliance with multilateral obligations, the building of a better-managed multilateral system, and on the active pursuit of wider access to external markets¹;
- systematic cooperation and joint actions in foreign policy, centred on the aims of peace and security, consolidation of democracy and the rule of law, and human rights and fundamental freedoms;
- development cooperation: support for sustainable economic and social development of the developing countries, especially the most disadvantaged among them, their smooth and gradual integration into the world economy and the campaign against

¹ See Commission Communication on "A Market Access Strategy for the European Union (COM (96) 53).

poverty. According to the terms of the Treaty, Community policy in this area should contribute to the general objective of developing and consolidating democracy and the rule of law, and that of respecting human rights and fundamental freedoms;

A number of other Union policies are closely linked to external affairs, especially environment, agriculture and fisheries, science and research, the information society and the harmonization of standards for the internal market.

In all these fields, the Union pursues aims which respond to specific concerns.

Development cooperation makes a large contribution to the coherence of the Union's external actions in that its aims ultimately complement the Union's political and economic objectives:

- . the aim of development is to achieve sustainable economic progress and social equilibrium - aims that underlay the setting-up of the European Union.
- . development should help solve global problems (environment, population, epidemic diseases, trafficking) by making it possible for developing countries to help manage these problems;
- . development cooperation, specifically the role Europe plays in poorer countries, enhances Europe's image around the world. Europe cannot be accused of commercialism at a time when market shares in emerging economies are hotly contested. In practice, European producers will benefit in the medium or long term from increased prosperity in partner countries with fast-growing populations. Another factor to take into account is that ACP-EU relations embrace four continents, thanks to which European economies are well-placed vis-à-vis emerging regional blocks in sub-Saharan Africa, Latin America, Asia and the Pacific;
- the political aspects of development (democracy, human rights, fundamental liberties, rule of law), its social benefits (better living conditions, preventing the disintegration of the social fabric), and its environmental concerns (conflicts and food deficits due to water shortages and soil degradation) meet some of the security concerns of the EU (risk of armed conflict, spread of nuclear weapons, terrorism, migration). Moreover, regional and global economic integration, which the Union supports, contributes significantly to stabilization.

Development cooperation is an important part of the Union's external policy. Nevertheless, it must retain enough autonomy to meet the Union's own long-term needs, which require continuity. Cooperation may contribute to the aims of foreign policy but must not be ruled by them. The explicit ties between various strands of external policy are governed by the principle of consistency.

2. Development aid: loss of legitimacy and the demand for efficiency

During the 1980s various factors contributed to a general feeling of disillusionment with the actual results of development aid: the budgetary constraints of donor countries; rising unemployment and the worsening of social problems in industrialized countries, with the consequent tendency to turn inwards; the perception that, in comparison to trade and investment, aid had played a marginal role in the economic success of certain Asian and Latin American countries; finally, the evidence that despite certain remarkable results, such as improved health, education and access to drinking water, many countries in sub-Saharan Africa, recipients of substantial aid and cooperation resources, had fallen behind and remained on the margins of global economic and technological development.

This negative reaction to cooperation has been further exacerbated by rising violence, the spread of fratricidal wars, the bankruptcy of many African states in recent years, the perception that corruption was endemic and aid was being siphoned off by powerful elites. Repeated crises have increased substantially the number of humanitarian operations, which divert resources from development budgets; these interventions have also led to a certain confusion between emergency aid and more long-term aid, and between humanitarian and socio-economic needs.

Faced with the downward pressure on development aid budgets, but also aware of the extent of extreme poverty and the threat it represents in terms of instability and potential conflicts, today's partners in cooperation have no alternative but to reexamine the criteria governing the allocation and management of aid in order to achieve a better and more efficient use of available funds.

Apart from the need to improve results, development thinking itself has moved on. Global economic changes (liberalization, technological progress, emerging economies) and the lessons from the success stories of Asia, Latin America, or Africa, have radically modified the philosophy of development. This is especially true of perceptions about the role of the state and relations between public and private actors.

Another factor contributing to the overhaul of cooperation is the end of the Cold War: the new political openness has allowed the emergence of a wide consensus on the principles of democracy and the market economy. International political dialogue has become deeper and richer by incorporating the experiences of new participants. Since 1990, the great international conferences on the environment, human rights, population, social development, the role of women, and food security have demonstrated that very dissimilar countries can agree on common values and principles concerning essential issues for development.

These processes have already led to important changes in the concepts of aid and its role in development, which have been partly incorporated in the ACP-EU cooperation policy. These changes fall within four main categories:

- an enhanced political dimension (resolution of 28 November 1991 and revised Article 5 of Lomé IV: human rights, democratic principles, rule of law and good governance);
- stronger ties between relief, rehabilitation and development aid;³
- the formulation of new approaches concerning the role of aid and a redefinition of the parties' respective roles: emphasis is placed on the policy environment, local capacity building, the role of civil society, and on new ways of including other agents of development, especially in the private sector;
- a change in priorities, by reducing intervention in productive sectors and integrating relatively new themes:
 - (i) new ways of supporting social development (budget aid and securing social expenses), taking into account more systematically the impact of cooperation on poorer groups and greater emphasis on the role of women, demographic issues, education and training;
 - (ii) actions in favour of environmental protection, the management of natural resources, and sustainable development: they involve environmental impact studies in all projects as well as financing for specific environmental programmes and projects;
 - (iii) the creation of an instrument for structural adjustment support at macroeconomic and sectoral levels;
 - (iv) institutional reforms, development of administrative capacity, building civil society, development of a more participatory approach, and decentralized cooperation;
 - (v) a new conception of the economic role of the state, policies to foster private sector development, and support for trade development.

These changes are expected to increase the effectiveness of development policies. However, it is too early to assess their real impact.

C. The Union's development role

As a force for stability, a model of cooperation and regional integration, a leading trading power and the largest single source of official development assistance, the Union has a major role to play in the development of less fortunate regions.

The Union can contribute in five main ways:

- Through its active participation in the multilateral system, in the fields of security, trade and investment, economic and monetary cooperation, the Union's actions have an appreciable impact in the developing countries. The Union's long-standing concern to see the less developed countries integrated into international trade is now a key consideration in its dealings with the ACP countries.

2 COM (96) 153 of 30 April 1996 "on linking relief, rehabilitation and development".

- In view of the general principle that Community action should be consistent and sustained, the Union is duty-bound to ensure that the developing countries are able to benefit from the process of European integration. Access to the single market, soon to be completed by the move to a single currency, and the prospect of enlargement, which brings with it a risk of deflection of trade and investment as well as new trading opportunities, are key aspects of any European policy towards other regions.
- The Union stands out among multilateral institutions involved in development issues (the World Bank, IMF, regional development banks, etc.) because it alone is a political entity. The Union has the political clout needed to back an equitable and sustainable development model consonant with its own fundamental principles and the socio-cultural values underpinning its vision of society. The importance it attaches to human rights, social values, education and training and the preservation of the environment combine with its firsthand experience of underpinning the liberalization of trade with carefully designed structural policies, and its efforts in the field of regional cooperation and integration to make it a unique force in the development field.
- The Union must make full use of its capacity to mobilize enough aid resources to achieve critical mass and engage in aid policies pursuing long-term objectives. Compared with other donors - now that US aid budgets have been slashed - the Union is a major source of official development assistance: with the volume of international aid in sharp decline since the early 1990s, the share of the total accounted for by the Union (Community and Member States) is increasing all the time (53% in 1995).
- Lastly, by continuing its internal coordination efforts in application of the principle of complementarity between the Community's development policy and the Member States' bilateral policies,¹ the Union can give a fillip to coordination efforts by the international donor community in various forums (the UN, OECD, G7 initiatives to strengthen coordination between the multilateral institutions, the Special Programme for Africa, consultative groups, round tables, etc.). Greater coordination in respect both of global initiatives and individual recipient countries is now crucial to improving the effectiveness and efficiency of aid policies.

The renewed momentum recently given to the European project must, at least in part, be ascribed to Europeans' efforts to deal with the major changes in world affairs described in this opening chapter. Still far from over, this acceleration serves two objectives: to enhance Europeans' capacity for action within a political union and to show democratic solidarity with the countries of central and eastern Europe. To endorse these two objectives, which

1 See the Council's conclusion of 25 May 1993, the resolution of 2 December 1993 on procedures for coordination between the Community and the Member States, and the various resolutions since adopted with a view to strengthening coordination between the Community and the Member States in different areas of development policy (poverty, health, food security, education, AIDS, equality of the sexes etc.). See also the Commission's final report on the pilot scheme to strengthen operational coordination between the Community and its Member States (COM(95)700), on which the Council adopted conclusions on 28 May 1996.

are central to the present Intergovernmental Conference (IGC), is to recognize, in a way, the need in future for a European development policy: Europe cannot claim to be a player on the world stage without a responsible strategy towards the different regions of the South, and in particular those most at risk of poverty and marginalization. It cannot pride itself on its solidarity with Eastern Europe's fledgling democracies without confirming a partnership with countries feeling their way towards a just society founded on fundamental human rights.

CHAPTER II. THE EXPERIENCE OF ACP-EU COOPERATION

A. Relations between the Union and the ACP countries: their origins and subsequent development

1. The evolution in Europe's political relationship with the developing world

Community development aid policy has its roots in the association of the overseas countries and territories in 1957, the result of a compromise between Member States advocating a global approach to development and those arguing for a special relationship with Africa.

Association was designed as a broad strategy encompassing both trade arrangements and development aid.

The fact that many countries gained their independence after the first five years of the association arrangements laid down in the Treaty did not bring any fundamental change in the thinking behind cooperation. The Member States, moved by solidarity and a wish to assume their responsibilities as much as by a concern to defend their economic and geopolitical interests in the age of the Cold War, and the newly independent countries, which wanted to go on receiving trade preferences and funding for development projects, decided to continue their cooperation in the framework of the two successive Yaoundé Conventions (1963-69 and 1969-74), which were a natural follow-up to association. During the 1957-74 period of Euro-African relations, the lion's share of Community aid went to the French-speaking countries of sub-Saharan Africa.

In the mid-1970s the international situation, the desire of several Member States to develop a global aid policy and the accession of the United Kingdom combined to bring about a radical shift in Community aid policy. European anxiety at the first oil crisis, i.e. a fear of raw material shortages and a desire to hold on to valued overseas markets, united with geostrategic interests and a residual sense of responsibility for the colonial past to produce the first partnership agreement between the Community and the ACP countries.

Signed in 1975, the first Lomé Convention was open to the African members of the Commonwealth, some Caribbean and Pacific countries, and other countries of sub-Saharan Africa wishing to take part in these first group-to-group negotiations. There were 46 ACP countries in all.

Meanwhile, Europe was embarking on cooperation with other regions of the world. The latter half of the 1970s saw the conclusion of the first agreements on trade, financial and technical cooperation with Mediterranean non-member countries along with the emergence of a policy on aid to the developing countries of Asia and Latin America, a policy that has been developing steadily and becoming increasingly structured ever since.

The growing importance of food aid, most of it for countries outside sub-Saharan Africa, has been a further reflection of the globalization of Community aid policy since the 1970s.

2. Successive changes within a framework unaltered since 1975

The first Lomé Convention was at the time a unique example of international cooperation. The principle of partnership has been at the very heart of the Conventions that have bound the Community and the ACP countries since 1975. It reflects an approach to cooperation based on reciprocal commitments in pursuit of shared objectives. Principles such as collective negotiations (between the two groups of countries and covering several aspects of cooperation), the dialogue with individual ACP countries made possible by the joint institutions and the contractual and predictable nature of the funding provided have become the foundation of European aid policy under the Lomé Conventions.

Successive Conventions have enabled the partners to adapt aid objectives and instruments without ever questioning the overall framework or the strategy pursued. These adjustments have nevertheless provided an opportunity to draw practical lessons from the successes and failures of the past, and to incorporate, at least partly, the intervening changes in development thinking. Aid policy under Lomé has evolved to reflect:

- the changing perception of the state's role: Once considered the only force able to raise the capital necessary for economic development, its role is now seen as being to establish and maintain a legal and administrative framework guaranteeing fundamental rights and freedoms, to provide essential social services and to foster the development of private enterprise. The nature of the Convention has not, however, changed: the state remains practically the only partner in the aid context, apart, since 1976, the cofinancing with NGOs and a limited number of decentralized cooperation schemes under Lomé IV.
- the shift away from an approach to industrialization based on import substitution to one geared to export-led growth.

Since the Pisani Memorandum, there has been an increasing emphasis on policy dialogue, with a shift from aid focused mainly on project financing to technical and financial assistance for sectoral policies.

The innovations that have given the Lomé Convention its pioneering character include the system for offsetting losses of export earnings introduced in the 1970s and, more recently, 1990's negotiated approach to structural adjustment. Regardless of their future relevance, both instruments were applications of the latest in development thinking at the time. With the end of the conflict between East and West, the Convention was also one of the first cooperation agreements to acquire an explicitly political dimension in the shape of the human rights clause, which, since 1995, has been extended to encompass the application of democratic principles, the rule of law and good governance.

The alterations made to conditionality in the revised fourth Lomé Convention and the principle of two-tranche programming, which limits the automatic nature of programmable aid allocations, also reflect a major change in the Community's approach to aid policy.

3. The need to review the overall framework

As the 21st century nears, the Union must redesign its aid policy towards the ACP countries from scratch, not only as a result of changes in the economic and political conditions governing development or rapid development in other regions of the world but because Europe's motives are no longer the same. The colonial and post-colonial age is over, and a more open international political climate means that the partners' respective responsibilities can be defined less ambiguously. It is in this context that a critical examination of past cooperation can offer constructive guidance for future policy.

B. Successes and failures of cooperation under the Lomé Convention

1. Patchy results

While aid is a major source of income for many ACP countries, it is difficult to determine its impact and effectiveness in terms of improvements to a country's economic and social conditions. Trends in these conditions are the result of a wide range of exogenous and endogenous factors, chief among them being the country's own economic and social policies, which aid can influence but not ultimately supplant.

Some studies suggest that the aid allocated by the donor community to ACP countries has probably had a beneficial but limited effect on growth, investment and the improvement of health indicators, and that this effect has varied appreciably from country to country according to the initial situation and economic policy conditions.¹ Aid has been markedly more effective in those countries that started out with the least capital and human resources, and in countries that have embarked on stabilization policies and structural adjustment programmes.

Community aid accounts for a major share of all the aid received by the ACP countries since the 1960s. The Community is today one of the ACP countries' three main sources of aid,² and offers these countries the most generous system of trade preferences. The Lomé Convention has undoubtedly been a unique framework for cooperation between two groups of countries. Its main advantages lie in the fact that it has been a testbed for development aid, that it has provided a negotiated framework for the drafting of a corpus of shared principles and objectives, and that it has mobilized considerable - and almost entirely concessional - funding, without which many practical schemes could not have been carried out. The predictable nature of European aid - part of a long-term partnership - encouraged the governments of the recipient countries to embark on long-term transformations.

1 "Effectiveness of Overseas Aid Flows", P. Mosley and J. Hudson, 1996. This study, which covers a sample of 29 ACP countries accounting for 80% of the group's total population, analyses the impact of international aid over a period of thirty years.

2 In sub-Saharan Africa Community aid currently accounts for about 10% of aid from the OECD area. When aid from the Member States is counted, the Union accounts for over 60% of total aid to the region.

Twenty years' experience, however, shows the Convention to be an ambitious but sometimes unrealistic framework based on assumptions about the ACP countries' institutional and political capacities that have not been fulfilled. Thus, the respect for national sovereignty that once took the form of an almost boundless trust in the recipient governments is evolving into an approach guided by considerations of efficiency. The automatic granting of a great proportion of financial resources has undermined the political dimension of Community aid: it has not been conducive to frank discussion of the way in which resources are used. Conditionality in its present form and the policy of substitution that all donors tend to pursue appear difficult to reconcile with the real political commitment expected of the ACP governments, a commitment which would enable them to assimilate reforms and sectoral strategies and assume political responsibility for them in the face of growing public demands for transparency and participation.

Any assessment of the experience of Community aid must hinge on a number of key questions concerning the main difficulties encountered by the principle of partnership, the effectiveness of financial and technical cooperation and the countries that have benefited most, and the impact of trade preferences.

The answers to these questions are neither obvious nor unequivocal. They combine political and economic aspects with the practical administration of aid.

2. The partnership experience

The principle of partnership enshrined in the Lomé Convention has diminished in substance and has not been fully realized. It has tended to be restricted to the institutional side of cooperation and the joint administration of aid resources.

At political level, the relationship between the two partners has been increasingly dominated by the dependence on aid, the needs of the moment and crisis management.

Economic and sectoral policy dialogue has proved difficult with partner countries that have weak institutions and in many cases inefficient administrations. The practice of conditionality has diminished the responsibility of the recipient governments, since the conditions imposed (linked to the criteria applied by the IMF/World Bank) have sometimes been too specific, too numerous or too rigid. In its eagerness to improve the efficiency of aid operations, the Community has tended to take the place of its weaker partner, adopting a more interventionist role that is hard to reconcile with the recognized need to encourage the recipient countries to take charge of their own development process. In an age of increasing political and economic liberalization, non-governmental organizations, representatives of the private sector and other segments of civil society have, for their part, expressed growing interest in direct participation in a partnership from which, with the exception of the NGOs, they have felt excluded.

In the practical management of aid, the structure of instruments and the procedures for the joint administration of resources have not always had the flexibility required to make sure that aid operations accurately reflect political priorities.

3. The evaluation of aid policies

Since 1990, in the wake of the measures adopted by the Council on the evaluation of the Union's aid instruments and programmes,³ a series of studies have been launched concerning projects, sectors, recipient countries or specific instruments. These evaluations cover the whole of Community aid policy, not just cooperation with the ACP countries. They have served to identify practical measures to improve the efficiency and effectiveness of Community aid and to remedy a number of weaknesses.⁴

The overall evaluation of the European Union's development aid policies and instruments launched by the Council in June 1995 is still under way. A number of points can, however, be made on the basis of the sectoral or geographical studies available.

When considering the conclusions of evaluations, a distinction should be drawn between improvements and adjustments that can be made within the present framework and those that call into question the framework or its underlying principles, reflecting the Lomé Convention's shortcomings as an aid instrument. Only the latter are of relevance to this Green Paper.

One conclusion that emerges from most of the evaluations is that the **institutional and economic policy situation** in the recipient countries has often been a major constraint, reducing the impact of aid operations. Even though a great number of projects financed by the Union have proved apposite and effective, which is the case of the majority of infrastructure projects and social schemes, they have not automatically led to improvements in the country's development indicators. Without incentive policies, dynamic sectoral institutions and sufficient funding to cover operating and maintenance costs, the viability of the results of aid remains precarious. This fact, which concerns all the donors, is reflected by a tendency for international aid to focus on the countries that seem best able to use it effectively, which at the moment are those undergoing structural adjustment.

