A Review of EU Development Policy

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The EU's role in the world development debate receives remarkably little academic attention despite the Commission's sole responsibility for trade negotiations and the scale of its aid programme, where it has a shared competence. Currently the EU is a major player in the Doha Round of WTO trade negotiations and is renegotiating its trade concessions with the African, Caribbean and Pacific (ACP) group of developing countries. In terms of aid, by 2005 assistance administered directly by the European Commission (EC) totalled €6.1 bn., making the EC the third largest aid donor after Japan and the US. At the UN the Millennium Review Summit in 2005 the EU committed itself to achieving an Official Development Assistance (ODA) target of 0.56% of Gross National Income by 2010, with the EC's own budget for external actions increasing by 4.5 % per annum over the period 2007-2013.

The framework for EU development policy was restated in the 2005 Policy Statement 'European Consensus on Development' (EC 2005). Three 'policies' are identified – the European Neighbourhood and Partnership, Pre-accession and Development Cooperation - and three 'instruments' - humanitarian, stability and macro economic assistance. Here I am going to concentrate only upon the development dimension. This Statement built upon the initial 'Statement on Development Policy' (EC 2000) and reiterated many of its objectives and commitments, but also reflected the changes that had taken place in the intervening five years. In particular it placed an emphasis upon the Millennium Development Goal and made a qualified commitment to prioritising assistance to low-income developing countries (LICs). The EC had been subject to considerable criticism for its failure to direct a greater percentage of its aid programmes to the LICs. In 2000 EC ODA to the LICs had fallen to only 32% of the total, reflecting the EU's focus upon the 'near-abroad' of the Mediterranean and

Central/Eastern Europe. By 2005 the share of the LIC had risen to 46% of EC aid. Administratively it reaffirmed a shift from project aid to general budgetary support to the developing countries and to performance-based assessment. Conditionality was to be expressed in a 'contract' with the partner countries, recognising that aid effectiveness can only be achieved through 'national ownership' of aid programmes by the developing country.

The EC administered aid programme is composed of two parts – the external actions element of the general budget and the European Development Funds (EDF). The Member States contributions to the latter are separate from those to the general budget of the EU despite the Fund being administered by the Commission. The five year EDFs are the mechanism for providing the aid dimension of the Partnership Conventions with the ACP group of developing countries. These Conventions (Yaoundé, Lomé and currently Cotonou) have their origins in the colonial relations of the Member States and now covers 79 developing countries. The Conventions have both an aid and trade dimension and placed an emphasis upon continuous political dialogue with a supporting institutional framework – a unique feature in such international agreements. The administrative innovations in aid delivery under the EDFs have set the pattern for the EC's approach to its relations with the non-ACP developing states under, for example, the Mediterranean Barcelona process or in individual Association Agreements. After the organisational reforms of 2000 (EC 2000) DG Development is responsible for aid policy and programming for the ACP states, while DG Relex covers all other developing countries. EuropeAid is responsible for the implementation of these aid programmes. By 2005 of the €6 bn. of aid payments, €2.5 bn (41%) was under the EDF to the ACPs, 18% to Mediterranean countries, 10% to Asia and 5% to Latin America, with similar shares to the Balkans and the Central/Eastern Europe.

Dissatisfaction with the results of the EU's aid programme and the changing international climate at the end of the cold war led to a major review of the existing Lomé Conventions. The new Cotonou Partnership Agreement, signed in 2000, will run for 20 years, double the length of all previous Conventions (for details see Salama and Dearden 2002). A total of €25 bn. has been made available for the period 2000-2007, EDF 9 providing €13.5 bn. and the European Investment Bank (EIB) €1.7 bn., and will increase to €22.6 bn. under EDF10 for the years 2003-13. One of the major changes under Cotonou has been the radical simplification of aid instruments. These are now provided under two 'envelopes' – grants (€11.3 bn.) and a loan Investment Facility (€2.2 bn.) administered by the EIB. A particular emphasis has now been placed upon the role of the private sector in economic development, hence the creation of the substantial Investment Facility. Grants will continue to be allocated under national and regional Indicative Programmes, based upon the preparation of Country Support Strategies, but the EC will continue to shift its emphasis from funding individual projects to more general sectoral and budget support. For this to succeed a much closer political dialogue will be required between the EC and the governments of the recipient countries. Cotonou continues the process begun under Lomé IV where the funds allocated to an ACP are subject to a process of rolling review, assessed both for need and performance. This assessment will increasingly fall upon the local Delegations under the process of decentralisation begun in 2000 with the administrative reforms.

