Overseas Development Institute

10-11 Percy Street London W1P OJB
Tel: 01-580 7683

Briefing Paper

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EEC DEVELOPMENT POLICY AFTER LOME

Shortly after he took over from Claude Cheysson as the EEC's Commissioner for Development in spring 1981, Edgard Pisani declared that there would be a 'year of reflection'. This period of reassessment culminated in autumn 1982 with the adoption by the Commission of a major new statement of development policy[1] and with the re-organisation of the Commission's Directorate-General for Development (DGVIII). The new ideas – in British terms perhaps the equivalent of a Green paper – now have to be translated into specific policy proposals and endorsed by the Council of Ministers. The initial reaction of the Council in November 1982 was cool, particularly with respect to aid increases. The memorandum is explicit that an increase in aid is not a sufficient condition for development, but it also makes clear that it is a necessary condition. The recent GATT conference and the continuing difficulties with IDA funding also indicate that EEC ministers may not approach Third World issues with great urgency or generosity.

The first practical test of the new policy will be in the renegotiation of the Lomé Convention. The Commission will establish its negotiating mandate during the first half of 1983, and formal negotiations will be launched in July.

The Pisani memorandum and the ACP

The context

The EEC's development policy has two foundations: the common external tariff, which requires that trade policy is determined at Community level; and development assistance policy which is formulated and implemented partly at Community and partly at member state level. The EEC's development policies are implemented through a complex network of over 20 agreements with individual states and groups of countries. Some cover trade alone, some have financial provisions and some also contain arrangements for institutional co-operation. The liberality of the trade regime and generosity of aid provisions vary widely, and some countries receive trade preferences over other Third World states. The most privileged states are the 64 African, Caribbean and Pacific (ACP) countries that have signed the second Lomé Convention, which runs from 1980-1985.

The first Lomé Convention was signed in 1975 between the EEC and 46 ACP states. Hailed as a new departure in North-South relations, it grew out of the twin roots of the Six's existing relationship under the Yaoundé Convention with their former colonies, and of the need to make provision for some of Britain's former colonies after the first enlargement of the EEC. The Lomé Convention was notable both for what it contained and for the way it was negotiated, with the ACP establishing an impressive degree of unity. The Convention included: a trade regime that was more preferential, at least superficially, than that accorded by the EEC to any other group of states; a five-year aid programme that was presented as giving the recipients an unusual degree of freedom in determining priorities; and an array of consultative institutions. The sentiments running through the Convention were 'partnership' and 'contractual obligations'.

When the second Convention was signed in 1979, again in Lomé, to cover 1980-1985, the atmosphere was much less harmonious. This was partly because the first Lomé agreement had failed to fulfill its promise and, related to this, because there had been a subtle shift in the bargaining power of the two sides. When Lomé I was negotiated, the ACP had some freedom of manoeuvre; most states had a pre-existing aid/trade relationship with some members of the enlarged Community, and a number openly took the view that they could afford to see the negotiations collapse. By the time of Lomé II, however, the ACP were the prisoners of their own success; the risk of collapse was perceived by them to entail the loss of a fresh source of aid. Moreover, their negotiating stance was somewhat muddled and, because of the recession, the EEC adopted a restrictive negotiating mandate which the Commission presented with a blunt, take-it-or-leave-it style. As a result, Lomé II resembled its predecessor and contained few innovations.

The performance of the Lomé Convention so far provides little evidence to support the extravagant claims made for it in 1975, although since it has been implemented in an increasingly unsympathetic environment for North-South relations, the position of the ACP could have been worse in its absence. Positive progress directly attributable to Lomé has been modest, and many ACP states are currently suffering deeper economic crises (relating to fundamentals such as food production, foreign exchange earnings, balance of payments stability) than most other Third World countries. They argue that as a result they are all the more in need of fresh EEC concessions under 'Lomé III'.

The proposals

The memorandum on development policy adopted by the Commission on 29 September 1982 is closely associated with Commissioner Pisani. It aims to respond to pressing Third World problems and to

[1] *Memorandum on the Community's Development Policy* COM (82) 640, Brussels, 5 October 1982. Reprinted in *The Courier*, No 76, Nov-Dec 1982.

'direct the course of Community development policy for this decade'. In fact, it retains the traditional EEC focus on the ACP countries and manifests two principal concerns, one with the impact of EEC policies on Third World development and the second with their impact on European integration. Some proposals (eg increasing the proportion of aid channelled through the Community institutions) are advanced not so much on the basis that they are necessarily good for the Third World but that they will further European unity.