The **geographical breakdown** of Community aid, like that of the other donors, reflects this concern about the way resources are used: resources are directed away from countries in which political conditions fall short of basic requirements and towards countries undergoing structural adjustment. At the same time a criterion based on an assessment of relative need is applied when allocating programmable resources: over and above the general priority accorded to the least-developed countries, priority is accorded to the poorest countries (according to indicators such as per capita income, life expectancy and literacy rates), to island or landlocked countries. But the overall country breakdown of Community aid only partly mirrors these priorities. The methods used to calculate payments under

3 See Council Resolutions of May 1989, May 1990 and May 1992, the declaration of 24 November 1994, and the document adopted on 1 June 1995 laying down the procedures and organization for the evaluation of the European Union's development instruments and programmes.

4 Measures adopted to this end include the use of the logical framework for examining projects and the negotiation of frameworks of mutual obligations for the use of Stabex funds.

instruments such as Stabex and Sysmin, which have their own specific allocation criteria, distort the overall targeting of aid.

Another factor to be borne in mind is that lack of pertinence and inefficiency are sometimes a product of disagreement about the political priorities. The ACP countries have often proved unable to establish consistent **sectoral policies**, and the Community has tended to rely excessively on technical assistance consultants to determine the procedures for the implementation of its aid operations. Moreover, in certain fields, e.g. the environment, the ACP countries and the Member States may have very different concerns and priorities. Policies in other sectors have often been drawn up according to approaches laid down by the donors, and in particular the World Bank. In yet others, however, among them health, which has attracted a growing proportion of Community aid under successive Conventions, the Community has exercised increasing leadership: through institutional and technical support, the Community has emphasized the development of national health systems, with an emphasis on primary healthcare and access to essential drugs.

The Union has also demonstrated that it can carry through major changes in direction, as in the case of the recently adopted **food aid reforms**. These reforms, which are a response both to growing problems of food security in sub-Saharan Africa and to the relative inefficiency and adverse side-effects of the instrument used, mark a shift away from a culture of assistance to one of development by supporting food security policies in a number of priority countries.

For certain new objectives, e.g. the **development of the private sector**, which has acquired increasing importance under the fourth Lomé Convention, Community aid is still not as strategic as it should be, relying as it does on a body of instruments and operations that lack the requisite consistency and complementarity. Projects fostering investment and competitiveness through targeted support to firms remain few and far between, and those there are need to mesh better with schemes to improve the institutional and economic policy environment. In some fields, such as support for regional cooperation and the development of regional trade or for programmes to promote exchanges between firms, the Community's backing is proving particularly apposite and effective.

4. The evaluation of financial and technical aid instruments

The efficiency and impact of Community aid are often undermined by the difficulties of maintaining consistency between instruments which, even if they interact in closely related areas, are governed by different criteria. Some recent Community measures born of the results of the evaluations have, however, been designed to limit such drawbacks. The reform of the food aid system, for example, should generate synergies with EDF operations by placing a policy of food security in the wider context of efforts to alleviate poverty.

(a) **Project aid**

The impact and efficiency of project aid, which now accounts for an appreciably smaller share of overall funding, vary considerably from one sector to another. An evaluation of 335 projects started in the 1980s, for example, puts the efficiency rate of transport projects at 70%, compared with only 30% for agriculture and rural development projects. A number of inherent weaknesses in the instrument have, however, been identified:

- Project aid tends to underestimate the importance of the macroeconomic framework in ensuring a satisfactory impact in terms of improved living conditions and a project's long-term viability.
- It is inappropriate - and therefore ineffective - where there is no clear sectoral policy. Indeed action of this kind can sometimes delay the reforms necessary by masking the underlying constraints.
- A widespread failure of governments and/or beneficiaries to internalize over development projects also reduces their effectiveness, especially where accompanying measures prove inadequate.
- As with any other form of intervention, inadequate coordination between donors appreciably reduces the overall effectiveness of aid projects.

(b) Structural adjustment support

The Community has become a major player in this field, providing the countries concerned with 10-30% of their total adjustment aid. The Community differs from most other donors, however, in that all this aid is provided in the form of grants.

Evaluations underline the relevance of this instrument, which enables the Community to provide effective support for stabilization programmes and pursue broader objectives than the more conventional programmes agreed by the governments with the IMF/World Bank: besides macroeconomic stabilization and the conditions for the development of the private sector, the priority accorded to priority sectors, and in particular education and health, is highlighted by the targeting of counterpart funds.

There is, however, room for improving the impact of what is potentially one of the most effective instruments, notably through:

- a deeper policy dialogue, the scope of which could be substantially increased by improved coordination within the Union;
- greater consistency between structural or sectoral adjustment support and the use of other instruments, which need to be better integrated into the overall strategic framework negotiated;
- support for budget programming and management in the recipient countries;
- the clarification of conditions and the improvement of monitoring procedures and, in the event of breaches, the practical repercussions thereof.

5. Commodities: the Stabex and Sysmin compensation systems

While the need to provide special support for restructuring in some sectors is not necessarily in question, a series of factors render these two instruments ill-suited to the present context:

- There has been a considerable change in the thinking that lay behind the development of this kind of aid, particularly concerning the role of the state in setting producer prices for commodities;
- The criteria governing eligibility, which depends on fluctuations in export earnings, and the initially automatic nature of payments have been much criticised because they can delay reforms.
- Sysmin and Stabex resources are best used for the purposes of diversification in the course of macroeconomic and sectoral reform. Their increasing use to promote reform in sectors recording losses of earnings places these instruments in the same sphere as the structural adjustment facility.

The introduction of frameworks of mutual obligations (FMOs) under Lomé IV marks a considerable improvement, since it imposes a systematic effort to use resources as effectively as possible. The slowness of disbursement remains a major handicap, however, and one that must be remedied.

6. The impact of trade preferences

Three key principles underpin the Lomé trade preferences: (i) stability: preferences are granted for long periods, i.e. the fourth Lomé Convention is a 10-year agreement (1990-2000); (ii) contractuality: preferences are jointly agreed, they cannot be modified unilaterally by the EU, and (iii) non-reciprocity: the ACP countries are not obliged to extend reciprocal preferences to EU exports.

Stability and contractuality are key elements of the Lomé trade preferences, since they provide a degree of security of access for ACP countries' exports to EU markets unmatched by any other existing non-reciprocal preferential arrangements such as the GSP schemes, thus reducing the inherent risks for economic operators in investing in export-oriented activities.

The Lomé trade preferences have provided, and still provide, important **value** to the ACP group in the sense of increasing the profitability to ACP exporters of sales on the EU market. Beyond the general offer of complete duty-free access for manufactures and processed products, and in particular the exemption from MFA disciplines of the preferences granted for textiles and clothing, individual ACP countries have benefited from the generous prices and guaranteed access for specific quantities within the Lomé commodity protocols (bananas, sugar, beef and veal, and rum) as well as from relatively liberal rules of origin. Revenue from the protocols accounts for a significant share of eligible countries' incomes.

The value of the Lomé trade preferences has, however, declined, and stands to suffer further erosion, as a result of multilateral liberalization (with the implementation of the Uruguay

Round agreement), pre-accession arrangements with the Central and Eastern European countries, and the surge in EU-centred, regional trade arrangements.

Furthermore, as regards **impact**, in general the Lomé trade preferences have not been sufficient to enhance export growth and increase diversification. A simple glance at the statistics (see tables) seems to confirm this assessment. ACP countries' export performance and their performance in attracting foreign direct investment (FDI) deteriorated during the period in which they most enjoyed those preferences.

During the course of the Lomé Conventions the ACP countries failed to increase or even maintain market share in the EU, while less preferred exporters were able to raise their market share. The EU market remained relatively important for the ACP countries, which still depend on the EU for about 40% of their export earnings. Dependency on trade with Europe varies among ACP regions, being higher for Africa (46%) than for the Caribbean and the Pacific (18% and 23%, respectively).

In comparison with developing countries as a whole, the ACP countries have also recorded a much more modest overall trade performance during the last decade. Neither have they managed to diversify exports significantly and most still rely on a few primary products.⁵ FDI to African ACP countries doubled as a percentage of GDP between the mid-1980s and the early 1990s, to 1.2%. However, compared with other developing countries, Africa's share of FDI dropped from 6% to 4% of all FDI to all developing countries excluding China. Furthermore, most FDI to Africa is concentrated on the oil-producing countries.

However, individual success stories of export growth and diversification exist. Several exports that have enjoyed a relatively large preferential margin in terms of tariff preferences or exemption from quotas have expanded. A few countries, in particular those making the fullest use of preferences, have been able to attract significant amounts of FDI. Those ACP countries which have managed to diversify their exports into non-traditional products or benefited from the Protocols, such as Mauritius, Botswana, Côte d'Ivoire, Jamaica, and Zimbabwe, have gained from the Lomé preferences.

The reasons for ACP countries' poor overall export and growth performance, despite the breadth and depth of the Lomé preferences, are varied. Lack of critical factors such as infrastructure, shortage of entrepreneurship, low levels of physical and human capital, low levels of savings and investment and undeveloped financial sectors, on the supply side, have limited the benefits that could be derived from the preferences. High dependency on a few basic commodities subject to high price fluctuations and substantial deterioration in the terms of trade are important explanatory factors as well.

Furthermore, it is now widely believed that beyond political stability, which is a fundamental precondition for growth, and initial endowments, sound policies play a major role in influencing exports and growth. Macroeconomic stability, realistic and stable exchange rates, good institutions and good governance, and efficient resource allocation policies, in particular stable and credible import and taxation regimes, as well as reduced

5 ACP States still derive over 80% of their total export earnings from commodities.

trade protection, which allow a transparent transmission of world price signals to domestic producers, are significant determinants of competitiveness and hence of export performance. These supply-side factors are now considered much more important than trade preferences in achieving high rates of export and economic growth.

ACP States as a group, and many sub-Saharan African countries in particular, have failed to meet those preconditions for achieving export-led growth. Being weak, because of poor initial endowments, they have also failed in respect of the policy-mix adopted, or, when they have adopted the right one, they have been weak on implementation, and have frequently reversed their policies. As a consequence, sub-Saharan African countries' economic policies and policy reforms have suffered from very low credibility in the eyes of economic operators, domestic as well as foreign. This has undermined and blunted not only the supply response to trade preferences, but also to any prospective policy reform.

Finally, the legal battles fought by the EU and the ACP countries in the GATT following the setting-up of the single market for bananas led the European Community in 1994 to seek a "waiver" for the trade package of the Lomé Convention after a panel (non adopted by the GATT Council) found the Lomé Convention inconsistent in respect of the GATT due to non-reciprocity (which excludes the Convention from being considered a free trade agreement), and to discrimination vis-à-vis other LDCs, which means it is not covered by the enabling clause allowing GSP schemes.

The fact that the waiver only extends until the end of the present Convention, that it must be reviewed annually and that issues linked to the banana trade arrangements applied by the EU are still not solved, has undermined the principles underpinning the Lomé trade preferences, in particular those of non-reciprocity and stability. The security attached to those preferences has been accordingly reduced.

C. Implications for future partnership

The main conclusion to be drawn from this critique of past policy is that the need to achieve results is becoming the driving force of Community development cooperation policy. Major reviews are under way in a number of areas, taking on board the results of evaluations aimed at improving the efficiency and impact of Community aid. The claim that Community development aid is peculiarly inefficient appears to be quite unfounded; no objective comparative study supports it. All aid donors are confronted with the need to review operations regularly and seek ways of maximizing the impact of their programmes. An evaluation of key factors limiting the effectiveness of ACP-EU cooperation under the Lomé Convention should enable us to pinpoint factors contributing to greater success. The following questions will need to be addressed:

- the foundations of future partnership. The attempt to turn the Lomé Convention commitment to partnership into an everyday reality impinged upon its general effectiveness, with the result that the EU tended to adopt unilateral, interventionist approaches that were not conducive to ACP internalization of development policies or to each side accepting its own responsibilities. The tendency to step in to assume the development partner's responsibilities may be quite understandable in transitional phases, but it is no guarantee of

efficiency, nor is it a viable proposition in the long term. It is a vicious circle, which needs to be broken by making a renewed commitment to partnership - viewed this time as an objective to be achieved rather than a ground rule. This will require a new policy foundation and more effective dialogue, backed by a commitment by ACP governments to reform. It will also require greater flexibility in implementation;

- the EU's priorities and resource allocation criteria. If no clear priorities can be discerned from the breakdown of resource allocation by country over the last few decades, it is largely because the various instruments created have all added their own specific goals to the list. In its mid-term review of the fourth Lomé Convention, the EU committed itself to two priorities: focusing on the poorest countries, in accordance with the Treaty, and creating conditions for more efficient resource utilization. The new partnership must address these priorities, and ways of putting them into practice;

- aid conditionality and selectiveness. The problem of Community resource allocation criteria leads us on to the conditions attached to aid programmes. The effect of "conditionality" is to give more weight to performance-related criteria in resource allocation, but a consistent, universal approach to the issue has yet to be defined. There should, no doubt, be some scope for discretion in applying conditionality, in order to leave more to the initiative of recipient countries and emphasize their responsibilities. The way in which the Community addresses these issues will ultimately determine the degree to which Community aid is selective;

- capacity building. The evaluations concluded that it was vital to systematically identify any limitations in the recipient countries' institutions or economic policies which might make a development project less likely to succeed, and consider ways of overcoming them. That being so, the EU should surely consider giving higher priority to improving ACP States' institutions and their ability to conceive, implement and sustain economic and sectoral policies over a period of time. It should certainly consider building up their forecasting and planning capacity, although it raises political as well as strictly institutional issues;

- a new trade chapter. While the trade preferences enshrined in the Lomé Convention have a significant value, not only in terms of concrete concessions but also as regards the basic principles underpinning the trade partnership between both parties (non-reciprocity, stability and contractuality), it is widely considered that, in general, the impact of the Lomé trade preferences has not been sufficient to enhance growth and increase diversification.

Some of the trends and features of the new global context, such as multilateral and regional liberalization, will have to be taken into account - in particular the need to comply with WTO rules.

More weight will need to be given to structural features of trade development, conditions for product diversification, and the creation of favourable conditions for export growth. Trade preferences are not sufficient in themselves to promote growth and diversification, although they provide opportunities that may tempt businesses and other economic players to develop particular product lines as part of a particular strategy. A broader approach to

trade cooperation, linked to operations to support structural adjustment and the private sector, and reflecting ACP countries' need to create political and institutional conditions conducive to foreign investment, should help improve their ability to take advantage of trade preferences and, moreover, to diversify their external economic relations;

- rethinking aid and aid instruments. The impact of Community aid is less than the sum of its parts because of the way the Community has accumulated aid instruments, each one with its own rationale. Adopting a thematic approach and refocusing Community assistance on sectoral policies and agreed reforms should help make aid more efficient and increase its impact on economic and social conditions in ACP countries. Project aid should only be maintained within a specific institutional and policy framework, to tackle clearly identified, specific problems, where a transfer of know-how is needed. It should therefore improve targeting and speed up agreed reforms across the board or on a sectoral basis;

- the need for coordination. All the evaluations agree on one point: better liaison between donors, especially as regards policy dialogue, would improve the impact of many development operations.

CHAPTER III. SOCIO-ECONOMIC CHANGE IN ACP STATES: LIMITING FACTORS AND POTENTIAL

A. The vicissitudes of economic policy in a deeply uncertain climate

1. Socio-economic performance: uneven, but generally disappointing

In the last two years, the economic situation has improved appreciably in a growing number of ACP countries. This - as yet fragile - recovery may yet prove lasting, with knock-on effects on other countries, provided that they continue to improve their economic policies.

Over the long run, however, the performance of ACP countries as a whole has been disappointing and generally inferior to that of other developing countries, particularly in **sub-Saharan Africa**, the region with the greatest problems at present. There is no shortage of indicators to support this assertion:

- Per capita GDP in sub-Saharan Africa grew by an average of only 0.4% a year between 1960 and 1992, compared with 2.3% for developing countries as a whole. This figure reflects both markedly lower economic growth (3.3%) and higher population growth (2.9%). The gap between per capita GDP in sub-Saharan Africa and that of other countries has since widened to 1:4, and on current trends is likely to widen further to 1:6 within 15 years.

- The region's low growth makes its continuing poverty problems all the more worrying; it scores extremely badly on income, health, nutrition, education and access to drinking water. On the most commonly used measure of poverty, per capita income/consumption, the World Bank estimates that 1 300 million people live below the poverty line, of whom 515 million are in southern Asia and 220 million in sub-Saharan Africa.¹ Poverty is particularly widespread in sub-Saharan Africa, where the average income of the poor is 15% below than the poverty line. Despite important recent advances in assessing social development (by the UNDP and the World Bank in particular), it is difficult to grasp the reality of such poverty and in particular to assess the dynamics of it, given the lack of reliable long-term data series for many countries. Available estimates suggest that between 1987 and 1993, the incidence of poverty remained fairly steady at 39% of the population; there were marked improvements in some countries, such as Nigeria, Ghana, Tanzania and Ethiopia, while in others the situation worsened, sometimes dramatically so.

- Education and training standards improved from a very low starting point in the early 1960s, although adult illiteracy is still over 40% and attendance rates are markedly lower than in other developing countries (36% of those aged 6 to 23, compared with 47% for all developing countries in 1990).

¹ World Bank definition, 1996. For the purposes of international comparison, the poverty line was set at USD 1 per person per day (at 1985 purchasing power parities), converted into national currency on the basis of revised PPPs.

