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**Research Report**

## European Development Cooperation at the Crossroads

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## European Development Cooperation at the Crossroads

*With a volume of 5,800 million US \$ p.a., the European Community has become the fifth largest OECD donor in the nineties. Despite the widespread criticism of the Brussels bureaucracy, an increasing share of EU member states' development assistance is managed by the European Commission - 1970: 7 %, 1990: 13 %, 1997: more than 17 %. Commission and Member States together account for more than half of the total ODA (official development assistance) of all OECD countries: In 1996-97 they contributed no less than 55.8 %.*

*Considering these figures, the revealed weaknesses of the Community's development assistance and the lack of coordination of bilateral programmes between the Member States themselves and with those of the European Commission are urging a more precise and more binding conceptual framework for European development assistance and better coordination and a more rational division of labour between the different levels and actors in Brussels and the Member States' capitals. The following arguments support the realisation of development assistance as a community task:*

- *Europe has a vital interest in the stable political and economic development of its southern and eastern neighbours. Only coordinated programmes, if any, can effectively contribute to stability. In addition to that, worldwide development cooperation can be justified by Europe's interest in broadening the base for a peaceful global order by promoting sustainable economic and social development in all developing countries.*
- *Development assistance increasingly aims at improving the political conditions and institutional capacities of developing countries. Owing to its diversity, Europe can offer a wide range of concepts and models for development. These, however, should be embedded in common programmes supporting the reforms in developing countries. Only by following a coordinated approach can European concepts and models assert themselves against those of other donors.*
- *The effectiveness of development assistance as a whole can be enhanced through improved coordination. In addition to that, a division of tasks between bilateral and Community aid according to their respective comparative advantages would be helpful. Developing countries, too, should have an interest in fewer foreign aid missions, institutions, concepts and procedures, which absorb their scarce administrative resources.*
- *Finally, one must point to the role development assistance can play as a catalyst for European integration. Where do Europeans become aware of their common identity as citizens of the European Union more strongly than overseas and in European teams performing crucial tasks in alleviating poverty and coping with conflicts? And what could be a better training ground for the Common Foreign and Security Policy enshrined in the Treaty on European Union than development assistance where national interests should come second to partnership with the recipient countries?*

*In view of the recent crisis of the European Commission the governments of the Member States should feel obliged to commit themselves to a more effective common development assistance. They should state clearly what their expectations and objectives are and how the Commission's aid programmes and improved coordination of bilateral programmes can contribute to achieving the objectives of development assistance.*

### Development assistance as a Community task

The 1992 EC Treaty of Maastricht - since May 1, 1999, the relevant text is the Treaty of Amsterdam, which has not brought significant changes in the area of development assistance - has given the European Community's development cooperation an explicit legal foundation. It "shall foster the sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them, (...) the smooth and gradual integration of developing countries into the world economy", and "the campaign against poverty in developing countries" (Art. 177, Amsterdam Treaty).

Community development policy also aims at contributing to "the general objective of developing and consolidating democracy and the rule of law and to that of respecting human rights and fundamental freedoms" in the developing countries (ibid.). These framework conditions have been recognised by all donors as an indispensable precondition for sustainable development.

In addition, these objectives are not only relevant for development assistance in the narrower sense, they should also be

taken into account in all other Community policies "likely to affect developing countries" (Art. 178, Amsterdam Treaty). If this obligation to coherence is taken seriously, conflicts with other European interests, e.g. the Common Agricultural Policy, will be inevitable.

Community development cooperation is to complement, not to replace the bilateral aid of the Member States. Two criteria can be used to define the complementary roles of the Community and the Member States in development cooperation: the respective comparative advantages on the one hand, and the institutional capacities of each side on the other. This, however, should not be taken for granted. If the Member States of the EU conclude that certain tasks in development assistance should be delegated to the Community, they have to give the Commission the respective competencies and provide both the necessary staff and budget resources.

Finally, the Maastricht Treaty calls upon the Commission and the Member States to coordinate better their positions and activities in the field of development assistance, in particular by translating the objectives laid down in the Treaty into aid concepts and programmes and by adopting a com-

mon approach in international organisations and conferences (Art. 180, Amsterdam Treaty).

Even after Maastricht, the regional differentiation of European Community development assistance persists, comprising the ACP countries, the non-EU Mediterranean countries, the developing countries in Asia and Latin America, and, after the collapse of the Eastern Bloc, the eastern European countries in transition.

### **Policy of association with former colonies**

The starting point and core of Community aid is the cooperation with the now 70 + 1 (South Africa) African, Caribbean, and Pacific developing countries (ACP) that had specific relations with the European colonial powers in the past. After the foundation of the EEC their trade preferences for their colonies had to be transferred to the Common Market in order to avoid a deterioration of the trading conditions for the countries concerned. This was the origin of the special trade preferences for the ACP countries.