The memorandum opens with the remarkable statement: 'Development policy is a cornerstone of European integration.' It argues that 'Community development policy is distinct from the Member States' bilateral policies . . . It is the expression, not multilateral but collective, of a Community which has neither the attributes nor the ambitions of a state but which nevertheless has great capabilities.' A corollary is that, unlike multilateral institutions, the Community has interests which it can legitimately pursue in its development policy. These interests involve geographical choices, about which the memorandum is specific.

Geographical. The Third World is divided into a hierarchy of zones, among which Africa (and, to a lesser extent, the Caribbean and Pacific) and the Mediterranean regions dominate. The Lomé relationship will remain the most crucial and there is to be firmer encouragement to the remaining African states (Mozambique, Angola and, eventually, Namibia) to join. On the Mediterranean, it favours drawing the Maghreb and Mashreq states into a firmer collective co-operation agreement with the EEC because together their borders 'stretch along nine-tenths of the shores of a sea whose waters are ruled by powerful outsiders and [the EEC] cannot avoid accepting a large measure of responsibility for the Mediterranean equilibrium'. It only offers 'greater enrichment of the contractual context' in relations with developing Asia and Latin America, at least for the ASEAN and Central American economic groupings. Direct references to most of the NICs (newly industrialising countries) are notable by their absence.

Sectoral. The first priority for development assistance is agriculture and, especially, the food sub-sector. The proposal is that if ACP governments are prepared to formulate a convincing food sector strategy and implement those elements that fall within their domain (eg with respect to producer prices), the EEC will commit itself to supporting the strategy in two ways: by co-ordinating the activities of the Ten in their bilateral programmes, and by financing appropriate elements of the strategy from its own aid programme. There is a 'first batch' of three states – Kenya, Mali and Zambia – which are now responding by drawing up such strategies. In other sectors, the emphasis is on supporting activities in which the EEC and ACP have 'mutual interests' and four areas – mining, energy, industry and fishing – are singled out. The memorandum argues for a firmer EEC role in determining the use to which aid is put. This marks a shift from the Lomé co-operation/joint decision-making framework, justified in the memorandum by the claim that the EEC's form of control will be qualitatively different from that of other donors: 'It is absolutely essential that, between rigid conditionality imposed by financing bodies and the irresponsibility of non-conditionality, ways be found of achieving a political dialogue between external providers of funds and local decision-makers. . . .' One area in which this influence is to be exerted is to favour activities designed to promote 'self reliance', that is, to meet domestic consumption and financing needs, rather than specifically to increase supply to the world market. Other proposals are that the Stabex scheme should be reconsidered to make it more effective, and that more care be taken in administering food aid.

Resources. It is proposed that aid channelled through the Community institutions should be increased from its present level of 0.05% to 0.1% of the Ten's GNP by stages over the next decade. If the total aid of the Ten does not rise commensurately, this will mean a higher proportion of their aid (currently one-tenth) being channelled through the EEC institutions. The memorandum also proposes the inclusion within the EEC budget of the European Development Fund (EDF – the aid fund for the ACP states), at present financed by direct contributions from governments; the expansion of European Investment Bank (EIB) operations to Third World countries beyond the ACP and Mediterranean associates; and the use of the European Monetary System (EMS) to foster monetary stability in ACP countries.

The experience of the Lomé Convention

The proposals reveal a reforming spirit. Some of them will be regarded as far from ideal by individual member states but several will probably emerge, in amended form, in the Commission's future negotiating mandate. This is because they cover almost exclusively aid and institutional elements, on which the member states have surrendered relatively little national autonomy for the benefit of Community-level policy. By contrast, few concessions are proposed in the field of trade where policy is formulated entirely at Community level. From the Third World's point of view, the proposals are likely to be broadly welcomed as far as they go, but the non-African Third World states will feel they do not go anything like far enough. Given the proximity of the 1983 renegotiations they are best considered in the light of experience under the past seven years of Lomé.

Trade. The trade regime is superficially very liberal since 99.5% of ACP exports enter the EEC duty-free. However, this is largely a reflection of the current commodity composition of ACP exports, 75% of which would enter duty-free in any case. For a further 15%, the Lomé preference is granted over third country suppliers, including other developing countries. In 1979, petroleum accounted for 35% of ACP exports to the EEC, and coffee and cocoa for a further 18%. The provisions of the Lomé Convention have little impact on commodities such as these and the concessions provide relatively little stimulus to product diversification. Recent analysis[1] shows that during Lomé I there was no major change in the concentration of ACP exports on a small number of mainly unprocessed agricultural products, oil and minerals. Nor have Lomé preferences enabled the ACP to maintain their share of the EEC market. In 1972 the ACP accounted for 8.2% of EEC imports;

by 1979 this figure was 6.6%. The only major positive impact of the Convention on trade patterns has been to diversify the direction of trade. Countries that were not previously linked in a preferential arrangement have tended to see their trade grow faster (or decline more slowly) than the average; that is, the Yaoundé states with Britain, Ireland and Denmark; the Commonwealth ACP with the Six; and all the ACP with Ireland and Denmark. On the other hand, the Lomé arrangements despite non-reciprocity have helped EEC suppliers to consolidate their hold on, or penetration of, markets in ACP countries through the aid, lending and co-operation framework.