- Life expectancy has certainly improved (from 40 in 1960 to 51 in 1993) and infant mortality has declined (from 167 to 97 per thousand live births), but this is less impressive than comparable figures for other developing regions. The percentage of the population denied access to health services is still large - over 40% - compared with an average of 20% for developing countries generally.
- Sub-Saharan Africa has the fastest-growing population in the world. If present trends continue - and there is no sign of any levelling-off - it is set to double between 1992 and 2017. Rapid urbanization increasingly threatens living standards and complicates infrastructure management - schools are overcrowded, health services overburdened, water supplies inadequate and below standard, and electricity supplies erratic. The United Nations Fund for Population Activities (UNFPA) forecasts a rise in the percentage of Africans living in cities of over 5 million inhabitants from 8% in 1994 to almost 20% by 2015.
- Food production is chronically inadequate and likely to remain so. Per capita food production has fallen by 5% over the last 15 years. With population rising fast, it is difficult to see how the food deficit will be filled, especially in the poorer countries, although there is substantial scope for improving agricultural yields in the region. At present, such countries are heavily dependent on food imports and therefore on export earnings - and food aid.
- Economic and social development is increasingly hampered by environmental damage. The poor are worst hit by deforestation and soil exhaustion, while water and air pollution problems are becoming increasingly acute in overpopulated areas.
- Exports are still geared to primary exploitation of natural resources. Sub-Saharan Africa began to lose its market share internationally in the 1970s and continued to do so throughout the 1980s, up to 1993. This part of the world has attracted little FDI, with a few exceptions,² and so far has failed to benefit from rising investment in developing countries. In 1995, for example, it captured a meagre USD 2 billion out of a total of USD 90 billion in investment in developing countries. Whereas FDI is becoming a major source of external finance for many developing countries, it represents only 10% of such funds in sub-Saharan Africa. Altogether, the region is of marginal importance in the world economy at the moment, accounting for only 2% of international trade and less than 1% of FDI.
- Major macroeconomic disequilibria persist, notably a highly inadequate rate of savings which, allied to low growth, has allowed external debt to expand to unmanageable proportions in some countries. Sub-Saharan Africa is the most heavily indebted region in the world, at 270% of export earnings and 75% of GNP, and is chronically in arrears.

The overall picture masks a wide variety of conditions, however, and, as in other developing regions, the gap between African countries is widening.

2 FDI in sub-Saharan Africa is still concentrated in the petroleum and mineral sectors and tourism, in a limited number of countries (Nigeria, Angola, Zambia, Namibia, Côte d'Ivoire, and Swaziland). In the Caribbean, by contrast, foreign investment has increased sharply since the early 1990s.

In 1994 income per capita averaged USD 460 in sub-Saharan Africa,³ ranging from USD 80 or 90 in Rwanda and Mozambique to USD 600 in Côte d'Ivoire and Senegal, and around USD 3000 in Botswana and Mauritius.

Moreover, forecasts indicate a growing divergence between countries capable of implementing credible development policies and others locked in a vicious circle of violence and poverty. Countries covered by the Special Programme for Africa⁴ have achieved encouraging growth rates in recent years; GDP growth was around 1.5 points higher than in other sub-Saharan African countries on average from 1994 to 1996 (at median rates). Faster growth was matched by improved exports and increased investment, which is now running at almost 20% of GDP. The growth of private sector investment, in particular, illustrates the marked improvement in the economic climate of those countries. Another encouraging sign is that this improved performance has been more or less steady since structural adjustment programmes were introduced in 1987.

Most **Caribbean** countries, with the exception of Guyana, Suriname and Haiti (one of the world's poorest countries, with an average per capita income of USD 230), figure in the intermediate income bracket. Some, like Trinidad & Tobago, are better off (at around USD 3 740 per capita), while Barbados is among the region's elite.⁵ On the whole, however, GNP growth has been poor (even if one excludes Haiti), averaging 1% since 1990, and there is considerable poverty. Social indicators nonetheless show the Caribbean's health and education performance to be better than that of sub-Saharan Africa even where incomes are similar, reflecting advances achieved in recent decades by focusing on basic needs. In the last few years, however, that progress has been jeopardized by pressure to curb spending, particularly social expenditure, with a view to macroeconomic stabilization and structural adjustment.

Improved economic policies led to a rise in FDI from the early 1980s onwards in almost all but the poorest Caribbean countries; however, conditions are still far from conducive to private-sector diversification. The region is still heavily dependent on a few agricultural products (bananas, sugar and rice, mainly), and mineral products, for its exports. Since most Caribbean countries are islands, the climate and weather conditions also influence their economies, and considerably increase the per capita cost of social and economic investment and infrastructure.

The eight **Pacific** ACP States form a relatively heterogeneous group in both economic and cultural terms. The largest, Papua New Guinea (PNG), with some 5 million inhabitants, accounts for 70% of the group's total population, while the smallest, Tuvalu, has only 9 000. There is likewise a wide range in income, from USD 710 per capita in Kiribati to USD 2 130 in Fiji. As islands, with very small-scale economies, the eight countries are

3 World Bank, Atlas method; includes South Africa (average: USD 3040).

4 The Special Programme for Africa (SPA), open to heavily indebted low-income countries committed to a World Bank structural adjustment programme, currently covers some 30 countries, which account for around 45% of the GDP of sub-Saharan Africa and some 57% of its population.

5 The Bahamas (USD 11 500) is of course quite exceptional.

highly vulnerable to external influences: they are heavily dependent on trade and vulnerable to natural disasters such as cyclones.

Given the growing diversity of economic and social conditions found in the ACP States, it is tempting to subdivide them into different categories. On current performance, one can, in fact, distinguish between:

- (1) countries in political or economic crisis, such as Somalia, Liberia, Sudan, Zaire, Rwanda and Burundi;
- (2) countries which have embarked upon reform, but have not yet begun to see results in terms of faster growth, and which are stagnating; this applies to most of sub-Saharan Africa;
- (3) emerging economies which, over the last few years (since 1992-93), have shown themselves capable of reform, and whose growth prospects are now improving (e.g. the Côte d'Ivoire-Ghana-Mali-Burkina Faso axis, Uganda, and Namibia). In the Caribbean, Jamaica, Trinidad & Tobago, and the Dominican Republic have stepped up the pace of reform with a view to acceding to the North American Free Trade Agreement. In the Pacific, PNG has, since 1989, participated in the APEC-led (Asia Pacific Economic Cooperation) liberalization process. The ACP countries also count a few exceptional "success stories", such as Botswana et Mauritius.

While this classification is useful for analytical purposes, its development policy implications are extremely limited in practice. The categories are subject to change; a good number of African countries have been and will be subject to abrupt changes of fortune. Countries which once performed quite well have experienced major reversals - Rwanda is a case in point, as is Nigeria, where political upheaval halted reforms. On the other hand, some countries which had been in recession for a long time are now advertisements for successful reform: Ghana and Uganda, for example.

Categorizing aid recipients is, therefore, no substitute for a thorough analysis of the problems that African countries are likely to face now and in the future.

2. Causes of low growth in sub-Saharan Africa

Several factors contribute to sub-Saharan Africa's poor per capita growth performance. Among the economic factors are its relatively low investment, rapid population growth, and failure to improve industrial/agricultural productivity, which in turn is partly explained by economic policy failures. Africa has unquestionably suffered poor economic management: large budget deficits, overvalued currencies, excessive market regulation, market distortions caused by protectionism and poor public sector management, all of which has tended to discourage the private sector. This is not to deny that external factors have played their part in its poor economic performance; ACP States are particularly vulnerable to fluctuations in commodity markets, international monetary conditions and debt servicing obligations.

If we take this analysis a step further and seek to pinpoint key factors that have either reduced the effectiveness of African development policies over a long period or suggest that, compared with other regions, African countries have opted for policies less conducive to growth, we find that they fall into two groups: those relating to structural disadvantages and those arising from the high-risk environment. If it is more difficult to implement an effective economic policy in Africa, if adjustment and reforms seem harder to achieve there than elsewhere, it is because, of initial handicaps and the fact that Africa is prone to more risk factors.

Among the handicaps which have dogged sub-Saharan Africa since independence, exerting a lasting influence on development conditions, two in particular have ensured that development needs outstrip the state's ability to respond: firstly, the level of education is particularly low, even when considered relative to per capita GNP and, secondly, population has been rising faster than anywhere else in the developing world.

Another factor is the relative lack of entrepreneurial spirit, which accounts for the weak response to the introduction of incentive-based policies following decades of interventionism.

Sub-Saharan Africa is also less predictable than any other region. Its climate, for example, brings great variations in agricultural output, which is still of major social and economic importance. Growth is also hampered by fluctuations in export earnings, in government aid payments and in external finance, which in turn lead to great variations in import levels and, except in the CFA states and a few other countries, to internal monetary instability.

There is a high degree of political, as well as economic instability, which adversely affects investment conditions and economic activity in general. Government's ability to do its job is limited by the lack of transparency in public affairs, the *rentier* mentality and the clientelism practised by ruling elites. Bad governance jeopardizes social development efforts, which demand policy continuity and long-term vision, and partly explains the delayed impact of structural adjustment, since it encourages investors to adopt a "wait-and-see" policy.

3. Political instability and the dysfunctional state

In recent years a number of ACP States have been characterized by political instability, weak government institutions incapable of implementing development policies, rising crime, organized violence and the spread of a new kind of armed conflict, with humanitarian, social, economic and environmental consequences.⁶

The causes can be traced back, in part, to the colonial legacy of strong central planning and government intervention, and the creation of borders with no social rationale.

6 Six countries are currently caught up in civil wars; with 60 million inhabitants altogether, they account for around 11% of the total population of sub-Saharan Africa.

They can also be traced to the authoritarian leanings of the political regimes in power during the first two or three decades of independence, backed by Cold War alliances, and their frequent use of power for short-term private gain. Public services that do not work properly, swollen parastatal organizations, declining infrastructure, and problems raising revenue are the more obvious symptoms of the dysfunctional state.

Continuing economic recession, triggered in the early 1980s by falling commodity prices, rising petrol prices and international financial problems, has shrunk state revenues and real wages and altered the structure of incomes and the distribution of wealth; this has led to a rise in informal economic activity and contributed to a boom in fraud and trafficking, which is becoming linked to international networks.

As a result, over the last 15 years, three new factors have helped to weaken government structures and contributed to social breakdown:

- (1) The first attempts at adjustment and economic reforms introduced in the early 1980s threw up some unexpected problems. For example, early operations geared to slimming down the public sector and cutting budget deficits, reduced public service effectiveness and eroded not only the economic and social foundations of the state but its political authority and legitimacy. In general, external aid for economic reform had serious, unpredicted, political consequences. Only later did the IMF and World Bank in particular - along with the EU in its adjustment support policy introduced from 1990 - stress the need to make government institutions work better, with a view to maximising the impact of adjustment programmes. A more all-embracing view of the state's role in a new economic climate gradually developed.
- (2) The end of the Cold War and the fall of the Berlin Wall in 1989 prompted industrialized countries to rethink their geo strategic interests and changed their attitude to the ACP States, in two key respects. Firstly, many developing countries discovered that they could no longer rely on unconditional financial assistance; secondly, the international community began to take a firmer line about upholding human rights and democratic principles. The resulting strategy of "political conditionality", imposed in addition to economic strings, was probably too formalistic, and its impact insufficient to secure political stability or significant advances in the rule of law. In some cases, the international community's backing for "democratization" resulted in token representation and sham institutions.
- (3) The transition to democracy in ACP States was started up in tandem with the end of the Cold War, and proved particularly difficult. Democratization has not been matched by equal advances in the rule of law. Particularly in sub-Saharan Africa, it is also clear that there is a lack of models of political and social organization appropriate for current conditions: the style of government derives from the way African societies operate, with the group prevailing over the individual. The general interest often gives way to the particular interests of the group in power, which does not share or accept the principle of relinquishing it; in such conditions, it is difficult for the state to assume the role of promoting economic and social progress in an increasingly competitive world economy and upholding democratic principles

recognized by the international community. The fact that elections in a number of countries have returned former ruling elites to power testifies to the difficulty of carrying through economic and fiscal reform, which often entails a short-term social cost that may disappoint the voters. It is a situation quite different from that of post-war Europe, where the need for democratic reform went hand in hand with social progress and the introduction of highly advanced social welfare schemes.

There are nonetheless some encouraging signs: scheduled elections, increasing press freedom, and the setting-up of consultative bodies giving a voice to the private sector, grassroots communities, women's organizations, NGOs, etc. have created space for debate and paved the way to more transparent governance. The pressure for change is reflected in ACP societies' increasing demands for a style of participatory development that takes account of individual needs.

By no means every country shares the same political problems, but the problems are there, and they lend credence to a widespread unease which is not confined to the countries with the worst problems but which tends, at least in sub-Saharan Africa, to weaken confidence in the continent as a whole. It is that lack of confidence which is largely responsible for the record of slow, erratic investment, particularly foreign investment, in Africa, and which tends to undermine the legitimacy of development aid.

B. Anticipating risks and exploiting potential

1. Basic conditions for development and economic reform

The problems - in some cases severe - caused by political and social destabilization and the persistent difficulties besetting the implementation of economic growth policies, despite fifteen years of adjustment and assistance from the international financial institutions, are the two main dilemmas confronting sub-Saharan Africa today.

A number of countries lack the minimum criteria for peace and proper economic management. A mere 30% of the sub-Saharan population is living in countries which - only just - satisfy these criteria. This figure excludes countries in the throes of civil war and those which, through economic mismanagement, lack the basic prerequisites for development.¹

1 These prerequisites are: a minimum degree of social cohesion (the absence of civil war); a minimum of macro-economic stability (in terms of inflation, budget balance, balance of payments and debt management); minimum conditions for an efficient allocation of resources, contingent upon the trading and exchange-rate system, the financial sector, the factor and product markets, the running of parastatals and public expenditure patterns. Minimum thresholds have been established for all of these criteria. These three categories form a hierarchy: there cannot be macro-economic stability without a minimum of social stability; where there is a reasonable degree of social stability but not even a minimum of macroeconomic stability, the question of allocation of resources does not arise.

Six interdependent factors provide the yardstick by which future development prospects may be gauged:

(i) Peace and security, minimum conditions for development

Civil war has exacted a heavy toll in the ACP countries, with little prospect of improvement in the medium-term.² Apart from their devastating direct effects in the countries concerned, these conflicts also have a "domino effect" in the sense that their repercussions, in particular the loss of confidence by economic operators, are felt throughout the region.

Despite this bleak outlook, there is still some cause for optimism: in countries with only a minimum of social stability, economic growth, although low in relation to their potential, has still generated an increase in income per capita.³

(ii) Necessary economic and institutional reforms

The rate of investment in many countries is still too low. Of all the factors which influence investment decisions, the evaluation of "risk" (political instability and unpredictable economic and trade policies) is often the most decisive at this stage.

The implementation of economic reforms in an increasing number of countries since the end of the 1980s has helped reduce the risk factor. As in other regions of the world, these reforms - usually undertaken in the context of a macro-economic stabilization effort - go beyond the problem of short-term adjustment and embrace a whole series of economic policies and institutional changes. Apart from restoring a stable macro-economic framework, the reforms are intended, overall, to improve economic competitiveness through a more realistic exchange-rate policy, more efficient markets, trade liberalization and opening up to foreign investment. The reform of the public sector is based on a "back-to-basics" approach, with the emphasis on the provision of essential services and basic infrastructure.

Institutional reforms take longer and are more difficult to implement than liberalization policies; they concern the development and modernization of the financial system, tax

2 A recent study (P. Collier, CSAE Oxford University, 1995) estimates for example that GDP in Mozambique, Ethiopia and Uganda is around 40% lower than it would have been in the absence of civil war.

3 The eight countries analysed during the period 1993-95 (Cape Verde, Ethiopia, Gambia, Ghana, Guinea-Bissau, Mauritania, Uganda and Zambia) satisfy the basic criteria defined above in terms of social cohesion and minimum economic policies and experienced average economic growth of just over 6% per annum during these three years. The list of countries which satisfy these criteria obviously varies according to the time period under consideration; thus the countries of the franc zone, for instance, whose macro-economic situation has improved since devaluation in 1994, were not included on this occasion but could well feature in a future analysis.

reforms, public expenditure management, the improvement of the legal and regulatory framework, the reform of public enterprises and privatization.

These observations, which concern mainly sub-Saharan Africa, are also valid for the Caribbean countries, which are facing similar problems, albeit on a different scale. The reforms introduced in some of these countries in recent years to facilitate the development of the private sector and improve export potential still have a long way to go. Matters such as trade liberalization, the improvement of the regulatory framework, the development of the financial system, the functioning of the labour market and the need to create room for manoeuvre in social policy are thus set to dominate the economic policy agenda of the region for some time to come.

Tangible results are already discernible in certain areas. While it is difficult to identify the precise reasons for the improvement in economic growth, particularly in countries covered by the Special Programme of Assistance for Africa, it is clear that financial support from the international community has played a vital role in helping ensure the continuity of economic policies and reforms.⁴

(iii) Democratization and economic liberalization

The dual process of economic and political transition (switch to a market economy and a pluralist system) brings with it both synergies and special problems: synergies in the sense that the reforms may give rise to broad public debate between Government and civil society, in particular representatives of the private sector, thereby providing the Government with a credible mandate; problems in so far as the implementation of stabilization policies in tandem with liberalization will be hampered temporarily by the emergence of democracy. This happens mainly when progress is slow and modest, delaying the benefits derived from improved supply conditions and prolonging the period of socio-economic austerity. In these circumstances, electoral support and a mandate for reform is more difficult to maintain, jeopardizing the continuity of economic policies.

(iv) Issues relating to the social transformation

While there may be a consensus on minimum economic reform, structural reforms - whose implications are more pervasive and distributive effects more subtle - are more controversial and meet with greater resistance. In sub-Saharan Africa, this resistance is provided by the dominant groups and is rooted in one of the cornerstones of the African ethos, i.e. the repudiation of the "each man for himself" mentality. However, the mechanisms of group solidarity have failed to ensure equitable distribution of the fruits of economic activity. The result is a predatory mentality and a very selective form of solidarity to the benefit of a privileged minority close to those in power. This form of social organization has led fund donors to keep their economic policy prescriptions within bounds as it is so difficult to predict the impact and viability of reforms that go beyond a basic common minimum.

4 For the countries of the SPA, this support represented over 40% of the value of their imports of goods and services (net of interest).

Furthermore, the entire international community is faced with the problem of reconciling the major political commitments entered into at Rio, Cairo, Copenhagen and Beijing in support of sustainable development based on human needs with the reality of economic development in an increasingly competitive international environment.

(v) Reducing poverty

The recent improvement in economic growth has undoubtedly helped halt or check the spread of poverty in some countries, but has not reduced it. This would require, *inter alia*, more sustained economic growth. The World Bank estimates that, given the economic structures and population growth rates in sub-Saharan Africa, an increase in GDP of 5% per annum would still not suffice to stabilize the numbers living below the poverty threshold; of those countries in the region with over a million inhabitants, only six have recorded sufficient growth rates in the last ten years to reverse the trend.

A great deal also needs to be done to improve the impact of growth on poverty: access to basic social services should be widened significantly and, in some countries, access to productive resources (education, training, land ownership, capital and credit, etc.) could be greatly improved: entire population groups are practically excluded from the formal sector of the economy. Women are particularly vulnerable and an improvement of their socio-economic situation would act as an effective lever in curbing poverty. While the informal sector is often very dynamic, it does not generally contribute much in terms of a lasting improvement in people's living conditions. Finally, any form of economic transition inevitably alters the relative positions of different sections of the population; the existing social systems, based for the most part on group solidarity but also on dependency relations, stand in the way of an effective response to these problems.