The political dialogue with individual ACPs has inevitably become more intense as the EU has placed increasing emphasis upon human rights, democracy and the rule of law. Under Cotonou these are regarded as 'essential elements' whose infringement may lead to the imposition of sanctions including the suspension of aid. In addition Cotonou includes reference to 'good governance', which after opposition from the ACPs was included as a separate 'fundamental element'. Although the sanction procedure is slightly different, failures in the case of good governance can still result in the suspension of the EC's aid programme. To overcome the problems of failing ACP governments Cotonou also placed an emphasis upon the potential role of non-state actors. This includes local government, trade unions, farmers' organisations, local NGOs and the private sector. To support their role in fostering good governance and in service delivery the EC allocated substantial funds to building their capacity. Institution building, gender and environment considerations were all identified in Cotonou as 'cross-cutting' issues to be addressed across all of the EC's development initiatives.

Cotonou also included a significant change in the trade concessions that were to be offered to the ACPs. Under all previous Conventions the ACPs were granted non-reciprocal tariff-free access to the EU market for their manufactured exports and for most of their primary commodities, with the principal exception of a number of CAP products; specific arrangements existed for bananas, run, beef and sugar under the Commodity Protocols. After a successful challenge to its banana regime before the WTO the EU required that the Cotonou Agreement be WTO compatible through adopting the principle of reciprocity. While the WTO allows non-reciprocal trade concessions to be offered to low income developing countries the ACP group includes a number of middle income developing countries who would not qualify for such concessions. Although the EU has obtained a waiver from the WTO this will expire in 2008, by which time the EU is expecting the ACPs to have successfully negotiated Economic Partnership Agreements (EPA)(see ODI June 2006). These are being negotiated in regional groupings of the ACPs and the intension is that these new agreements will be phased in over a twelve year period. Although the EU committed itself to ensuring that the ACP's position would not be eroded by the move to EPAs this is proving hard to reconcile with its objective of achieving WTO compatibility.

The negotiations are proving difficult with serious doubts as to whether they will be concluded by the end of 2007, the EC's intended deadline (for details of the current state of negotiations see 'Trade Negotiations Insights' on www.acp-eu-trade.org). Problems have arisen with some of the regional groupings that are undertaking the negotiations, especially in Southern Africa where there are existing customs unions. A further difficulty arises from the EU's "Everthing-But-Arms" (EBA) initiative which offers non-reciprocal tariff-free access for all 48 low-income developing countries. For the low-income ACPs the EPA will therefore offer little in the way of trade preferences. For all of the ACPs the reductions in tariffs under the successive rounds of the WTO, and its predecessor the General Agreement on Tariffs and Trade (GATT), has gradually eroded the significance of the EU's tariff concessions and reduced the value of any further tariff preferences available under an EPA. For the ACPs the requirement to open up their markets to EU exports represents a considerable challenge. From the perspective of the EU the opening up of their markets is driven by a belief that this will make a major contribution to their economic development rather than offering a significant market opportunity for EU exporters. In most cases the ACPs remain insignificant trading partners for the EU beyond a few commodity producers such as Nigeria for oil. Only

South Africa is a major exporter of manufactured goods to the EU and it is currently not eligible for non-reciprocal trade preferences. Integration of the ACP states into the world economy has always remained one of the stated objectives of EU development policy and opening up their markets to international competition is regarded as offering a major contribution to their development.

The negotiations are becoming dominated by a number of detailed issues. Phasing is likely to prove the least contentious, with the ACPs expected to only be required to reduce their tariffs towards the end of the transition period. The ‘rules of origin’, which define whether goods will qualify for duty free entry and reflect the local value-added of the product, are a more problematic technical issue (see ODI November 2006). There also remain disagreements over the extent of the EPAs, in particular whether they should extend beyond trade in goods to include the trade in services, investment protection, competition policy, public procurement etc. These are often referred to as the ‘Singapore issues’ in the context of the currently stalled Doha Round of the WTO. The WTO negotiations and those for the EPA remain interrelated. The WTO provides the legal framework for the EPA and issues such as the requirement that reciprocity must cover ‘substantially all trade’ is an important area for interpretation. For the EU this has been defined as requiring tariff free access for 80% of trade. Changes in the approach to the developing countries would inevitably have changed the compatibility requirements in an EPA. The WTO negotiations, intended as a ‘development round’, were expected to pay particular attention to the needs of the developing countries through ‘special and differential treatment’. Indeed the Doha Round negotiations are in many ways more significant for the ACPs than the EPA. The opening up of the EU market to their primary products, currently restricted in many cases under the CAP, offers some ACPs significant export potential. However not all ACPs would be beneficiaries as the Commodity Protocols offered a relative preference over other non-EU suppliers at EU guaranteed prices. However the future of the Commodity Protocols has been on question for some time, with only the Sugar Protocol of any significance and this is currently under review. Of more significance has been the undertaking of the EU to phase out its agricultural export subsidies, although the failure of both the EU and US to commit to reducing their domestic agricultural subsidies is the principal cause of the current impasse.