Stabex. The Lomé Convention's novel export earnings stabilisation scheme appeared to operate effectively for the first five years. Claims for loss of earnings on trade with the EEC were generally matched by the funds available, drawn from the EDF. The scheme disbursed Ecu 377.5m, to 37 ACP states, with commendable speed over its first five years. Because of the liberality of the transfers, which were effectively untied foreign exchange, the scheme was well liked by ACP recipients. However, problems have emerged on both sides. First, it provides at best partial compensation, based generally on EEC trade flows, for a selection of ACP commodities and some processed products. Second, transfers were being made largely as a result of production declines rather than for falls in world commodity prices or flagging European demand. Third, many ACP governments, on receipt of the transfer, felt under no obligation to use the funds to support the affected production sector, and diverted the funds to a number of uses including budgetary support, not all of them deemed developmental by the EEC. Thus, the funders questioned whether the ideals of export stabilisation were being achieved. Lastly, the scheme has now encountered severe funding difficulties. In 1980 and 1981, Stabex claims far exceeded the 12% of the EDF allocated to the scheme. In contrast to the Lomé I experience, claims resulted from sharp price falls for commodities (notably cocoa and coffee) as well as production volume declines (groundnuts and others). Stabex was able to pay only 53% of the legitimate ACP claims arising from 1980 trade shortfalls with the EEC, and just 40% of those arising from 1981.[2] These problems are likely to continue, at least for the next few years, in view of the current low prices for many of the commodities covered.

Aid. Despite the partnership spirit of Lomé, the relationship between donor and recipient has been similar to the traditional pattern. The apparent freedom of the ACP to determine the use of aid funds has often been less important in practice than the power of the EEC to resort to stalling and other indirect tactics to control the purse strings. Disbursement of aid under Lomé has been slow (see Table). By the end of 1981, only 54% of the Lomé I aid package (agreed in 1975) had been disbursed –much of this attributable to the faster Stabex operations – and only 81% had even been committed. The Commission believes that too much attention is given to this slow rate of spending which is partly due to predictable teething troubles and the nature of aid projects. But it is a continuing problem since the rate is not increasing either for the later aid approved under Lomé I, or for Lomé II aid. During 1980, 11% of the Lomé I fund was committed,

Annual aid commitments and disbursements from EDFs III, IV and V[a] and from EEC budget ($m[b])

		1981	1982[c]
EDF commitments		784	1048
of which:	Projects and TC	*428*	*588*
	Stabex	*160*	*110*
	Sysmin	–	*93*
	Other	*197*	*257*
Total		785	
EEC budget commitments		955	975
of which:	Food aid	*556*	*490*
	Mediterranean associates	*174*	*206*
	Non-associates	*181*	*227*
	Other	*44*	*52*
Total commitments		1738	2023
EDF disbursements		741	735
EEC budget disbursements		740	750
Total disbursements		1481	1485

Source: EEC Commission

[a] Only EDFs IV and V relate to the Lomé Convention signatories. EDF III aid is available only to the Yaoundé II signatories.

[b] 1 Ecu = $1.1164 in 1981, $0.9805 in 1982.

[c] Forecasts.

but in 1981 this rate fell to 4%; for Lomé II aid, only 10% was committed by the end of 1981. The continuing problems have included an over-concentration of responsibility on a small section of EEC staff, reluctance to allow the ACP to decide priorities, and intervention by the EEC member states. The problem also affects some states more than others. By the end of 1981 the top five recipients (Senegal, Sudan, Niger, Tanzania, Mali, in that order) had received 26% of Lomé I country disbursements; looked at in another way, Senegal had received 19.9 Ecus per caput while Kenya, for example, had received only 3.9 Ecus per caput. The first year's disbursements under Lomé II moreover show that Senegal received EDF aid disbursements totalling Ecu 41.8m, more than twice that of the second-ranking ACP country, the Ivory Coast.