(vi) Integration into the world economy

The integration of the ACP countries into the world trade arena hinges on the success of domestic economic policies and on enhanced economic competitiveness and access to foreign markets.

While globalization has reduced trade barriers and the cost of engaging in international trade, access to international markets is becoming more complex and dependent on other non-tariff barrier trade-related considerations. In the market access equation, the level of tariffs plays an increasingly reduced role and other aspects such as competition policies, technical, sanitary and phytosanitary standards, subsidies, anti-dumping and countervailing policies, environmental and social regulations, intellectual property laws, investment codes, etc, have come increasingly to the fore as major determinants of market access.

Thus, although multilateral liberalization following the Uruguay Round agreement achieved considerable success, it remains true that many of the trade-related areas mentioned above are still insufficiently regulated by the WTO, allowing potentially uncompetitive behaviour by multinational corporations and trading nations, which may constitute effective barriers impairing access to international markets. The development of multilaterally agreed disciplines in those new trade-related areas as well as the consolidation of the credibility of the dispute settlement rules in enforcing the new agreements on TBT and other non-tariff

barriers, constitutes unfinished business which will fill the agenda of the WTO for the years to come.

Multilateral liberalization following the Uruguay Round agreement has not slowed down the surge in interest in regionalism initiated in late 1980s. Trading nations, industrial and developing ones alike, seem to see an added value in going, at a more limited geographical scope, beyond the "acquis" of the Uruguay Round which is deemed not yet to have met the accrued demand for freer trade and more certainty and harmonization in the new trade-related areas.

North-South trading arrangements, beyond the normal static trade creation and diversion effects, increase the policy credibility of the participating LDCs and have the potential to lead to higher domestic and foreign investment, enhanced pro-competitive effects, improved access to technology and, last but not least, a degree of protection on policy developments in trade-related areas.

But multilateral liberalization and the growing trend towards regionalism alter the economic opportunities for the LDCs. On the one hand, those that benefit from non-reciprocal preferential treatment under the GSP or other preferential regimes like Lomé, see the value of their preferences being eroded. Furthermore, LDCs which may be excluded from regional blocs, are likely to face shifts in trade and investment to their detriment. On the other hand, multilateral and regional liberalization, in so far as the latter can be expected to spur the lowering of tariff barriers not only among the partners but also vis-à-vis the rest of world, should improve the market opportunities for the LDCs.

Developing countries lagging in growth and integration are confronted with the need to reverse those negative trends and must make difficult decisions regarding how much and how fast to liberalize and, in particular, choose the best strategy of integration into the world economy: Should they follow the multilateral way, or would unilateral liberalization be the best way to go? Should they alternatively engage in regionalism (South-South and/or North-South)? Should they follow some combination of the above options?

2. Promising results: a possible turning point?

The recent improvement in economic growth in sub-Saharan Africa (3.5% to 4% for the region as a whole in 1995 and 7% for the 31 countries of the SPA) is undoubtedly due in part to short-term factors such as the increase in raw materials prices on the international markets. But it is also encouraging as it concerns a large number of countries and can also be attributed to better socio-economic management and the adoption of reforms which are starting to bear fruit, primarily in the form of a rise in the volume of exports.

The emergence of post-apartheid South Africa is without a doubt one of the most obvious auspicious developments. The development prospects of this country are contingent on its ability to reduce the causes of social tension and to improve the employment situation, but the potential for growth is considerable and the promising developments in terms of foreign investment and trade relations should reverberate throughout the entire region thanks to the

economic knock-on effects and an improvement in the domestic situation of the other countries in the region.

The countries of the franc zone in West Africa are also helping to improve the continent's overall image. The 1994 devaluation had beneficial effects, particularly in countries which were also implementing an adjustment and reform policy. The process of regional economic integration in West Africa has also improved the economic outlook for the region and could prove to be a decisive turning point for economic development by boosting trade and improving competitiveness and also by anchoring stability-oriented macro-economic policies, thereby increasing their credibility and in turn helping to attract domestic and foreign investment.

In East Africa, too, a number of countries such as Kenya, Tanzania and Uganda have seen their situation improve considerably over the past two years. These three countries have also recently embarked on a process of cooperation and regional integration which at present covers transport, communications and payments.

A number of Caribbean countries have also achieved significant progress in stabilizing their economies and were able to take advantage of the more favourable external environment in the 1980s to implement tax and monetary reforms and engage in trade liberalization as part of a process of cooperation and regional integration, which should eventually lead to their integration into the economy of the Western hemisphere (see Box 4).

The medium-term prospects of all of these countries still depend ultimately on the results of their economic policies. Structural handicaps, however, are still a major source of weakness. In the absence of the new investment required to enable these countries to diversify their exports, the terms of trade will continue to be at the mercy of fluctuating raw materials prices, which can thwart the reform process at any moment, jeopardizing any gains achieved through the adjustment programme.

Provided there are no major external crises and assuming that raw materials prices fall very gradually in the coming years against a background of social disintegration and varying degrees of political destabilization in many of the countries in the region, the World Bank's medium-term projections put annual growth for the whole of sub-Saharan Africa (including South Africa) at 3.8% per annum for the next ten years (1996-2005). This result, which is based on the assumption that the current reforms continue at a steady rate, would be a considerable improvement on the previous ten years (1.7% per annum between 1986 and 1995) and would engender a modest rise in income per capita (+0.9% per annum). It would not, however, be sufficient to bring about a significant reduction in poverty in many of these countries; this remains a major challenge for individual governments and all those involved in development cooperation.

The world economic outlook bodes well for the ACP countries on a number of counts: a sustained upswing in world trade (more than 6% per annum according to World Bank forecasts), an international trading system based on the conclusions of the Uruguay Round and the work of the WTO, major development opportunities in the service sector, in particular tourism, the emergence of new burgeoning markets in East Asia, Latin America

and possibly also in Eastern Europe, will provide the ACP countries with an opportunity to diversify their economic and trade relations. The EU proposal on improving access for the poorest countries to industrialized countries' markets, approved at the recent G7 summit, should also enhance their economic prospects.

C. Implications for the future partnership

Development conditions have changed radically in terms of socio-political developments within the ACP countries themselves and changes in the international political and economic arena.

The analysis of the constraints and opportunities facing the ACP countries provides an important yardstick for planning future cooperation, based on a better targeted and more efficient approach in support of these countries' adjustment and development policies. The following factors in particular should be taken into account:

- support for adjustment policies. In much of sub-Saharan Africa, the problems identified in the 1960s will still exist in the year 2000: poorly integrated economic fabric, insufficient infrastructure and forms of social and political organization which hamper economic development. Despite the structural handicaps affecting most of the countries in the region, there are a few success stories which prove that an improvement in living standards is possible and that such success is largely contingent upon the reintegration of these countries into the world trade arena. The main challenges confronting the ACP countries are: (i) to improve their internal political and economic management to create conditions more conducive to the development of the private sector and attract foreign investment and (ii) to expand external economic relations to take account of growth in the world economy. The poorest countries will, however, continue to require foreign aid for a long time to come to help them finance investment and provide basic services;

- the importance of credibility and good governance. The reforms planned will only succeed if they gain credibility. The political and institutional aspects of the reform programme should dovetail with the economic aspects. The future partnership will fit into a long transition process which will transform not only the economic organization of the country but also society itself;

- the need for increasing attention to be paid to the environmental aspects of sustainable development. The focus should be primarily on capacity strengthening and the environmental capacities of the ACP States themselves, but attention also needs to be paid to engaging in dialogue with our partners on the consequences they are likely to suffer as a result of global environmental trends and their role in combating unwelcome changes;

- the need to adopt differentiated approaches. The role, content and methods of cooperation cannot be the same in a country in the throes of economic and social disintegration as in one implementing an economic and institutional reform programme. Conflict prevention and the rebuilding of the State and efficient institutions should figure among the major cooperation objectives. In countries with a minimum of social cohesion, cooperation can help diminish the risks and sources of instability which stand in the way of investment and

growth. Trade arrangements can play an important role here in so far as they allow or impede shifts in policy. The arrangements for granting external aid and, in particular, support for reforms may serve as an incentive to recipient countries to implement necessary policy changes and assure the continuity of the reform programme. Other forms of cooperation could also be considered in an effort to quell the sources of instability, particularly in the monetary field;

- trade arrangements established in accordance with specific criteria and objectives. The new EU/ACP trade arrangements after the year 2000 should be assessed in relation to their ability to meet the challenges, the constraints and the problems the ACP countries must confront. It should:

- achieve respect for the relevant WTO rules so as to provide the necessary security and stability on market access terms.
- promote fuller and more active participation of the ACP countries, individually or collectively, in the WTO.
- preserve and, if possible, expand the current level of access to European Union markets, by relaxing constraining rules and procedures and securing, as much as possible, the benefits provided through the commodity protocols.
- mitigate the trade and investment shift to the detriment of the ACP countries, resulting from EU-centred regionalism.
- provide an international anchor of enhanced credibility, certainty and stability for the trading and regulatory framework (import and export regimes) of the ACP countries as preconditions for better performance on exports and attracting foreign direct investment, and ultimately higher growth.
- encourage competition, better resource allocation and competitiveness within the ACP economies in order to improve supply response to world market price incentives and to new market access opportunities.
- promote actively, and provide the conditions for facilitating the success of regional integration processes among ACP partners.
- help the ACP countries cope with the increase in national and international regulations on new trade-related areas which may give rise to new obstacles to market access.
- allow the different ACP regions to join in different (overlapping) trading arrangements more convenient to their development needs while providing a counterweight to the pull they would experience from new regional blocs.

- take account of the differentiation among ACP countries in respect of their level of integration into the global economy, their level of development and their perceived needs.
- the importance of making progress in managing the external debt. This is important for a number of countries, which need to normalize relations with their creditors in order to restore a sufficient degree of financial credibility and gain renewed access to capital markets;
- the advantages of a cooperation policy which encompasses the whole of the sub-Saharan African region. Cooperation which is open to all countries in the region, possibly in varying forms, can have positive knock-on effects, improving the image of the continent as a whole. This factor should be borne in mind when a decision is taken on the geographical scope of the new cooperation agreement(s).
- the particular difficulties of the Caribbean ACP countries and their trade strategies in a rapidly developing regional framework. The diversification of trade and economic activities hinges mainly on the prospects for regional integration, access to the North American market (NAFTA) and participation in the mooted free trade area encompassing the whole of the western hemisphere (FTAA). This transition is, however, far from certain and the move from an economy which is traditionally dependent on the primary sector, and which benefits from specific trade preferences to an open, competitive environment will not be at all easy.
- problems peculiar to the small island economies of the Pacific. These countries have every interest in gearing themselves to the booming economies of the "Pacific Rim", with the support of Australia and New Zealand. Problems relating to transport and communications, on the one hand, and the environment and preservation of natural resources as the main economic resource, on the other, will require particular attention.

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The analyses expounded in the first part of this green paper show that future cooperation between the EU and the ACP countries must be seen against a radically changed international backdrop. Also, the European Union is set to undergo far-reaching changes and the various ACP countries will move in widely divergent socio-economic and political directions. In the face of a loss of legitimacy for the very principle of development aid, compounded by budget constraints and a European social crisis, the lessons learned from past successes and failures should help improve the effectiveness and impact of future cooperation.

The main task facing the EU countries is to avoid the temptation to go it alone and develop basic solidarity. To that end, it should endeavour "do better" next time and to improve the prospects for successful cooperation with the ACP countries. A number of recent Community initiatives reflect this desire and an effort should be made to identify which

aspects of a multi-faceted policy should be retained and which discarded. The Union has a number of options to consider as it takes its decisions on the long-term development of cooperation policy.

**PART TWO: A BLUEPRINT FOR ACP-EU
RELATIONS AS THE 21st CENTURY APPROACHES**

CHAPTER IV. TOWARDS A NEW PARTNERSHIP

On the threshold of the 21st century, the European Union and the ACP States must lay the foundations of a new partnership with a view to:

- the need to meet Europeans' concerns by making long-term political choices;
- the absolute necessity to strengthen the political dimension of ACP-EU relations in order to give them new impetus;
- the need to open up the cooperation framework in order to offer a European response better geared to the current needs of the ACP States, their private sectors and civil societies;
- a possible reorganization of the geographical framework of the cooperation agreement;
- a greater emphasis on consistency at European level.

A. The place of the ACP-EU partnership in the European Union's external policy

The European Union plays a leading role on the international scene. It is the biggest trading partner (the EU accounts for 20% of world trade¹ and a third of its imports come from the developing countries) and it is called on to play a significant part in international forums, particularly the WTO, and, at Member State level, in the IMF and the World Bank. In the political arena, the European Union is endeavouring to step up its capacity for action. For a long time the European Union has also been the main source of development aid and its contribution to international aid has increased in recent years, particularly in the light of the United States' major scaling-down in this area;

The European Union has the means to help close the development gap: it is up to it to implement an active and consistent development policy to this end. ACP-EU relations are part of the international community's overall strategy **to reduce poverty in the world**.

In addition to the basic motivations for a European development policy, which are an integral part of the European Union's identity, Europe has objective interests. These are of particular importance when it comes to the ACP States and among these, the countries of sub-Saharan Africa.

The relative failure of Africa's development clearly generates a certain amount of scepticism about the effectiveness of international and, above all, European cooperation, and indeed about the real possibilities of developing the continent.

But the long-term nature of the choices to be made raises issues concerning the grounds and stakes of new cooperation links between the EU and the ACP States which are of vital

1 Not counting intra-EU trade.

importance to Europe and its people. The European Union, in the current and foreseeable international context, has an interest in promoting:

- peace and stability, by preventing the development or persistence of areas of instability in the world. The tendency for the marginalization of entire communities and its corollary, the political destabilization and disintegration of entire countries, must be stopped. Cooperation can and must contribute to the preservation and development of the rule of law in all countries, and work to maintain a satisfactory degree of social cohesion;
- more effective international cooperation to manage global threats. Europeans are increasingly concerned about the growth in migratory pressure, which is basically the result of development gaps and requires a thought-out political response. The spread of terrorism, the problem of preventing illicit trafficking, the limitation of pandemics are also important areas which cannot be tackled and controlled by the EU on a unilateral basis. The European Union must endeavour to get as many countries as possible to shoulder their responsibilities and participate in the management of global interdependencies and problems;
- solidarity. The fight against absolute poverty and for respect for democracy, civil and political rights as well as economic, social and cultural rights, calls for a cooperative approach which oversteps national frontiers;
- economic development and mutual interest. The European Union can help countries which are currently outside the international economic system to develop internal capacities and secure the basic conditions for sustainable development; it can monitor the development process in the more advanced countries, step up the pace of economic and social development and encourage their smooth integration in the world economy. Tomorrow the ACP States might enjoy significant economic growth so it would very short-sighted to reduce the weight of Europe's influence there;
- the social and environmental aspects of development. It is very much in the European Union's interest to encourage a form of development (i) guaranteeing social progress, respect for human rights and above all fundamental social rights; and (ii) focusing on the problems of destruction of the environment and natural resources. In the absence of a policy deliberately targeted at social development and environmental protection objectives, the constraints and also the opportunities of the new international economic environment may give rise to a form of development which is incompatible with European political and social values. It comes down to ensuring consistency between the objectives pursued within the European Union and the influence that it can bring to bear on the form of development in certain regions of the world.

B. Revitalizing the ACP-EU partnership by strengthening its political dimension

ACP-EU relations are so long-standing and pioneering that they have created an entire "culture" which must be safeguarded. This culture is largely based on the existence of a special partnership between each ACP country and the European Union. In view of the new international backdrop, this partnership should be strengthened rather than weakened by increasing its value as a mutual political commitment.

The partnership pursued under the Lomé Convention has come up against a number of difficulties, which are described in Chapter II.B. Indeed it has proved hard to put initial intentions, based on the principle of equal partners, into practice since the institutional weakness of the recipient countries, their dependence on aid, a growing conditionality and the Community's tendency, like other donors, to take the place of their faltering partners, a tendency prompted by a growing concern for effectiveness, have seriously undermined the principle of partnership.

Partnership is undoubtedly still the ideal form for cooperation relations and any future agreement between the EU and the ACP States must endeavour to restore it. This implies a fundamental overhaul of cooperation procedures and a careful weighing up of the options in order to reconcile on the one hand the need to adopt differentiated approaches, ensure a sufficient degree of flexibility, apply conditionality for incentive purposes and exercise some selectivity, with on the other hand, something more akin to an objective which consists of conducting an adult, responsible, effective and predictable partnership.

The enormous challenges which some ACP States face are reason enough for preserving the specific qualities of the cooperation relationship, in particular its predictability and its contractual nature. But from now on a more explicit and real mutual political commitment must be added to this "contract".

The revitalization of the partnership therefore calls for a reinforcement of its political dimension in two respects:

- the foundations of a political dimension were laid with the introduction in Lomé IV and in the revised Convention of a clause on respect for human rights, together with a provision allowing for suspension of the Convention in the event of infringement. This clause also refers to democratic principles, consolidation of the rule of law and good governance. The Convention provides for a consultation procedure if one of these obligations is not met.² This approach follows the general framework of Community policy in the field of human rights and fundamental freedoms, which constitutes an essential element of the dialogue with the various partners on which the partnership with third countries is based.³ From a formal point of view, the current provisions appear quite comprehensive. However, practical implementation of this political component raises a number of questions about the criteria to be

2 Except in the case of special urgency.

3 COM(95)567 "The European Union and the external dimension of human rights policy: from Rome to Maastricht and beyond".

applied and the consequences that a political judgement would have on the management of cooperation - apart from extreme cases giving rise to the suspension of European cooperation;

- in the context of an upsurge of organized violence and an increase in armed conflicts in sub-Saharan Africa, with all their humanitarian, social, economic and environmental repercussions and the challenges which they pose to any development policy, the Commission has drawn up a proposal designed to develop a European conflict prevention and settlement policy.⁴ Issues such as the introduction of preventive diplomacy, arrangements for broader political cooperation and ongoing political analysis all need to be tackled. The Commission has proposed a comprehensive strategy, allowing for coordinated intervention at political and development cooperation level. The final objective is to ensure "structural stability", an idea which embraces the objectives of sustainable economic and social development, democracy and human rights, establishment of viable political structures and a capacity to manage change without resorting to violence.

It should be possible to develop a stronger political relationship between the EU and the ACP States in these two areas, either globally with all these countries or separately with sub-regional blocs or other groups of countries.

Strengthening the political dimension has wide-ranging implications. Are the partners ready for this and all its consequences?