Any EPA, as well as being likely to require significant economic structural adjustment in most ACPs in the face of EU competition, will also erode their tax base, given their financial dependence upon customs duties. The ACPs have therefore attempted to link any EPA to additional EU aid. This the EU has strongly resisted, asserting that the allocations under EDF10 have already been decided. However the EU has shown its willingness to discuss 'Trade Related Assistance' (TRA) to support the adoption of an EPA. In 2005 the EU's Council agreed that the Member States would strive to collectively increase their TRA to €1 bn. per annum by 2010 which, combined with the EC's own allocation, would take TRA to €2 bn. per annum.

Attention has also turned to the alternatives that the EU might offer to the ACPs in the case of the failure of the EPA negotiations. The alternative developing countries trade preference regime is that of the General System of Preferences (GSP). This EU variant of a global concession scheme has proved highly discriminatory over its lifetime, trade concessions being withdrawn from countries and products that have been particularly successful in penetrating the EU market. Indeed the scheme included a 'graduation mechanism' excluding specific country products depending upon the country's level of industrialisation and 'export specialisation'. The current GSP covers 7,200 products from 179 countries with the major beneficiaries being India, China and Brazil. But, in addition a 'GSP-plus' has been offered to 'dependent and vulnerable' countries. This is of particular interest to the ACPs since this is the most likely alternative trade regime to the EPA for those not qualifying for the EBA. To qualify for GSP-plus countries must ratify 23 international Conventions covering such areas as human rights and labour standards and be particularly export dependent. So far only 15 countries have qualified for GSP-plus.

In the WTO negotiations the EU's position is heavily influenced by its domestic agricultural lobby and hence is very much related to the issue of CAP reform. It must also be recognised that in the EPA negotiations in particular areas, for example fisheries, the EU is pursuing its own economic interests. Nonetheless both at the WTO and in the EPA negotiations there is a genuinely held view that the reciprocal opening up of developing country markets will make a significant contribution to their economic development. The reduction of tariff protection and their integration into the world economy is seen is a driver of the essential structural change necessary for sustained economic growth.

Aside from the issues of broad policy attention also needs to be paid to the administrative and organisational performance of the EC. 'Policy evaporation', the gap between official policy rhetoric and the reality of delivery, can only be understood within the context of the evolving approach to the EC's organisation and administration. This has been subject to considerable change over the last decade (see Dearden 2006), from the creation of EuropeAid to the adoption of a common framework for country assessment and programming through the adoption of Country Strategy Papers (CSP). A number of issues remain unresolved or the outcomes of reform uncertain. 'Deconcentration', combined with the move to general budget support, will place a significant additional burden upon local Delegations and will require them to extend their role beyond 'auditing' to that of policy analysis. Their relationship to Brussels in this process remains uncertain – e.g. how far they will have local discretion in their approach or their influence upon formulating broad Brussels policy through 'feedback'. At the same time the evolution of an EU 'diplomatic service' under the recently proposed 'Treaty Amendments' may provide the necessary enhancement of their role in the developing world for these changes to be successful.

Some elements of the EC's approach to aid administration are simply constrained by the lack of an established robust methodology. Thus problems have continued to be faced in integrating the cross-cutting issues – gender equality, environment, children's and indigenous peoples' rights and HIV/AIDS - into aid programming. Similarly enhancing the poverty focus of EC aid policy requires not just a reallocation of resources between countries but also adequate poverty impact assessments of individual programmes. This is by no means an easy process to undertake. Similarly enhancing the role of the non-state actors presents challenges in implementation as great, if not greater, than working through established governments, no matter how poor their performance. Ensuring that small local organisations are representative, effective and free of corruption will present a major resource-intensive challenge.