These relations found their expression in the Convention of Lomé, virtually unchanged since 1975. On the one hand, ACP countries were granted special trade preferences and some product agreements were concluded, on the other hand they were promised long-term development assistance based on partnership. An important motivation for the Lomé approach was the European interest, especially marked in the 1970s, in tying a group of developing countries closer to the EC, namely those that were attributed strategic importance with respect to East-West competition and to the debates in the UN on a New International Economic Order. The programme for stabilising export earnings (STABEX) was designed as an alternative to commodity agreements which the Group of 77 developing countries demanded in those days. Both aspects have since lost importance.

Even though the Lomé Convention has been praised repeatedly as a model for cooperation based on partnership between developed and developing countries, the measurable economic results are relatively modest. Many ACP countries belonged and still belong to the poorest countries in the world. Their economic development was far less dynamic than that of the Asian newly industrialising countries, and that of most Latin American developing countries. Despite their especially preferential access to the European Common / Single Market, ACP countries could not maintain their market shares and were further marginalised in the globalising economy. After the end of the East-West conflict, which had overshadowed everything else, regional and ethnic conflicts are erupting in many places in Africa and ruining all the development achievements of the past. The state institutions of many countries are weak or have disintegrated completely, leaving a vacuum that intervention from outside cannot fill. Where economic interests are at stake, central government functions are assumed by private organisations.

Disillusioned by the limited effectiveness of past European development assistance to Africa, the EU wants to use the current negotiations on a new Lomé Agreement for a fundamental revision. Since the entitlement principle of the old Lomé model had encouraged a certain "aid addiction" on the part of many ACP governments, the new approach is to emphasise the responsibilities of both sides again. Apart from the long-overdue streamlining of instruments, the EU puts more emphasis on democracy, human rights, good governance, market economic reforms, and participation of civil society. Accordingly, the partner countries are to be treated more individually in future. Countries with relatively well functioning state organisations and reform-oriented governments can be left with more room for manoeuvre when programming the allocated aid funds and given more

responsibility in implementing their own projects and programmes, even including budget financing, than countries whose governments are less committed to development and whose administrations are less efficient. In the latter case the Commission and its Delegations will have to play a stronger role in aid programming and implementation.

The EU wants to encourage the economic performance of ACP countries and their gradual integration into the world economy. Its unilateral trade preferences - which already collide with the multilateral trading system supervised by the WTO - should be replaced by agreements on reciprocal trade liberalisation (economic partnership agreements). Interregional free trade agreements are to be prepared with more developed ACP countries, whereas the special interests of the least developed countries are to be taken into account - in conformity with the GATT - in an improved Generalised System of Preferences (GSP) applied by the EU to all least developed countries. For the first time, the business community and civil society actors will be given their own role in development cooperation that will be defined in the new agreement.

### **Policy of good neighbourliness towards Mediterranean countries**

Similar to the Lomé policy, the starting point for the EC's Mediterranean Policy was the need to transfer to the European Common Market the special trade relations that individual European countries had with Mediterranean non-EC (MED) countries. In this case, however, separate trade and cooperation agreements were concluded with each Mediterranean country, complemented by Financial Protocols for five-year terms in which the volume and main areas for development cooperation were agreed upon.

In order to counteract the widening income gap between the northern and southern Mediterranean countries as a result of the accession to the EU of Greece, Spain, and Portugal, the EU has, since the beginning of the 1990s, been following a New Mediterranean Policy with an increased volume of aid and stronger promotion of structural adjustment programmes in the partner countries. At the 1995 Barcelona Conference, it was envisaged that a free trade zone would be gradually established between the Mediterranean countries and the EU by the year 2010. Back in 1989 a free trade agreement with Israel was concluded and a customs union with Turkey was even established in 1996. The complementary programmes for economic cooperation with the non-EU Mediterranean countries also aim at stimulating trade among these countries, which it is hoped will strengthen political stability in the region.

### **Cooperation with Asia and Latin America**

The geographic horizon of Community development assistance broadened with the accession to the EC of the United Kingdom, and subsequently Spain and Portugal. The more global approach of Community development cooperation is also a response to the increasing relevance mainly of the Asian developing countries for the world economy. Since the beginning of the 1980s, development cooperation with Asian and Latin American countries (ALA) has been based on bilateral agreements, and special emphasis has been placed - mainly in Latin America - on encouraging regional cooperation in order to improve the conditions for interregional free trade agreements between the EU and regional agreements among developing countries.