There are three aspects to this:

1. A mutual political commitment at the basis of a new partnership

As far as the EU is concerned, political dialogue with the ACP States will have its place in the common external policy. The many wars being waged in sub-Saharan Africa are both a cause and a consequence of the lack of development. They are as much a matter for political as socioeconomic analysis.

As far as the ACP States are concerned, the necessary changes and reforms will not be made without a radical transformation of political and social structures. EU support measures for economic policies and institutional reforms may have major political repercussions on these countries. Experience of past cooperation has furthermore shown that this support is appropriate only when certain conditions - primarily political - are met.

Strengthening the political dialogue is now a condition of increased effectiveness of ACP-EU cooperation: a stronger political relationship which allows essential issues such as good governance, democratization and human rights to be tackled in a less formalistic, franker and hence more efficient manner now seems to be absolutely necessary if Europe wishes to give its cooperation policy a greater chance of success.

4 See SEC(96)332 "The European Union and the issue of conflicts in Africa: peace-building, conflict prevention and beyond".

2. The arrangements for political dialogue

These arrangements concern the geographical configuration of the political dialogue: it could be conducted on a multilateral or a bilateral basis or by subregional groups. This links up with the issues raised in Chapter IV D.

They also concern the priorities of the dialogue: questions of national security, the problems of migration, the fight against illicit trafficking etc.

They also concern the level of this dialogue (ministerial meetings and technical working parties) depending on the degree of cooperation sought.

3. The links between the political and the cooperation components

Although in the long term they are complementary, the objectives of the CFSP and those of development cooperation follow radically different time scales. Any subordination of cooperation policy to foreign policy measures could jeopardize development objectives, which are medium and long-term and hence require continuity of action. It is in compliance with the general principle of consistency of the European Union's external activities that the link between these two components must be ensured.

More specifically, strengthening the political dimension of relations will mean considering various possible procedures designed to:

- increase the selectiveness of aid in accordance not only with countries' needs but also their institutional and political choices;
- adjust the practical details of cooperation so that they facilitate reforms by these countries.

These two issues will be dealt with in greater detail in Chapter VI.

C. Opening up the framework of ACP-EU cooperation

The cooperation framework must henceforth do more to help the ACP States to open their markets to develop trade with the EU, of course, but also with other partners.

In the light of past experience and in view of the constraints and prospects in the ACP States, it seems that the European Union can facilitate this opening-up by altering the framework of cooperation in four ways:

- differentiation: The situation varies so much from one ACP State to another that there must be scope for adjustment in the European Union's cooperation. Not all ACP States are at present capable of embarking on a standard political and economic partnership with the EU. Effective partnership can result only from mutual interests, common objectives and priorities and reciprocal rights and duties

which are strictly adhered to. For reasons of effectiveness, differentiated cooperation policies and procedures have become essential.

- stepping up the policy dialogue: The European and ACP partners must examine ways of reconciling two requirements: the responsibility of the recipient countries and the requirement to account for the use of cooperation resources to European citizens. Policy dialogue must be based on a dual acknowledgement: (1) development cooperation can be effective only if it is based on a process of change decided and actually implemented by the authorities of the country in question; (2) the EU can commit itself to supporting only economic and social organization models which contribute to the objectives of its cooperation policy and which comply with the political and social values which it means to promote. These priorities and objectives formulated by the EU are not incompatible with the aspirations of the ACP peoples, nor with the formulation of development strategies proper to the ACP States. However, an agreement on priority reforms and the acceptance of the necessary socio-political changes is possible only if the Euro-ACP dialogue on economic and social policies is stepped up and the local capacity for analysis and implementation of development policies is improved.

A more effective dialogue would mean that Community monitoring could be focused on the results of cooperation and on the progress achieved sector by sector, rather than on the means deployed. Such an approach would have to be gradual, it would take time and resources. Yet it appears to be the only alternative to traditional aid operations which would be effective in the long term.

- Cooperation which could be expanded and stepped up in other fields: The final objective that the European and ACP partners must set themselves is to reduce dependence on aid and develop other forms of cooperation. In fields such as science and technology, education and training, industrial and economic cooperation, it is a question of identifying mutual interests and encouraging the exchange of experience. The EU is in a unique position here to propose a wide range of cooperation fields and instruments. Cooperation will also have to be continued in traditional areas, particularly in the cultural sphere, where the EU is already very active. Such an extension cannot, however, hide the fact that the poorest countries will still need foreign aid for a long time to come and that the lion's share of funding will therefore have to go to them.
- more active participation by non-governmental bodies in cooperation relations, the private sector and other representatives of civil society (academic circles, cooperatives, development NGOs and environment NGOs, consumer associations, etc). Such participation, which is intended to complement rather than supplant official partners, should be envisaged at two levels:
 - (i) developing an effective dialogue with social and economic partners on cooperation priorities, particularly in the areas which concern them directly;
 - (ii) involving the parties concerned in the implementation of certain cooperation operations, which would mean that there would be fewer intermediaries and programmes could be better targeted, more effective and more relevant.

These different aspects of the partnership, the need to improve the way it is really run by partners whose responsibilities are by nature very different, therefore call for a fundamental review of the way instruments and tools are designed and used.

D. The geographical cover of cooperation agreements: options

The "ACP group" is strictly speaking neither a political nor an economic entity. It was established in the framework of relations with the European Union for essentially historical reasons. Today, the members of the ACP group have development interests and opportunities which diverge widely because of their very different income levels and living standards, their economic structures and trade strategies and their relative appeal for foreign investment.

In this context, is the ACP group still an appropriate partner for the European Union? In other words, should the unique structure currently governing relations with the seventy ACP States be maintained, broken up or extended?

This question should be examined in the light of four considerations.

(1) It will be partly up to the ACP States themselves to take a position on this. Their choice will basically depend on their willingness to step up their own intra-ACP dialogue structures, define their common objectives and interests in multilateral forums and vis-à-vis their various partners, and improve their negotiating skills as a political or economic group on the international scene, outside their relations with the EU.

(2) An acknowledgement of the diversity of situations within the ACP group and a willingness to make future cooperation more suited to meet varying needs could mean changing the form that a cooperation agreement might take. In addition, as far as trade provisions are concerned, the system of non-reciprocal discriminatory preferences currently granted to all the ACP countries may have to be changed to ensure its compatibility with WTO rules. These preferences would then be renewable only for the LLDCs (UN list of the least-developed countries) whereas new arrangements would be examined for the other ACP States. These questions are dealt with in greater detail in Chapter V. This necessary differentiation in cooperation strategies does not, however, necessarily mean abandoning the ACP concept since it could be applied only to certain aspects of relations (obviously trade, but also possibly the nature of financial and technical cooperation instruments or the volume of aid). But this differentiation could also be more radical and give rise to separate agreements. Differentiation, which is already a feature of cooperation under the revised Lomé IV to varying degrees, depending on the instrument, will in any case have to be spelt out more clearly.

(3) The objectives of the European Union, its view of development and the role of cooperation, will shape not only the content of the new agreement or agreements but also their geographic configuration. The creation of political and economic areas which go beyond national boundaries has been recognized as a necessary step for Europe and is so for the ACP States as well. The path of regional cooperation and integration seems advisable

not only because of the generally inadequate economic size of many ACP countries but also because such an option can encourage political leaders to adopt a more strategic approach to developing their economies. It is also likely to speed up the socio-economic transformations which are needed to develop a market economy and do away with clientelist structures often organized on a national basis.

(4) Another aspect, which could lead to the principle of graduation, is the idea that while cooperation relations must be constantly established and strengthened, dependence on foreign aid must be gradually reduced as progress is made in mobilizing internal resources and improving a country's credibility in terms of private foreign investment.

In the light of these considerations, four options are possible:

(1) The status quo with some changes: a global agreement, differentiated procedures. A first option would be to maintain the principle of a global ACP-EU agreement but with different procedures depending on how the recipient countries' level of development evolves. The common basis would determine the essential features (objectives, principles, institutional provisions, duration of the agreement etc) and would cover certain areas of relations (political dialogue, security matters, terms of access to financial and technical cooperation). The trade provisions would, on the other hand, be differentiated, as would the priorities and arrangements for the management of financial and technical cooperation.

(2) Global agreement supplemented by bilateral agreements. A global agreement containing general undertakings, supplemented by bilateral agreements negotiated on a country-by-country basis - or possibly by groups of countries in the case of sub-Saharan Africa - would no doubt make it possible to tailor EU operations more closely to circumstances.

(3) Break-up of Lomé IV into regional agreements. A third option would be to replace the Convention with a set of regional agreements. This approach would be entirely consistent with the general direction taken by the EU in recent years in its external relations, based on differentiated strategies by regions or subregions. Within the ACP area, sub-Saharan Africa is clearly a significant region for Europe. In certain subregions, the headway made in regional cooperation is such that subregional agreements could be considered.

The Caribbean countries are already organized at different regional and sub-regional levels. The long-term aim of the EU could be to incorporate cooperation with these countries in the framework of the relations it has developed with Latin America. The European Union could also propose extending cooperation to all the countries of the Caribbean basin. The Association of Caribbean States, as yet a fledgling but extensive organization covering 37 countries of the Caribbean basin, could provide a suitable framework. The very different levels of development within this region, the vulnerability inherent in island states and the fragmentation of their economies, and specific problems connected with drugs, the environment, migratory flows and democratic changes (Haiti and Cuba) are, however, all

reasons for a special approach, in terms of both foreign policy and security - the EU has a physical and strategic presence in the area⁵ - and development cooperation.

The ACP States of the Pacific are all members of regional organizations which are relatively well-developed at economic and political level, as well as technical level. Effective cooperation with this region of the world would mean extending the framework of cooperation to other island states in the Pacific. In this extended framework, the Community's interests lie in two specific areas: preservation of the environment and of the region's considerable natural resources and trade promotion, especially with the APEC countries.⁶

(4) LLDC Agreement. A last option would be to establish a cooperation agreement with the least developed countries (LLDC) which could possibly be opened up to non-ACP LLDCs, and to consider other types of agreement with non-LLDCs. In formal terms of institutional provisions, a willingness to take account of the level of development and needs of each country in determining the type of cooperation, can work only if a distinction is drawn between LLDCs and non-LLDCs. A more detailed consideration of the situation of each country could, as is already partly the case now, take place in the course of financial and technical cooperation.

While this option might offer some advantages at trade level, it appears entirely unsuitable as far as political dialogue and other areas of cooperation are concerned (support for socioeconomic policies, scientific cooperation, environment, etc).

E. The European partners and coordination: options

From the outset EU relations with the ACP States have been driven by a desire for a global approach, to the extent that the main instruments of Community action - trade policy and aid - have been incorporated in a single institutional framework. Provisions on respect for human rights, the rule of law, good governance and the principle of a political dialogue, have been in the cooperation agreement since 1990.

An integrated approach has the advantage of encouraging consistent use of the various aid and dialogue instruments involved. None the less the scope of European cooperation has been hampered by three factors resulting from the EU's own action: (i) the consequences for the ACP states, which were not systematically anticipated, of Community or Member State policies other than development cooperation; (ii) the loss of efficiency and the difficulties encountered by the aid recipient countries as a result of inadequate coordination between the Member States and between the Member States and the Community; (iii) the lack, which is increasingly felt in the current international context, of a common stance and a common stance approach to the ACP States on the part of the countries of Europe.

5 French Departments of America (DOM); British and Dutch OCT.

6 The Asia Pacific Economic Cooperation Council has eighteen members: Australia, Brunei Darussalam, Canada, Chile, People's Republic of China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Philippines, Singapore, Taiwan, Thailand and the United States.

To what extent can the EU improve the consistency - in the broad sense - of its action vis-à-vis the ACP countries?

It is clear that strengthening the political dimension of the partnership, referred to under point B above, is a key area in the discussion on consistency in the broad sense. Apart from this fundamental dimension there are two other aspects: (i) the consistency of other Community - and national - policies with development objectives; (ii) the complementarity and coordination of the Community's and the Member States' development policies. These two aspects were underscored in the 1992 Commission communication;⁷ none the less, the effects of measures taken by the EU since then remain limited and there is still a lack of coordination and consistency.

Consistency in the strict sense, that is the external effects of policies other than development cooperation, can in any case never become an international commitment on the part of the Community. Because of the sometimes conflicting interests between internal and external concerns, or in the context of relations with other countries with possibly competing interests, consistency remains a matter of political judgement. The Treaty on the European Union answers these concerns by imposing the principle of consistency, particularly with regard to its external activities (Article C of the Treaty) and explicitly with regard to development cooperation (Article 130v). This issue has been raised on several occasions by the Commission and the Council and a case-by-case approach has been adopted here.⁸

With regard to **coordination** of the European partners, however, there are several options for improving the situation. Besides the coordination efforts referred to in Chapter I.C, which must be pursued at operational and sectoral policy levels and in international organizations, the European Union could contemplate:

- either framing a global European strategy in relation to the ACP States which would commit both the Member States in their national activities and the Community. It would no longer be a question of taking a more "Community-based" approach to development cooperation but rather of aligning strategies. The search for greater complementarity between the various national and European interventions, a principle enshrined in the Treaty, would be facilitated by a common reference framework;
- or incorporating in the new cooperation agreement(s) an information, monitoring and coordination system in the Member States' and the Community's key areas of intervention. It would take the form of a commitment by the EU to improved coordination.

7 SEC(92)915 of 15 May 1992 "Development cooperation policy in the run-up to 2000" and the November 1992 Council declaration on the same subject.

8 See the conclusions of the Development Councils of 25 November 1994 and 20 December 1995.

The aim of these two options would not be to standardize European cooperation policies, whose existence and diversity in terms of experience are a reflection of pluralism. The aim would be both to improve the impact and effectiveness of European development operations and achieve critical mass and also to assume the corresponding political responsibility more explicitly.

Improved European coordination will promote coordination efforts undertaken by all donors, and also within the multilateral system in the context of the interinstitutional rapprochement agreed at the recent G-7 Summit, giving particular attention to Africa, on the basis of the United Nations Initiative for Africa announced this March.

CHAPTER V. OPTIONS FOR A NEW EU COOPERATION POLICY WITH THE ACP STATES

The year 2000 deadline does not herald a rethink on all the components of cooperation policy implemented thus far. Indeed, many of the policy guidelines developed over the years, particularly those adopted more recently, require both consolidation and, in certain cases, further development. Cooperation policy is constantly evolving and new approaches are gradually being introduced in a number of areas. Their significance should be recognized.

In line with these recent guidelines and in view of the overall objectives enshrined in the Treaty for Community development cooperation policy, the experience of the Lomé Convention and the analysis of the ACP states' handicaps and potential, cooperation between the EU and the ACP states in future must involve supporting their efforts to achieve the political, economic and social conditions for sustainable development. Improvements to the competitiveness of ACP economies, which are essential to boosting employment and raising the overall standard of living, can be fostered by a variety of measures both in the field of foreign policy - promoting the development and diversification of economic and trade relations - and domestic policy - to improve supply capacity. Given the above, the EU's cooperation policy with the ACP countries could be restructured around three core areas.

- the social and economic dimension Poverty alleviation is at the heart of many of the EU's financial cooperation initiatives. Several of the ACP states are counted among the world's poorest and, if the conditions that lead to stagnation and marginalization are to be overcome, a range of sectoral and general policies is required. A variety of options can be considered to extend the EU's scope for action so as to foster economic growth and investment, promote private sector and social development and reduce poverty;

- the institutional dimension and the public sector The way in which a state performs its duties and the factors of good governance, policy and economic management are often crucial to ensuring the conditions of development in many ACP countries. In addition to their intrinsic political dimension, which would justify stepping up ACP-EU political dialogue as mentioned in Chapter IV.B, such problems also entail significant "technical" aspects which need to be addressed in the cooperation framework. A broad consensus exists on the need to support institutional reform and build capacity as part of any cooperation policy and there is no doubt that the EU is already active in that respect. However, it might consider stepping up support for reform of the institutional and legal framework and improving public service capacity: indeed the latter is an area that is likely to exert a considerable influence as, in many ACP countries, it is directly implicated in the management of much of the aid and often determines both its impact and viability;

- trade and investment The Lomé trade arrangement, with its focus on tariff and quota preferences, has been insufficient for the ACP countries, in contrast with the much better performance of the LDC group, to preserve, least so to improve, their participation in the world markets of goods, services and capital. Tariff advantages are, thus, neither a sufficient nor a necessary condition for good export and growth performance. Supply-side

factors, in particular good governance and sound macro and microeconomic policies, notably stable, secure and efficient internal trade and investment policies, are determinant factors, more so than unilateral tariff preferences, in achieving high rates of export and economic growth. It is vital, in the light of the limited impact of the "Lomé preferences", the likely erosion of preferential margins and the need to adopt measures compatible with the new WTO rules, to study carefully the various options facing the EU and the ACP states when deciding the new trade arrangements. The goal is to enable the ACP countries to be more involved in international trade and economic relations and to help them reap greater benefit from the development opportunities such relations can offer and avert the threat of increasing marginalization.

An *acquis communautaire* exists to a varying extent in respect of each of the above-mentioned core areas for cooperation. The following sections give an overview of the acquis, referring to the Council texts deemed most important in the areas concerned. However, further options should also be considered either for necessary institutional reasons - as in the case of the trade measures - or for purposes of enhancing, strengthening and ultimately increasing the effectiveness of the EU's involvement in line with the goals it is pursuing through its development cooperation policy.

A. The socio-economic dimension

The analysis set out in Chapters I and III has underlined how the conditions of economic and social development are undergoing a complete sea-change both at international level and within the ACP countries, where the call for democratization and greater private sector and civil society involvement is being made with increasing stridency. Now committed to the market economy and opening up trade, most ACP countries are endeavouring to create conditions more conducive to the development of the private sector and recognize the beneficial effects of foreign investment. Some have undertaken economic reforms to that effect with varying degrees of success. However, private investors are still reticent and only a few countries and sectors have registered significant foreign investment. Nevertheless, prospects for growth have improved in many countries though without any significant reduction in the incidence of poverty. One of the main conclusions was the importance of making reform policy more credible so as to bring the expected positive results earlier while reducing the element of risk and instability inherent in the economic environment. The essential institutional and economic reforms must go hand in hand with a profound transformation in the workings of society, which inevitably implies long and gradual processes.

The ACP countries need to accelerate their economic growth. However, the leeway for improving the impact of growth on the reduction of poverty is large too. Maximum participation in the economy, access to productive resources (land, capital and credit, training, information) and basic social services (education, health, nutrition, drinking water), improving the social and economic situation of women and young people - these are just some of the essential and complementary elements which make up any strategy to alleviate poverty and which belong first and foremost to domestic economic and social policy. The role of cooperation is to encourage the necessary political change and to support endeavour by means of technical and financial assistance. Measures to alleviate poverty

cannot really be effective or have a lasting impact without the commitment and clear willingness of the recipient country.