Considerable attention has also been paid to what has become known as the 3 Cs – Coordination, Complementarity and Cohesion (for details on 3 Cs see www.three-cs.net). Ensuring the coordination and complementarity of aid programmes is essential for ensuring their effectiveness. Duplication of programme planning and reporting/monitoring has also placed a substantial burden on the administrations of many developing countries, countries whose public administrations are already recognised as weak. The EC, before its recent reforms, had even recruited local technical assistants in competition with local governments. Coordinating country aid programmes requires not only intra-EU coordination between the EC's and the bi-lateral country programmes of the Member States, but between all donors. This has been recognised internationally as reflected in the recent Paris Declaration on Aid Effectiveness (2005). Within the EU the Action Plan (COM(2006)87) offers a number of elements that will contribute to greater coordination and complementarity. These extend from the establishment of databases on aid and procedural requirements, to harmonisation 'roadmaps' and participation in joint OECD/DAC monitoring. Similarly the EC is proposing extending its common CSP framework for adoption by all Member States and moving towards Joint Multi-annual Programming across EC and bi-lateral aid programmes, with joint disbursement and monitoring. In terms of coordination the EC recognises the need for focus and specialisation. It is proposing a framework for co-financing, with either the EC or specific Member States taking the lead in particular countries.

One of the criticisms of the EC's aid programme has been its lack of focus. In response the original Development Policy Statement had proposed that the EC concentrate upon eight areas in which it was regarded as having a comparative advantage – aid related to trade and development, regional integration, macro-economic support, transport, rural development, health, education and institution building. Unfortunately the 2005 Policy Statement further extended this list to include water and energy provision, and 'social cohesion and development'.

Coordination also has a wider dimension which offers the EC a potentially unique role in contributing to aid effectiveness through the adoption of elements of the Open Method of Coordination (OMC) (Dearden 2005). The needs of administrative harmonisation and innovations in joint funding are already delivering elements of the OMC. The EC has already been mandated to undertake annual reporting on the Member States implementation of their pledges on aid targets and to propose corrective measures where progress is regarded as insufficient. This process may lead to “opportunities for collective benchmarking” (EC 2004), one of the most significant components of the OMC, opening the door as it does to peer review. In a broader sense this process can contribute to aid effectiveness through the diffusion of best practice in bilateral programmes, as a result of the exchange of information between the Member States, and foster policy convergence through the enhanced dialogue between individual governments.

Policy coherence requires that the EU be consistent across its various polices ensuring, for example, that its trade policies are compatible with its development policy objectives. Trade is a particular pertinent example since the EU has sole competence, but other areas of EU policy will clearly interact with development policy. Indeed this raises one of the most significant questions for political scientists and development studies academics, the relationship between development policy and other ‘foreign policy’ objectives, as reflected for example in the Common Foreign and Security Policy. Are the instruments of development policy to be regarded merely as one tool amongst many in the pursuit of the EU’s wider external objectives or are they ‘ring-fenced’ in the realisation of the EU’s commitments to international development? These contrasting views are reflected in the debate as to the current organisational structure. The existence of a separate DG Development, responsible only for ACP relations, appears inconsistent with the responsibility of DG Relex for all other developing countries. The approach of DG Relex is far more likely to subsume development policy to wider external relations considerations then DG Development.

The increasing emphasis upon issues such as migration control in the political dialogue with the ACP states and with countries in the ’near-abroad’ is seen as a reflection of these wider considerations. The consistency and transparency with which the EC assesses ‘needs’ and ‘performance’ or applies sanctions in the case of breaches of the fundamental or essential elements of Cotonou may also offer some interesting insights into the nature of EU development policy. For some commentators the abolition of the Development Council of Ministers and its absorption into the General Affairs and External Relations Council reflects the EU’s relative priorities. Meanwhile the debate about the ‘budgetisation’ of the EDF i.e. its amalgamation into the general budget of the

EU, favoured by the EC and some member governments, has raised objections from the ACPs who fear the loss of these 'ring-fenced' development funds.

Indeed it is naive not to view development policy in its broader context and to distinguish between the significant European NGO lobby's objectives and the reality of EU development policy formulation in its wider external relations perspective. Considerations of economic interest and security are no less significant in the understanding of the EU's trade and aid relations with the developing world than in any other external relations.

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