A second reason for focussing on the spending rate is that the size of the aid budget formed a very important (and acrimonious) focus during Lomé II negotiations, and will probably do so again. The ACP might this time attempt to negotiate the funds first. Given that the prospects are poor for any major increase in the aid fund, it would be in the interest of the ACP to devise ways in which disbursement could be accelerated, since this could radically increase the real financial value of aid transfers.

A third reason is that slow spending may be a visible indicator of a wider problem. There is as yet limited evidence on the impact of EEC aid under Lomé. But what evidence exists provides little reason to suppose that the EEC programme is a more effective channel for spending aid than any other. Because of doubts concerning the efficiency of EEC aid, a report to the Danish government of September 1982 recommended that the aid channelled through the EEC should be

[1]See *EEC and the Third World: A Survey 3*, chapter 10.

[2]See *EEC and the Third World: A Survey 3*, chapter 11.

reduced and instead should be disbursed through other agencies.[1] A UK Parliamentary Committee found no strong grounds for increasing the EDF at the expense of other aid.[2] The recent shifts in Commission policy are designed in part to respond to criticism of this kind.

Institutions. In a more sympathetic world economic climate the set of joint consultative institutions might have flourished. In the event, however, the EEC has been unwilling to accept limitations on its power to act independently. 'Consultation' has degenerated into a system whereby the Community sets out its position on a take-it-or-leave-it basis. Undoubtedly, the Lomé institutions have fostered a certain degree of understanding between the EEC and ACP (and within the ACP), but they remain less important fora, especially on non-aid matters, than others to which the parties belong, such as the Commonwealth, donor consortia, UNCTAD and even bilateral relationships of the kind between Paris and francophone Africa.

Prospects for reform

The Commission memorandum recognises that a major contribution to current Third World problems is the world recession which has compounded errors committed by donors and recipients. But its prescription is much more concerned with correcting the errors (particularly those of the recipients) than with changing the international environment. It is more a memorandum on aid policy than on North-South relations. The memorandum sees Lomé as a precursor of a more fully developed set of agreements that will cause 'the reorganisation of economic relations' and the replacement of 'the traditional framework of relations between nation states . . . with a system of relations between regional groups or major continental units basing their relations on the predictability and security of a contract . . .'. It thus represents an attempt to move further away from the principles of universality and non-discrimination that underlie the post-war trading system and which were, in a sense, breached when the EEC was created.

It is not a wholly adequate policy document to guide EEC development strategies through the 1980s, though it is of more modest value in indicating the broad lines of the EEC position for the preliminaries to 'Lomé III'. Some of its proposals are unlikely to be adopted. These include the doubling of Community-level aid and the extension of the EMS. Also, the Community is unlikely to succeed in any pursuit of political and strategic control over the Mediterranean via purely economic co-operation agreements. More positively, the clues provided by the memorandum to the Commission's 'Lomé III' negotiating mandate include:

- Proposals for a reformed institutional framework: pledges 'of unlimited duration' to co-operate in some areas (avoiding cumbersome renegotiations every five years, or less), more specific pledges of limited duration in others. This may result in further concentration on Africa.
- More donor conditionality over project aid as well as Stabex, with emphasis, subject to reasonable performance of the first pilot strategies, on food support schemes involving aid flows extending beyond the project framework.
- Community financial aid flows at best maintained in real terms, with a continuation of the less popular food aid programme under closer scrutiny.

[1]'Report of the Danish Development Review Committee, September 1982'.
[2]House of Lords Select Committee on the European Communities: *Development Aid Policy*, 1981, para 73 and recommendation (iv).

Conclusions

The memorandum contains a number of positive proposals, some of which may be translated into EEC policy. Its main limitation, however, concerns its omissions. Several crucial items, of pressing concern to developing countries, are passed over and, apparently, will not feature in the Community's strategy for the forthcoming negotiations. These include the whole range of trade access issues, notably on manufactures, on processed agricultural products and on farm commodities (tobacco, sugar, vegetable oils, citrus fruits, some vegetables), where tropical equivalents come into conflict with the Common Agricultural Policy. It also says little about measures to promote commodity price stabilisation and to restore purchasing power of commodity-dependent developing countries. Nor is much attention given to effective balance of payments support measures, which are almost as crucial to poor African countries which have incurred relatively little commercial debt as they are to the more notorious Latin American cases. Although absent from the memorandum, the issue of EEC links with South Africa may feature prominently in the negotiations, at the insistence of the ACP. Finally, not only does the memorandum pay little attention to investment in developing countries to promote industrial production but also its view seems to be dominated by an ingenuous belief in 'self-reliance' as justification for strategies that avoid the risk of competition with European industries.

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For further information contact Adrian Hewitt or Christopher Stevens at the Overseas Development Institute.