The concept of sustainable development and the pivotal nature of social and human development have been extensively debated on the international scene in recent years. At the major international conferences of Rio, Cairo, Copenhagen, Beijing and Rome,¹ a large number of countries adopted common values and principles and identified priority objectives. Thus the broad strategic outline and the main guidelines of economic and social policy have been sketched out. Meanwhile, Europe clearly has its own bench-marks: the EU's cooperation relations reflect its concept of economic and social development, which is itself the product of the diversity of Member States' experience. It only remains for the EU therefore to find the most effective means to encourage implementation of these strategies and adherence with the principles stated.

The discussion of the socio-economic situation in the ACP countries has also highlighted increasing differences between them. The idea of a cooperation policy tailored to circumstances merits consideration by the EU, allowing countries or groups of countries, as they proceed gradually along the path of stabilization and reform, to progress from a policy based on support for the reform process to a wider relationship embracing new areas of cooperation and different forms of partnership, similar to what the EU has proposed in other developing regions (more advanced economic cooperation, scientific and technical cooperation, etc.).

The options for support of socioeconomic development must therefore be assessed in that perspective: not only do different strategic priorities need to be adopted for each country, but the areas of cooperation can differ from one country to the next.

The options can be grouped together under two priority themes geared to the same objective, i.e. preventing marginalization: integrating the ACP states into the world economic system and integrating the poor into economic and social life.

1. Stimulating economic growth through competitiveness and private-sector development

Many of the EU's current cooperation policies are angled towards promoting faster growth and higher private investment in ACP countries, with a wider integration through trade and investment into the world economy. These include financial and technical support for structural adjustment reforms, sectoral support in infrastructure, agriculture, industry, services and human resource development, and direct support for the private sector through the promotion of enterprise development, investments, trade development and the financial and technical support provided by the EIB and CDI. A vigorous private sector is essential if living standards and opportunities are to be continuously and sustainably improved.

1 Earth Summit, World Conference on Population, World Summit for Social Development, World Conference on Women and the World Food Summit.

The issue for the EU, given the modest rates of growth achieved in many partner countries in the past, is what more it can do to promote faster economic growth, increased competitiveness of ACP enterprises, better export performance and higher levels of private investment, and what new policies and approaches it might adopt.

There are several options for making future assistance more effective:

(a) More systematic and comprehensive support for private sector development

The expected positive response of the private sector to economic reforms has been weak and slow in a number of countries, particularly in sub-Saharan Africa. The reforms have often failed to inspire confidence, and to produce the expected results, and consequently to reduce to reasonable levels the costs and risks facing investors. Experience in recent years shows that countries which demonstrate a credible commitment to sound economic policies and reforms and which present a transparently fair and favourable environment for enterprise are also successful in attracting investment, creating jobs and innovative firms, raising their export earnings and achieving sustained economic growth. The tasks ahead are, therefore: (i) to convince the public authorities and the private sector that reforms are genuine and permanent, and that there will be stable and predictable economic policies; (ii) to tackle the policies and institutions which are still the causes of high costs, low productivity and uncompetitiveness; (iii) to strengthen financial systems and institutions so the private sector can invest more and has better access to financial services; (iv) to develop economic infrastructure and (v) to build private-sector capacity to manage businesses, train employees, develop and market products, and achieve efficiency gains.

In assisting in these tasks the EU has a number of options for developing its own action:

- **Confidence Building** The EU can insist that economic reforms it supports as well as the assistance it supplies to promote the productive sectors of the economy are designed in the knowledge that they will serve the overall development purposes of ACP countries and in particular those of the private sector. After consultation with the population they need to be properly explained to key non-governmental stakeholders.

It can provide resources to help partner governments streamline their relations with the private sector, to improve lines of communications with it, to consult with it about its policy intentions, and to listen to its grievances and policy proposals. Some ACP countries already have government-private sector consultative fora which play a valuable role in confidence building, so long as they are adequately resourced. In this context, the strengthening of professional organizations and chambers of commerce is crucial, so as to perform properly their advocacy role and provide useful services to enterprises.

- **Policy and Institutional Environment** The EU can assist partner governments with further administrative and institutional reforms - including reforms in tax administration - and reinforce the rule of law and the administration of justice as they affect businesses. It can help governments to identify those regulatory and administrative practices which are nugatory and which cause delays, inhibit investment and employment creation, and add unnecessarily to the costs and risks of carrying on normal business.

It can make a more vigorous technical contribution to planning and implementing the privatization of public enterprises (see sub-section under point b, below), and join partner governments in the search for imaginative and sustainable solutions to infrastructural deficiencies which hinder the private sector.

It can support the introduction of policies, rules and practices governing competition, consumer protection¹ and the regulation of monopolies, research and information, technology transfers, which complement economic reforms and privatization.

- ***Financial Systems and Institutions*** The EU can do more to support local capital markets and to improve enterprises' access to financial services. It can provide technical advisory services and financial support for the restructuring of weak financial institutions and for the strengthening of the legal and regulatory framework in which new, soundly-based, financial services can be established to serve the needs of business, small enterprise, farmers and savers. Particular attention must be given to issues like (i) strengthening domestic capital formation, (ii) supporting diversification of financial institutions and services and (iii) the improvement of payment systems and networks.
- ***Private Sector Resources and Capabilities*** The EDF directly supports private enterprise through national indicative programmes, through enterprise and trade development and through the action of the European Investment Bank (EIB) and the Centre for the Development of Industry (CDI). The CDI has recently up-dated its portfolio of instruments in the light of the positive experience of the European Community Investment Partners (ECIP) scheme operating in the ALA and Mediterranean countries and in South Africa.

Financial and technical support to micro-, small and medium-sized enterprises and industrial craft undertakings comes through the EU's country programmes in the form of credit lines, guarantee funds, advisory services, training and technological assistance. These programmes have proved their worth and should probably be allowed to develop further (in particular by means of appropriate funding). The EIB also has been a major player in providing loans and risk capital. The EU also supports larger enterprises through its industrial investment and trade development actions.

The Commission, in collaboration with the CDI, could enlarge the scope of its assistance by financing consultancy and advisory services - both local and external - for use, on a cost-sharing basis, by indigenous entrepreneurs seeking to develop their businesses. It could also do more to increase the capabilities of local business and professional associations to provide capacity-building services to their members.

The EIB also provides loans and risk capital, subsidised from EDF resources, to larger private sector projects in infrastructure, industry, mining and commercial agriculture. A share of its resources are on-lent through local financial intermediaries to private small and medium-size enterprises.

1 Discussions are under way in the Commission on the role of consumer policy in the framework of development policy (COM(95)519 "Priorities for consumer policy").

One option for increasing support to formal enterprises would be to direct more EDF resources to the Commission and the EIB, in line with the role of both institutions and to satisfy the growing demands of private operations in ACP countries. In addition, EDF funds could also be made competitively available to other EU-based development finance institutions (e.g. the EDFI institutions), some of which are actively engaged in developing innovative financial services for the private sector in ACP countries. The longer term goal, however, must be to encourage the growth of local and regional capital markets, and for the larger and better established enterprises in ACP countries to finance their development from the market sources, and not from official credits. In this context, the development of local savings and its channelling to productive investments is crucial.

The CDI has been the main instrument in the Lomé Convention for providing technical advisory services to the SMI sector - especially in project preparation and appraisal, and in arranging financing and partnerships. It has local antennas in many ACP markets, and is well placed to play a brokerage role between new and expanding enterprises on the one hand, and financial, technological and managerial know-how on the other.

A promising option for the future would be for the Commission, as part of a policy of increasing the provision of demand-led, new technologies and advisory services for the private sector in ACP countries, to encourage the CDI, along with other potential service providers in the EU and partner countries, to expand its capabilities to assist enterprises on a cost-sharing basis.

- **Investment Promotion** The Lomé Convention has long recognised the importance of foreign direct investment for the growth and competitiveness of ACP economies. The Commission provides technical assistance in elaborating investment codes and investment protection laws and regulations, and for governments' investment promotion initiatives. It has sponsored sectoral investment and partnership forums to acquaint potential external investors with opportunities and to promote partnerships. These activities are a useful complement to reforms and confidence-building measures which improve the enabling environment for private sector development.

Efforts to provide an attractive "shop window" for investment opportunities in countries which offer a satisfactory policy and institutional environment for investors should doubtless continue. Options for action on investment protection are further considered in Section C of this chapter.

In proceeding with this agenda the EU would have to be sensitive, empirical, and pragmatic about what the real priorities and the felt needs of stakeholders are, country-by-country. It should be selective and carefully targeted in its choice of programme. In its approach to private sector development the EU should nevertheless be coherent and well coordinated with other actors - local and external - who are pursuing the same objectives. Where private sector development and support for greater competitiveness feature prominently in its cooperation strategies it should, in collaboration with other stakeholders, seek to elaborate private sector development strategies which lend a sense of purpose to individual programmes and projects.

Possible changes in the instruments of cooperation to support an enlarged and refocused policy for encouraging the private sector are discussed in Chapter VI.A below. One approach is to

consider, in suitable cases, earmarking a portion of programmable country assistance for the support of private sector development - both through actions to ameliorate the policy and institutional environment and through measures of direct support for enterprises. The private sector could be invited to participate in defining priorities for the use of this envelope of resources.

(b) Supporting public-enterprise restructuring and privatization programmes

Privatization is often one component of the reform measures designed to relaunch investment, create a more competitive environment and build more flexible and diverse economic structures. However, privatization is not a solution *per se* and it should be possible to adopt a case-by-case approach. The programmes are often complex and difficult to carry out, demanding substantial analytical and administrative capabilities. Technical assistance, in particular in the evaluation of the various options (restructuring, reform of the economic apparatus, etc.) and backup for any social plans required, may provide one possible solution.

With its ability to mobilize the expertise developed by Member States and exploit the experience it has gained across the globe, the EU is well placed to support privatization programmes. Consideration could be given to developing this type of aid in countries where privatization would clearly help attract new private investors and contribute to gains in competitiveness.

(c) Continuing and stepping up support for regional integration

Since the first Lomé Convention, the Community has supported various forms of regional cooperation. In terms of funding, the focal areas have been: transport and communication infrastructure, environment, animal disease control and training. Progressively support has been unified under the general objective of strengthening economic integration. The underlying view is that for the ACP countries regional economic integration is an indispensable step towards their successful integration into the world economy. At the same time the EU has been drawing attention to the negative effects of formulating and implementing economic reform programmes in a purely national context. By now the need to take into account the "regional dimension of adjustment" is generally recognised.

Over the past few years the EU has actively supported several regional organizations, particularly the newly created UEMOA (West Africa) and the newly transformed and enlarged SADC (Southern Africa). Together with three other co-sponsors (African Development Bank, IMF and World Bank), the EU is supporting the Cross-Border Initiative in Eastern and Southern Africa and the Indian Ocean, in which 14 countries are actively participating.

Two important aspects of the CBI should be stressed: involvement of the private sector and coherence of the national and regional policy agenda.

Through its regional indicative programmes the EU supports infrastructural, environmental, health and other initiatives which are of interest to more than one country and which are best conceived and implemented on a regional basis.

In order to improve past performance it is necessary to put support for regional economic integration into a coherent strategy. Taking into account the EU's recent experience, such a strategy should have the following basic components:

1. capacity building (including technical assistance, training and endogenous research) on the subject of regional economic integration both at the level of regional institutions and national governments;
2. assistance to the private sector to facilitate restructuring in the larger regional and world market. This would also include improvements in the financial sector to facilitate and secure payments;
3. support for governments committed to implementing regional integration to cope with transitional effects on budgetary resources (balance of payments or budgetary support, complementary to and fully consistent with national economic adjustment support).

The instruments that are presently available are well suited to supporting such a coherent strategy.

There is another novel way for the EU to promote regional economic integration that needs to be further explored, i.e. through its trade policy. The EU is presently involved in negotiations to achieve a Free Trade Area (FTA) with several (groupings of) developing countries. Because of the influence of the EU in trade matters, the provisions of such FTAs will affect the integration of developing countries into the world economy. There is an opportunity to use these provisions in a way that fosters more regional economic coherence of the developing countries. According to the Commission and Council conclusions of June 1995 on Free Trade Areas, these arrangements should comply with the relevant WTO provisions, and take into account the implications for the Union's common policies and for its main trading partners.

(d) stepping up trade development support measures

Trade development is a specific arm of a more comprehensive policy which focuses on competitiveness and private sector development. In addition to the instruments peculiar to trade and investment regimes, which will be discussed below in Section C, there is also a wide range of cooperation initiatives to assist trade development. This dimension was introduced into the Lomé Convention when it was revised in 1995 and the EU undertook to develop this area of cooperation around a variety of support programmes: integrated trade development programmes at national or regional level, multiannual support programmes for trade organizations involving both ACP and European operators, programmes to assist enterprises in specific sectors and programmes to support the development of infrastructure and trade-related services (transport and communications, financial and other intermediaries, chambers of commerce, etc.).

Given the fact that the new challenges posed by globalization and competitive forces will create changes in the basic parameters of international trade the EU ought therefore to strengthen and intensify its commitments to supporting ACP States in their efforts to capture the potential benefits arising from new trade opportunities.

Increased emphasis should be placed on targeting of the private sector with concentration on that support being client-driven and participatory. Priority should be given to the creation of

international partnership networks, investment promotion, and development of support service industries and institutions.

Greater emphasis should be given to strengthening mechanisms for the enhancement of networks between European and ACP private sectors.

Furthermore in recognition of the revolution in global information technology that will be a feature of the next millennium the EU should intensify its support to ACP States in gaining access to the hard- and software associated with it and in facilitating its optimum utilization.

(e) supporting the development of scientific and technical expertise as a strategic component of sustainable development

The rapid development of more and more complex technologies, notably in the health, food and communications fields, and the widening scientific and technological gulf between the majority of ACP states and the industrial world should justify special attention to this area by the EU. Although this dimension features in the Lomé Convention, it has not as yet given rise to any coherent or sustainable plan of action.

In view of the Community's experience, the EU is in a good position to build up scientific and technological partnerships involving government R&D institutes and private enterprises in the sectors concerned from both hemispheres. Such initiatives should be founded on dialogue with the ACP countries on the R&D issue, in particular on a regional basis, with the aim of encouraging them to upgrade their regulatory frameworks (intellectual property rights, movement of goods and persons, investment code, etc.) and helping them to provide the budgetary backup required for a policy to develop research/industry partnerships.

(f) helping the ACP states prepare for ongoing developments in the information field

Progress towards the information society concerns not only advanced or emerging economies but also those economies and societies which are, or wish to be, open to the outside world. As the participants at the recent conference in Midrand recognized, these changes must form part of a shared vision of the future associating the industrialized and developing worlds. In the conclusions of its Chair, the Conference also highlighted national responsibility and the unique role to be played by the private sector.²

The initial stage depends on improvements to telecommunications services which, together, with water and electricity, are used by every branch of the economy.

This field is an especially attractive one for the private sector in view of its potential for growth (all ACP countries are under-equipped) and the recent emergence of new technologies which provide a more flexible response to the requirements of countries like the ACP group, e.g. satellite transmissions, mobile and stationary cellular telephones. The European experience of

2 The Information Society and Development Conference (ISAD) was held in May of this year at the initiative of President Nelson Mandela, G7 members and a number of developing and industrialized countries.

transition is sufficiently rich and varied to offer tailor-made aid tailored to countries that so wish.

There is also the development of new services, such as the Internet, which is already accessible in many countries and represents a genuine opportunity for its users, researchers, university students or entrepreneurs to participate in networks exchanging information worldwide.

At a subsequent stage telematics applications, e.g. in fields such as health, education, research networks as well as electronic trading, may help solve certain problems in ACP countries. These initiatives will be all the more effective for pilot projects to prepare those concerned and involve them in decisions on the content and use of applications.

Community models, of which the home shopping experiment is a good example, can thus take the place of the largely individualized applications developed in advanced economies.

(g) monetary cooperation

In many ACP countries political and economic instability is a major impediment to increasing investment and accelerating growth. A stable monetary and financial background is a prerequisite of an economic policy designed to achieve balanced and sustainable growth. This implies not only the existence of effective and independent institutions, the implementation of a monetary and exchange policy geared to stability and sustainable budgetary policies but also an extension of the banking system's role in the distribution of savings.

Europe could support the ACP countries' efforts to modernize and adapt in these areas. The priority goals would be consolidation of institutions and modernization of procedures for managing monetary and budgetary policy, development of the banking system, establishment of current convertibility and the progressive liberalization of the movement of capital taking account of the degree of development and macroeconomic stability achieved. The Union should continue to encourage regional cooperation in macroeconomic and monetary policy.

Monetary Union and the introduction of the euro will open up new opportunities for ACP countries, especially those for whom the EU is the principal trading partner. The credibility and effectiveness of their monetary policies would be increased if they decided to gear their exchange policies to a stable currency, taking account of the need to maintain the competitiveness of their economies. Selecting a single external reference standard would also contribute to more stable bilateral exchange rates between these countries. This would not only assist in economic and trade relations between them but also in the implementation of regional integration projects.

These various elements will help lay the foundations for a gradual stepping-up of cooperation in the macroeconomic and monetary field between the EU and the ACP states.

(h) EU support initiative to ease the foreign debt burden

In the light of the enormity of the foreign debt problem facing many ACP countries, it is hard for the Community to turn a blind eye to international initiatives in this area. Community

financial cooperation, which almost exclusively takes the form of grants, does not have the effect of increasing debt. Nevertheless, the Community could act both as creditor and donor by developing support mechanisms and instruments to ease the burden of debt holding back ACP countries in their pursuit of adjustment and reform programmes.

2. Boosting employment and support for social policies in the framework of poverty alleviation measures

The EU has strong grounds for focusing its ACP cooperation effort on the goal of poverty alleviation: not only would this give priority to a problem which is assuming alarming proportions in many ACP countries and resulting in a series of interdependencies having an adverse effect on Europe in terms of migratory pressure and various security-related issues, but it would also put into practice the external aspect of one of the founding principles of the Union - social progress - a recurring theme in the Treaty and in the Protocol on Social Policy,³ which appears in various forms (employment, education and training, equality for women, etc.) in Community policies.

Poverty alleviation is already a priority theme of the current cooperation policy and has been further developed in recent years by some new guidelines:

- in the implementation of structural adjustment support in the ACP countries and in the use of counterpart funds, priority is given to expenditure in social sectors;
- a resolution on measures to combat poverty adopted in 1993 laid down a series of principles to take greater account of that objective in the Union's cooperation policies. The adopted approach highlights the need to include the objective of poverty alleviation in all domestic policies conducted in developing countries and in all cooperation activities and also includes the possibility of measures targeted at poor sections of the population;
- the accent on the role of women is a key factor in any strategy to alleviate poverty. By taking a wider look at the issue of the contribution of women, the resolution on this subject adopted in November 1995 is to a large extent complementary to the 1993 resolution on poverty;
- Community action in the social sectors makes a substantial contribution in this direction, in particular since the adoption of the recent resolutions on health and on education and training, which give the clearest priority to basic health care and to primary education and training, thereby benefiting the poorest communities more;
- the recent changes in food aid and in particular the stress put on food security aid and the problem of access to foodstuffs (e.g. by preserving local food traditions and produce) constitute another important element of action against poverty;
- the areas in question (health, education, food security and women and development) are also priority areas for stepping up coordination between the Member States and the Community both at operational level and in policy-making;
- another important factor in the poverty issue is the preservation of the environment both in rural areas (problems of soil degradation, sustainable exploitation of natural resources) and in towns where acute problems of sanitation and infrastructure are being more frequently

3 The Protocol on Social Policy refers to the implementation of the 1989 social charter on the basis of the *acquis communautaire*.

encountered against a backdrop of sharply increasing urbanization in the ACP countries. The extent to which poverty and the environment are linked was widely acknowledged at the Earth Summit.

Environmental concerns are increasingly permeating Community cooperation policies through the systematic use of impact studies and specially tailored programmes;

- finally, a range of other cooperation measures exists to help alleviate poverty: action in the rural development sector, vocational training, micro-projects and measures to assist the development of private enterprise, often helpful in promoting job creation, cofinancing through NGOs, support for population policy or even consumer policy.⁴

These policy guidelines must clearly be retained and confirmed. In future, however, the EU and its ACP partners must decide to what extent and how the impact of Community cooperation on poverty alleviation could be improved.

In view of the diverse nature of poverty in the ACP states, it is absolutely essential to maintain a broad approach involving a vast array of measures. Nevertheless, the EU could propose a more strategic approach to its partners in two areas:

(a) access to productive resources, employment and human resource development The pace of job creation depends on a set of conditions which can be directly or indirectly influenced by a wide range of measures or general or sectoral policies. The EU can support such policies through:

- aid to improve capacity to analyse and formulate policies to promote productive employment;
- support for reforms designed to improve access to productive resources, notably in the fields of education and vocational training, access to credit, home and land ownership. This type of aid could exert a considerable influence by helping to improve living conditions through better access to revenue-generating activities;
- support for labour market policies designed to build-up an able, mobile and motivated workforce;

(b) support for social policies Already committed on a wide scale to cooperation activities in the social sectors, the EU is endeavouring to increase the impact of the aid it provides by a more comprehensive sectoral approach, gradually abandoning the project-based approach. This trend could be intensified by means of:

- in-depth and continuous dialogue on social policy with a view to formulating a broad strategy and priorities and studying the links - often complementary, but occasionally conflicting - between the economic and the social objectives;

4 Developing countries are especially concerned by issues such as movements of dangerous or hazardous goods, product safety, use of medicinal products, etc.

- financial aid geared in particular to the financing of current expenditure in the above sectors in close association with macroeconomic dialogue and structural adjustment processes.

The ongoing debate in the international community about the 20/20 concept⁵ has highlighted the interest of mutual undertakings between beneficiaries and donors to promote social development. While recognizing the relevance of the principle of mutual undertakings, the EU prefers a more comprehensive and detailed approach on account of the nature of its policies.

Under the future ACP-EU partnership, assuming that aid is more selective and linked to assessment of "good governance", one criterion could be how much effort is invested in social and other policies designed to improve access to productive resources and boost employment.

3. Integrating protection of the environment in the development process

One of the central insights provided by the theory and practice of sustainable development is that effective environmental action cannot be conceived as an afterthought to unchanged social and economic policies. Rather environmental concerns must be integrated into the design, implementation and evaluation of all policies, programs and projects.

While the Community has a long-standing array of policy declarations on environmental management, it still lacks a clear strategy and a sense of purpose to make it operationally viable. Looking at growing consensus emerging from the Rio process, there appear to be 4 priorities for development cooperation:

- meeting needs and alleviating poverty. While the cause and effect relationship between poverty and environmental degradation are complex, both poverty and pollution can be seen as the result of social and economic forces that tend to externalize human and environmental costs into current and future generations.
- harnessing market forces to reflect environmental costs and benefits. Agenda 21 is rooted in the recognition that markets need to progressively internalize social and environmental costs, so that prices 'tell the ecological truth'.
- integrating environment objectives in overall policy formulation and in management systems, so that environmental protection becomes an integral part of the development process and not an isolated objective. This requires strengthening environmental capacities and taking a participatory approach.

5 The "20/20" concept was first propounded by the UNDP in its 1994 report on human development. The Action Programme produced by the World Summit on Social Development (Copenhagen, March 1995) also refers to it. It advocates mutual undertakings between beneficiaries and donors based on the principle of spending a minimum of 20% of domestic budgetary and foreign aid resources on the basic social sectors.

- 'greening' the investment portfolio, by assessing environmental impact through the project cycle and by financing priority investments in environmental conservation and pollution abatement.

Certain topics merit special attention:

- for many ACP countries the problem of the quantity and quality of water resources is reaching critical proportions in both urban and rural areas. The relationship between water, population pressure and soil degradation is assuming crucial importance;

- deforestation is becoming a major problem in numerous countries with repercussions not only at local level but globally too insofar as it affects biodiversity;

- ACP island states are particularly exposed to the potential dangers linked to climate change, especially the increasing frequency of violent storms. In sub-Saharan Africa too, there is the danger from the worsening drought problem;

- support is required to build up the ACP countries' capacity in environmental policy, both as regards formulation and implementation, especially in relation to the follow-up of international conventions that have been ratified or are in the pipeline.

B. The institutional dimension

Chapter III's analysis of socio-economic and political developments in the ACP countries highlights the shortcomings of the state and the seriousness of problems of governance. These problems are hindering development in a number of countries, delaying structural adjustment programmes (or preventing them from being completed) and aggravating instability and the "trust gap" which jeopardizes investment and the legitimacy of development aid. This analysis has also demonstrated the need to restore or bolster the rule of law in order to create the basic preconditions for development and reducing inequality and poverty. The Fourth Lomé Convention, as revised in 1995, recognises these factors as fundamental.

The European Union has so far not come up with a firm policy regarding government and legal reform, improving capacity to analyse and formulate development policy or strengthening those institutions active in civil society which are capable of counterbalancing the authorities. Community action to back institutions and good governance has focused on encouraging democratic elections, providing technical assistance to help with development projects and programmes and providing targeted financial assistance to help with or offset the effects of some reforms. However, recent years have seen greater focus on the institutional backdrop as a whole rather than the agency or institution responsible for a particular project. Structural-adjustment and sectoral-policy support have encouraged this change in focus, which has enabled the Community to be more active in improving the policy environment (in individual sectors and in general). This approach is destined to become more common, especially as evaluation studies have shown that institutional matters will have to be considered as a matter of course and in greater depth if Community cooperation is to be made more efficient.

Are there not grounds for going beyond such detail changes, however, which are, after all, perfectly compatible with current policy. In the new international economic and political climate, the state is becoming a structure which is seen as responsible for laying the groundwork for sustainable and equitable development. Under these circumstances, should there not be a rethink of this dimension of ACP-EU relations, and **should the EU itself not be giving more strategic backing to the political and social transition which is needed?**

Change in a country's institutions is basically a political process. No reform can succeed unless it has support on the ground, and there will always be many obstacles (because it affects the power structure and will inevitably meet with resistance). Institutional development consequently has two complementary sides: a political side and a more "technical" side.

In this situation, should the EU play a more active role in institutional development and become involved in the dialogue with other donors on such matters? And how can it set about playing such a role?

1. There are compelling reasons for the EU to step up its activities in this area, give them greater priority and indeed make them a major plank of its relations with the ACP countries:

- The ACP countries themselves are now having to redefine their concept of the functions of the state and improve the way the state fulfils those functions. The aim is to serve the general interest. The political motivation behind the EU's activity in this area has no overtones of national interest: the EU has no prototype to force on other countries, and the Member States organize their own social and political systems in a variety of different ways.
- The fact that respect for human rights and fundamental freedoms and the application of democratic principles are deemed essential by the Union. Because there have been problems with the current policies for backing democratization (see Chapter III), a less formalistic and more constructive approach needs to be adopted.
- The efficiency and impact of Community aid are closely related to these institutional questions. Most Community aid in the economic and social fields would be improved by more decisive action on institutional development. As evaluation studies have shown, the impact and viability of Community aid programmes are often adversely affected by too little account being taken of the limitations and obstacles connected with the institutional setting. If the EU backs economic reform, it should in its own interest and in the interests of efficiency, tackle the related institutional matters. If adjustment policies are to succeed in the ACP countries, there must be a predictable legal framework, transparent decision-making and administrative and budgetary management procedures, and good public services.

The partnership that the EU is seeking to develop with the ACP countries is an appropriate setting in which to tackle institutional development issues because it allows the countries involved to take primary responsibility for reform and allows the EU to provide technical, financial and policy support on the basis of reciprocal medium-term commitments.

Furthermore, the experience of reform which the Union has gained from the process of European integration gives it a special know-how.

2. From the points of view of content and procedure, there are three complementary lines of action which could be contemplated to further the EU's capacity- and institution-building efforts:

- The EU could re-examine ways of mobilizing local and Community expertise for transfers of know-how between Europe and the ACP countries. The establishment of a specialist network for analysis and technical assistance would provide ongoing support over sufficiently long periods of time and build up genuine experience and know-how.
- The EU could specialize in particular fields, depending on the "added value" it was able to contribute relative to other donors (bilateral or multilateral). A number of fields may be identified within the EU's main spheres of action:
 - (a) promoting respect for human rights;
 - (b) assistance for regional organizations;
 - (c) restructuring of public services (in consultation with those immediately involved), improving capacity to analyse and formulate economic and social policy, preparing reform, helping to decentralise the civil service;
 - (d) managing budgets (in conjunction with support for structural adjustment);
 - (e) developing certain capabilities needed to cope with the operation of a market economy (business law, consumer-protection law and consumer associations, investor protection, preservation of the environment, competition rules, etc.);
 - (f) decentralized cooperation, as a way of adding to (not supplanting) assistance for the public sector, in order to improve interaction between the public and private sectors and to bring what the EU does closer to those active in civil society;
 - (g) strengthening parliamentary institutions to promote policy transparency and sound management of public affairs.
- The EU could use new aid practices to try and reduce negative effects on local capacity-building.

The advantages of using more local expertise have already been recognized in the Lomé Convention, but more fundamental changes need to be contemplated. In certain situations, and for a limited time, some substitutions will probably be inevitable, but a clear political signal backing a change of approach and a reduction of the adverse effects of aid on local institutional and administrative capacity-building will probably give rise to a number of changes (simplification of procedures, reduction of the range of instruments and abandoning of the project-based approach). This would constitute a strategy realignment because local capacity-

building is destined to become one of the main influences on the choice of practical arrangements for aid. The different options in this connection are discussed in Chapter VI.

C. Trade and investment

Suitable integration of the ACP group into the global economy, and in particular the definition of its proper place in the evolving external economic relations network of the EU, as a major dimension of their integration into the world economy, constitutes the challenge for new ACP-EU relations post-2000. Failure to devise an appropriate framework may result in the breaking up of the ACP group, the drifting away of some ACP regions and countries from the present link with the EU, and further marginalization of the poorest ACP countries.

Trade arrangements.

Many options are possible for a future ACP-EU trade relationship after the year 2000. These options should, in theory, allow the ACP countries to accommodate their preferred integration strategies. These options should also be reviewed in respect of the dimensions of the **partnership** principle underpinning the ACP-EU trade relationship:

- (i) Single trade arrangement versus multiple trade arrangements
- (ii) Differentiated versus generalized
- (iii) Reciprocal versus non reciprocal
- (iv) Contractual (providing long-term security, bilateral or multilateral) versus unilateral (at EU political discretion).

As the principle of partnership carries a major political value for the ACP countries as well as for EU members, the different options considered would have to be assessed in the light of their impact on that principle: Would they undermine it or reinvigorate it? Would they narrow it down or broaden it? These are important political considerations to take into account when assessing the different options; the technical constraints relating in particular to the negotiation of free trade should also be considered (see Box 5 for a discussion of the trade options).

The menu which could be offered for consideration of the ACP countries could be composed of the following items:

- (i) "Status quo". Preservation of the current non-reciprocal, differentiated (in respect of other LDCs), contractual, uniform scheme focusing on strict market access terms. An "enhanced status quo" variant could involve improvements in market access, together with relaxation of rules and procedures, agreements on trade-related matters (standards, environment, competition policy, intellectual property, etc) and an agreement on services. Another variant would restrict this option only to the least advanced ACP countries, proposing to the more advanced group any of the options below according to their wishes or capabilities. Finally, an element of reciprocity could be introduced into this option by requiring all ACP countries to submit and bind a tariff schedule offer to the GATT.

- (ii) "Integration into the GSP". This option consists in removing the trade package from the Lomé Convention, which will be reduced to an aid package. The least-developed ACP (LLDC-ACP) countries would be grouped with the least developed non-ACP countries, while the more advanced ACP countries would graduate into the normal scheme. To avoid too drastic a loss of preferences for the LLDC-ACP, the general preferences granted to the least-developed countries could be upgraded to reach parity with the level of Lomé horizontal preferences. Being a unilateral policy of the EU, the concessions granted would not be the object of negotiation with the ACP countries. Nothing could be asked from them in exchange. Alternatively, the EU-LLDC preferential arrangement could be embedded into a multilateral (possibly GATT-bound) preferential arrangement for LLDCs.
- (iii) "Uniform reciprocity". Require all ACP countries to extend reciprocity (consistent with WTO rules), after a common transitional period, to EU exports. As a variant, allow for different transitional periods for the LLDC-ACP countries on one side, and for the more advanced ACP countries on the other. As an enhanced variant, this option could also involve agreements on trade-related areas, and an agreement on services. It would also entail full integration of the ACP countries into the WTO framework.
- (iv) "Differentiated reciprocity". Variable geometry reciprocity (consistent with WTO rules) with the EU on one side, and with homogenous regional groups of ACP countries, or with single ACP countries on the other side, on the model of North-South regional trading arrangements. As an enhanced variant, this option would also involve agreements on trade related areas and an agreement on services, and full integration into the WTO framework. Another variant would envisage regional trade arrangements between the EU, on one side, and a regional integration area made up of ACP and non-ACP countries.

Finally, two additional options combining the four options reviewed above may also be considered:

- (v) "Differentiation under a single framework". This option would encompass options (i), to (iv) as items of a single menu for the EU and the ACP to choose from, depending on levels of development, perceived needs and the will of the ACP to deepen the relationship, political conditions and the level of reciprocity the ACP were willing to grant to the EU. It would maintain, for all ACP countries, the contractual character of the present relationship but might require major modifications to certain horizontal preferences of the current relationship (commodity protocols and agricultural preferences), notably as regards country eligibility.

This option would contemplate a set of trading arrangements organised in four tiers:

(a) Region-to-Region FTAs, along the model of option (iv);

(b) Bilateral FTA, same as option (iv) but with willing single ACP countries which are outside any regional integration process and are large and capable enough (examples: Nigeria, Zaire), and provided that political conditions are right;

(c) Non-reciprocal preferences, maintained for the least-developed ACP countries (established unilaterally or within a multilateral framework), those whose per-capita income lies below an internationally recognised level, and are outside any regional integration process falling under option a) above;

(d) Graduation into GSP, in respect of the horizontal, non-reciprocal preferences, dealing with those ACP countries not willing to come under options (a) or (b), but showing a level of development which would make them ineligible for option (c); "graduate" ACP countries could, perhaps, maintain the preferences under the commodity protocol, but only for a transitional period (a waiver could be required in this case).

Within this framework, the ACP countries would be able, in agreement with the EU, to select the trade option that best fitted the integration strategy chosen and their needs and capabilities. However, issues of trade and investment diversion effects among groups of ACP countries will be unavoidable as the pattern of preferences and the pull on FDI will vary for each group according to the option selected.

This framework option would preserve the integrity of the existing Lomé Convention but would allow for reciprocity, differentiation and graduation considerations to be added as additional basic dimensions of the partnership principle. They would work as inside dynamic elements pulling individual ACP countries from a given stage of the relationship into higher stages, as their individual conditions, and their wishes, allowed. In respect of WTO compatibility, this single framework would most likely have to be joined by a request for an Article XXIV.10 derogation (i.e. derogation in respect of the minimum compatibility conditions for FTAs).

(vi) "Differentiation leading to a variety of arrangements". In this scheme the alternatives (i) to (iv) lead naturally to a variety of trading arrangements, possibly coexisting with a single aid package. The integrity of the Lomé Convention is obviously the first casualty of this approach. Contractuality and security, and certainly the strength and scope of the partnership principle, will vary between arrangements, and the current level of preferences will likely be eroded for some groups of ACP countries or enhanced for other groups according to the option chosen.

This multiple framework will be quite incompatible with the preservation of the benefits provided under the commodity protocols as well as with the horizontal scheme of agricultural preferences. Issues of unequal treatment and of deflection of trade and investment between groups of ACP countries will become even more serious than under the single framework option above.

The advantages and disadvantages associated with each option, as discussed throughout this note, will accordingly apply to the group of ACP countries covered by each. In respect of compatibility with the WTO, an Article XXV.5 waiver would have to be requested for the non-preferential scheme for the least advanced ACP countries. This may be easier to obtain.

Whichever option chosen, it should be remembered that the EU has embarked on harmonizing the rules of origin used in preferential trade arrangements.⁶

Investment Protection and Promotion

Under the provisions of the fourth Lomé Convention, ACP countries have undertaken to accord fair and equitable treatment to private investors, to create and maintain a predictable and secure investment climate, to improve the business environment, and to foster a legal, administrative and incentive framework conducive to the emergence and development of dynamic private sector enterprises (Article 258(c) to (g)). Countries have striven, individually, to implement these objectives, but not always with the desired result of a revival of private sector investment. Investors still hesitate. The business environment and the policy and institutional context do not yet always inspire sufficient confidence.

Countries will continue, domestically, to implement confidence-building measures. However the transparency and predictability of these measures can be enhanced if they are seen to be related to a common, well-understood and internationally-accepted framework of rights and obligations. In 1992 the EU proposed for the consideration of ACP countries a set of Investment Protection Principles, covering, *inter alia*, national treatment, the most favoured nation principle, fair and equitable treatment, the full protection of law, compensation for expropriation and remittance of earnings and capital. The draft Principles gave textual effect to the objectives of the Convention. They have not, however, been widely discussed or implemented. Since 1992 there have been extensive discussions in the OECD on the proposed Multilateral Agreement on Investment which sets out a more ambitious and comprehensive framework for the protection of investors.

The issue of investment protection standards has now been taken up in the WTO where negotiations on principles acceptable to a wider spectrum of countries are soon to commence. If these negotiations lead to agreement on transparent and enforceable principles, investors and capital markets are likely to be attracted by the lower risk of investing in countries which agree to abide by them.

An option for ACP countries wishing to accelerate the revival of investor confidence would be to adopt and apply an internationally recognised standard of investor protection having the force of law. The EU would naturally be open to requests for assistance in building capacity for introducing this in those countries which chose to adopt it. The larger the number of ACP countries which feel able to subscribe to the standard, the greater the confidence of international investors in the ACP countries as a group will be, and the more the ACP countries will feel that they are a group.

6 A decision to harmonize the rules of origin was taken by the Heads of State and Government at the Essen European Council in 1994. This was because the existence of disparate rules was impeding trade relations between the EU and non-member countries, while a single set of origin provisions would help to ease and expand trade.

Options for ACP countries wishing to revive investor confidence through more credible investment protection are to:

- a. Pursue current policies of concluding bilateral investment protection agreements with countries of the EU and the home countries of other foreign investors. These agreements cover the basics of compensation for expropriation, but are otherwise limited in scope, offering little redress against discriminatory or discretionary decisions by host country governments. They have not been conspicuously successful in attracting new investment, particularly in Africa.
- b. Enter into regional investment protection arrangements. One example to follow might be the UEMOA, whose members are introducing a common investment code, common trade law and common investment protection standards. With regional arrangements it should be relatively easy to police compatibility with rules and undertakings, and judicial redress should be relatively accessible for aggrieved investors. Successful regional arrangements might be extendable to other interested ACP states, thus creating an acknowledged ACP standard of practice.
- c. Subscribe to an internationally recognised standard of investor protection - based perhaps on principles agreed in the WTO. The advantage for ACPs of adopting international norms of investment protection lies in their greater visibility and familiarity to investors, and thus in their greater confidence-building effect.

However, as there is at present no internationally agreed model, the most advantageous option for ACP countries, in the interim, is likely to be to collaborate - with EU support- in regional arrangements which satisfy the basic principles outlined above. In their longer term interest the EU and ACP countries should simultaneously work together towards agreement on a wider international standard.

CHAPTER VI. **OPTIONS FOR A NEW PRACTICE IN THE FIELD OF FINANCIAL AND TECHNICAL COOPERATION**

There are three considerations which militate in favour of a fundamental revision of the practical methods of providing financial and technical assistance: (i) the move towards a partnership based on reciprocal rights and obligations and a more explicit allocation of the partners' responsibilities, (ii) the need to alter Community assistance to take more account of the fact that some ACP countries have reached a substantially more advanced stage of development than others and (iii) the need to reconcile the predictability of accumulated aid practice with the requirement for better-tailored and more efficient aid.

These aims mean that a new thinking will have to be developed in connection with aid instruments, that the nature of support activities will have to be changed, and that a new way of managing resources will have to be promoted. In addition, the Commission is recommending, as it has done in the past and as the European Parliament has long been urging, that the European Development Fund (EDF) be incorporated into the budget¹ to help rationalize the Community's activities outside its borders and to improve their cohesion and transparency.

A. A single source of funds or multiple smaller sources?

One of the most common criticisms levelled at assistance under the Lomé Convention has been the large number of instruments which have been set up over the years and adapted as one negotiating exercise succeeded the next. Cooperation with the ACP countries is now overburdened with instruments which are tailored to predetermined uses and are increasingly difficult to run in a coherent way.

Drawing up strategy papers for each country doubtless reduces the risks of lack of cohesion, but the use of a multiplicity of instruments which all have different purposes, procedures and methods of operation inevitably makes the EU's policy for each individual country less transparent. Despite the substantial effort the Community has put into information, the complexity of the system often impedes access to the various financing and technical assistance facilities, particularly for those active in civil society.

EDF instruments and the range of specially-targeted budget headings also tend to make the implementation of policy guidelines rather rigid. As the situation currently stands, it is impossible to reorient or adapt aid policy within a reasonable space of time, but this is just what is increasingly called for. This is because economic and political circumstances can change fast, and we have to be able to react to new concerns connected with policy initiatives, respond to public opinion in the ACP countries or in Europe, or give effect to the findings of evaluations in the interests of increasing the efficiency and impact of cooperation.

Under these circumstances, is there any justification for keeping a range of special instruments, or should there be a radical change of direction focusing on the setting of

1 See *inter alia* the Report on Arrangements and Possibilities for Budgetizing the European Development Fund (SEC(94)640 final).

overall allocations of funds allowing aid to be administered in a more flexible way which can cope with needs which are more and more changing and divergent?

There are three possible options:

(1) Maintaining the current division of allocations

Though this is an option, it carries all the disadvantages described above and will not encourage relations between donor and recipients to move in a direction of independence and responsibility.

(2) Gathering all aid operations under the umbrella of a single source of funds

This would provide a maximum of flexibility in the organization and subsequent development of financial assistance.

(3) Creating two or three separate allocations

These would group together activities of the same nature:

- One allocation would be set aside to fund long-term assistance for the public sector. This indicative overall allocation would be used (depending on needs and on the outcome of an assessment of the most appropriate action) to support sectoral policies or institutional reform, to provide budget assistance or to fund more one-off activities;
- A second allocation would be used for resources to cope with emergencies, which by their very nature are not foreseeable, and for all very short-term measures.
- A third allocation might be needed for direct assistance to non-governmental agents, the private sector, associations, consumer organizations, NGOs, etc. such operations need different administrative arrangements (though EU eligibility criteria must always be adhered to).

The clear distinction between short-term and long-term operations would help to make Community action more visible by preventing the confusion which can be caused by instruments like Stabex and the food-aid arrangements, which both have an "emergency" component and a component providing assistance with more long-term aims.

A move in this direction would make Community aid policy more flexible, cohesive and transparent. The ability to alter and adapt aid policy for a given country or group of countries is also, however, connected with programming arrangements. These are dealt with in Chapter VI.B.

B. Should aid be granted according to need or according to merit?

Resources for programmable aid are currently according to the needs of each country relative to the needs of others, human development indicators, the size of the country, geographical considerations (such as the country being an island or being landlocked). Resources for non-programmable aid (support for structural adjustment programmes, arrangements to make up for loss of export earnings, etc.) are governed by separate criteria.

The automatic nature of the allocation of programmable resources has already been substantially modified (this was done during the mid-term review of the Lomé Convention). Allocation is now in two tranches. The first is 70% of programmable resources and is intended to allow the allocation of resources to be reviewed in the light of the degree to which the recipient countries' undertakings (especially as regards sectoral policy) have been adhered to, the general consistency of the government's development policy, plus any unforeseen outside events.

The new system of allocation by tranches thus introduces a new qualitative criterion by which the aid for each country can be adjusted according to its government's general and sectoral policy performance. This development translates into action the EU's greater requirements for efficiency and a new concept of partnership based on reciprocal undertakings, foreign aid being used to back domestic reform.

The EU should continue to act along these lines. However, the fact that programming over several years has the advantage of giving developing countries a predictable flow of outside financing and of requiring at least a basic level of strategy framework means that there are grounds for keeping a system of multiannual programming. A number of options, which will have to reconcile flexibility and predictability, efficiency and responsibility, should therefore be considered.

Two questions arise: what should determine how programmable resources are allocated among the ACP countries? How can programming be reworked to restore flexibility to aid policy?

The growing gap between different categories of ACP country (between the poorest and those which have more resources to devote to development, and between those which are still in the grip of serious political and social problems and those which have embarked on economic and social reform and progress) makes this issue all the more important.

- Combine incentives and development indicators

The substantial importance attached to the conduct of domestic policy and the incentive-based approach which the EU is seeking to promote through its aid policy suggest that the concept of "need" (which dictates remedial action) be supplemented by the concept of "good management", which would take account of how the state and local authorities assumed their responsibilities. This would mean that performance criteria for political and economic life would come into play alongside social and economic indicators and levels of poverty. This option would entail establishing "governance" criteria which were accepted by the partners. As in the case of conditionality (dealt with in section C below), it seems preferable to have an assessment of general policy rather than very specific criteria, and historical, political and institutional considerations should not be divorced from social and economic considerations. Whatever the criteria, they should be able to be agreed by the parties in advance in order to prevent arbitrariness.

This option would inevitably make aid more selective. It would enable the EU to focus its efforts on the poorest countries and the countries where the impact of its operations is likely to be the greatest.

- Introduce ongoing programming

Introducing incentive-based criteria for granting aid would bring a change in the contractual nature of ACP-EU relations. There would be no point in adopting performance criteria while keeping five-year fixed allocations: standards of governance can change very rapidly (i.e. improve or deteriorate). This option would also be more compatible with a financing arrangement which differed from the EDF (in which the Member States establish their contributions in advance). Budget arrangements which allowed multiannual programming of expenditure in tandem with greater flexibility would undoubtedly be more appropriate.

However, predictability of flows could be preserved by adopting ongoing programming covering three, four or five years with regular (yearly, for instance) reviews. This method has been adopted for the Euro-Med partnership, for example. It reconciles the goals of predictability and flexibility against the background of a "contract" between donor and recipient which centres on a requirement for efficiency.

C. Types of aid

The critical appraisal in Chapter II of cooperation past and present is based mainly on the findings of recent evaluations and throws up a number of operational pointers. It highlights the value of increasing the sectoral emphasis and support for reform, of formulating long-term strategies to improve institutional frameworks and local capacity to devise economic and social policies, and of restricting project aid to very specific, reform-linked operations.

Given the intention of sharing out responsibilities more equitably, encouraging ACP governments to implement sustainable development policies, reduce instability and define their own development strategies, the best way forward might be to channel Community aid in a lump sum to national budgets instead of financing sets of individual projects. This could of course only be done if economic and social performance criteria were used to decide how much aid should be given and only those countries with a proven ability to manage resources would be eligible.

The evaluations also suggest that the Stabex and Sysmin systems need to be abolished or at least amended. The idea of compensation itself is not being challenged since there are good reasons why special aid packages should be available to keep macroeconomic management on track and reduce the risks faced by some exporters, particularly those in the agricultural sector. Stabex and Sysmin are also increasingly being used to support economic and institutional reform in the affected sectors. However, the automatic triggering of these types of instrument is making them less relevant.

Recent developments in the world economy have increased the supply of investible resources seeking profitable placement in developing countries, and have increased the number of developing countries offering good investment opportunities to investors. Successful developing countries receive their external financing and external professional and technical support essentially on market terms. It seems reasonable for the EC to wish, post Lomé, to concentrate its grants on assisting countries which are poorest and least favourably placed to attract foreign

direct and portfolio investment. The EU could therefore think about a new instrument to make it easier for ACP countries to gain access to capital markets.

The whole issue of the type of aid to be provided by the EU prompts a number of questions:

Should support for macroeconomic reform and sectoral policies be stepped up?

Should project aid be phased out in favour of direct budget aid?

Should the EU carry on with its export earnings compensation mechanisms?

What type of conditionality should the EU envisage?

Should the EU think about new ways of facilitating ACP access to private capital, be it in the form of direct investment, project financing or government loans?

- Towards direct budget aid.

The EU could think about a switch to direct budgetary aid for ACP countries. This would work well with the structural adjustment support facility, which still plays a big part in improving the budget planning and management in the countries concerned.

In this case, the disparate macroeconomic support instruments could be combined into a single package of direct budget aid linked to an appropriate macroeconomic framework. There are two arguments for this:

- it would be a sign of a mature relationship between the EU and ACP countries, based on trust in which responsibility for managing development resources lay with national authorities;
- unlike project aid, budget aid does not knock the allocation of expenditure out of kilter.

Flawed budgetary management and opaque spending decisions constitute the main barriers to any move towards budget assistance and mean some minimum attendant conditions would have to be imposed. The switch would therefore be seen as a process, marking a stage in the development of local capacities and providing an opportunity for much more effective cooperation.

- From support for structural adjustment to support for sectoral policies.

As explained earlier, the EU-backed reforms under way in the ACP countries are a long-term process, especially the institutional reforms. In a rapidly changing world that demands the constant reworking and reappraisal of economic policies and social systems, adjustment itself becomes a permanent process in every country. Within the process, however, different stages can be singled out, in particular the move from an initial phase of structural reforms concerned with the general running of the economy and public sector to a complementary stage centred on more specific sectoral aspects.

As reforms progress, the EU will have to be able to redirect its aid towards sectoral and institutional support if it is to respond appropriately to the priorities of the moment.

Community support for reforms could therefore be tailored to whatever stage of structural adjustment a particular country is at. This means that within a given set of conditions, direct budget aid could be explicitly targeted towards reforms in specific sectors.

- Retaining compensation for export earnings

In order to compensate for sharp drops in export earnings, the EU could consider giving extra support for individual sectors on top of the total aid package for the country in question. Depending on whether the export difficulties were structural or cyclical, the extra funding could be allocated as sectoral support or macroeconomic assistance.

- Reforming conditionality

Conditionality is another vital issue in any discussion on the type of aid to be given. Explicitly or implicitly, every cooperation programme has some form of conditionality. It implies a certain degree of aid selectivity and is designed to encourage recipient countries to modify their policies or carry out certain reforms. The conditions imposed may concern the kinds of results that are expected or the means to be targeted at an objective. Given the experimental nature of many reforms, particularly those of an institutional type, an approach based on a searching appraisal of the overall impact of a government's policies seems far preferable to just imposing highly specific conditions.

As part of the Special Programme for Africa, the Commission has presented other donors with new proposals for structural adjustment conditions. This new approach would aim to:

- encourage recipient countries to internalize reforms;
- apply realistic conditions which take due account of the political and administrative context;
- make a full assessment of what has been achieved in terms of sustainable development rather than making do with a partial appraisal of a few specific indicators. Such an assessment should be carried out in conjunction with all other donors.

This comprehensive coordinated approach should also prevent any "stop and go" in aid payments.

It would also avoid the drawbacks of current practice and change the donor-recipient relationship into more of a partnership based on reciprocal undertakings designed to achieve long-term goals.

- Access to capital for investment

At present Lomé uses a variety of instruments to help countries find the capital necessary for investment: EDF grants, venture capital also funded by the EDF and some lending from the own resources of the European Investment Bank.

With a view to increasing availability of sources of finance at the prime market rate for investment, in particular infrastructure, a first option would be greater access to EIB lending. As part of the proposed budgetization of the EDF, EIB lending to ACP countries could then be subject to the same modalities that apply to lending in other third countries (in particular with respect to provisioning of the Guarantee Fund for external actions).

A further option to be explored could be to adapt present instruments to encourage greater access to private sources of finance. For example, partial guarantees (possibly via the EIB) are

an instrument already used with some success by several multilateral agencies in mobilizing long-term market finance to cover part or all of the political and/or commercial risk.

The application of these options as part of post-Lomé cooperation requires further study and consultation. Most of the better-off ACP countries have already established some track-record for sovereign credit-worthiness and would probably see little advantage in external guarantees for their sovereign borrowing. On the other hand they may find the idea of guarantees, eg for privately-financed large infrastructure projects, very attractive because of the many contractual risks which continue to inhibit the market financing of such projects and because of the importance of infrastructure in sustaining economic expansion.

Providing guarantees or market-financed lending through the EIB could be advantageous both for both the creditworthy, or nearly creditworthy, countries and for the poorer ACP countries. The former should receive more external financing from the markets, and their credit ratings should, over time improve - giving them access to more and cheaper financing in future. Less well-off countries might expect to receive a higher share of available EDF grants as better-off countries' need for official financing reduces.

D. Co-management, EU-only management or autonomous management by recipients themselves?

The current Lomé system whereby commitment decisions on cooperation activities and expenditure monitoring are both jointly managed has shown its limits. In practical terms, the frequent to-ing and fro-ing between national and chief (i.e. Community) authorizing officers is time-consuming and so makes aid less effective. The system also makes it difficult to co-finance operations with other donors.

In operational terms, co-management does little to encourage recipients to take responsibility for the development programmes and reforms supported by the EU even though all Community evaluation studies have concluded that this is vital if aid is to be effective. The gradual shift away from infrastructure-based aid towards support for socio-economic policies and institutional reform makes it all the more necessary.

Joint aid management therefore has to be reviewed. What alternatives would provide the reliable system needed for managing Community aid while encouraging recipients to take more responsibility, itself a prerequisite for more effective cooperation?

A phased and individualized approach should be adopted in which the degree of responsibility for administrative and financial management of the aid grows as good governance improves in the recipient state.

The aim would be to give beneficiaries steadily more responsibility for managing programmes, justifying and monitoring expenditure and assessing the economic and social impact of assistance. The best way of doing this would be through direct budget aid.

In countries where institutional and administrative conditions would rule out this approach in the short-term, the EU would take sole management responsibility but would simultaneously

help strengthen the local skills needed to take over responsibility. It would be best not to set up specific units but to work within existing local structures.

Here too, the type of management appropriate in each case would be decided on the basis of a number of criteria and would depend upon the quality of ACP-EU dialogue, the willingness of recipient countries to match additional Community funds with a contribution of their own and the existence of units or machinery for coordinating foreign aid.

This issue, like many other aspects of ACP-EU relations raised in this Green Paper, will have to be addressed through a case-by-case approach tailored to individual countries or groups of countries. The chosen system will have to be seen as evolutionary, with management tasks gradually passing into the hands of all ACP beneficiary countries as administration gets better.

Generally speaking, any potential changes in the way resources are managed should aim to redirect day-to-day consultation and dialogue on cooperation towards substantive issues, and the conditions which affect the impact of programmes and determine the contribution they make to sustainable development in the country concerned. This is one area in which both EU and ACP partners can demonstrate their sense of responsibility to their respective electorates.

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FOLLOW-UP TO THE GREEN PAPER

The Green Paper is one stage in the consultation process launched by the Commission on the future of ACP-EU relations and in the related debate between all those bodies involved in development. It aims to raise awareness of the need for an effective EU cooperation policy towards ACP countries and sets out the main issues on which the Union will have to decide before starting negotiations with the ACP. The Paper does not claim to be authoritative or exhaustive, it simply outlines a number of different ways forward.

In publishing the Paper, the Commission is inviting all those concerned to examine the options and arguments presented and to give their reactions and suggestions. The Commission will continue to stimulate the debate through meetings and seminars. Feedback can also be sent in writing to the Directorate General for Development.

In accordance with the institutional provisions, the Commission will formulate detailed proposals for renewing the framework for ACP-EU relations during the second half of next year.