### **Assistance for the transition process in Eastern Europe**

Since the collapse of the Eastern Bloc, the eastern European countries in transition have also been included in the EU

cooperation policy. The main objectives of the programmes for the Central and East European countries in transition (Phare) and the Newly Independent States of the former Soviet Union (Tacis) - only few of which are developing countries according to DAC classification so that only part of the overall programmes can be counted as the EU's ODA - are to support the political and economic reform process in these countries and, especially in the Central and East European neighbour countries, to improve the preconditions for their future accession to the EU. This calls for substantial investment in transport and communication infrastructure on the one hand, and technical and expert assistance for the necessary adjustments to the legal and institutional achievements of the EU (*acquis communautaire*) on the other.

Regional distribution of EU aid (net disbursements 1997)		
	US\$ million*	Share
Sub-Saharan Africa	1559	36.5 %
North Africa + Middle East	936	21.9 %
Asia	651	15.2 %
Oceania	63	1.5 %
Latin America	520	12.2 %
Europe	543	12.7 %
<i>Subtotal</i>	<i>4272</i>	<i>100 %</i>
other bilateral ODA	1403	
multilateral ODA	115	
<b>Total</b>	<b>5790</b>	

\* Prices and exchange rates as of 1996  
Source: OECD/DAC (1998), Tab. 18, 19, pp. 116.

### Critical assessment

In reaction to recurrent indications of the Commission's flawed aid management the European Council commissioned a comprehensive evaluation of Community aid in 1995. The reports are now available and reveal a number of structural weaknesses:

- The Commission is not well prepared for the implementation of the ever more complex tasks of development assistance, either with regard to its staff levels or to its internal organisation. Especially for the many new general issues like institutional development, poverty alleviation, gender, and environmental issues there is a lack of qualified staff. When identifying and preparing projects the Commission takes recourse to external consultants who tend to pursue their own interests and cannot be supervised sufficiently.
- The core problem of the organisation is that responsibilities for development assistance in the Commission are scattered. Directorate General (DG) VIII is responsible for cooperation with the ACP countries, DG I for cooperation with all other developing and transition countries (and the other OECD countries). In both DGs the responsibilities for the different aid instruments and policy objectives are distributed over a multitude of departments and units. Thus responsibilities overlap and accountability is unclear. In addition, humanitarian aid is handled by the European Community Humanitarian Office (ECHO), a unit separate from the other development directorates.
- The organisational conventions of the Commission favour the adherence to rules over a commitment towards results. Detailed and inflexible rules and regulations, however, prevent project managers from search-

ing for more effective ways of achieving the project goals. Moreover, the preoccupation with rules and regulations ties up scarce human resources in developing countries without training them in modern management responsibility to achieve results. In addition, the Commission leaves its representatives in the partner countries (Delegations) hardly enough room to manoeuvre and to take on the responsibility for adjusting projects and programmes to changing local conditions.

- In the past, the Commission's aid projects have been geared too much toward achieving physical targets. In some areas - e.g. transport infrastructure - this approach produced absolutely respectable results. Yet, neglect of the often unfavourable sector policy framework frequently jeopardised the sustainability of projects and programmes, and programmes for institutional development missed their targets when the political conditions in the recipient countries were not taken into account.
- Feedback from project implementation to the stage of identifying and preparing new projects is inadequate. On the one hand, there was no obligatory framework for project progress reviews. Not until the 1990s was a formalised project cycle management implemented. On the other hand, there are not enough project evaluations, and the results of those evaluations, if any, are not systematically utilised in current project management. Furthermore, institutional learning is handicapped by high staff turnover and the lack of incentives.

These deficiencies are related to the overall structural deficits that were revealed by the five independent experts commissioned by the European Parliament whose first report led to the resignation of the entire Commission on 16 March, 1999, although the Commission is not on its own responsible for the structural weaknesses. The blame has to be placed on the Council and the European Parliament too, which are inclined to transfer to the Commission too many new tasks without setting clear priorities and without taking into account the organisational implications. Thus, the Commission has to employ its capacities for more and more tasks to the detriment of the quality of programmes and operation.

The evaluation reports on the Commission's regional aid programmes also point to the insufficient coordination between the Commission and the Member States in development assistance. Again, the Member States have to be blamed more than the Commission for that. National interests and petty jealousies prevent the disclosure of bilateral programmes and closer coordination of bilateral programmes and coordination between the programmes of the Member States and the Commission. Notwithstanding repeated Council resolutions, the mandate enshrined in the Maastricht Treaty for improved coordination is being implemented too slowly.

### Making use of the crisis to launch comprehensive reforms

After the debacle of spring 1999 the **European Commission** has to put its own house in order. In the field of development assistance priority has to be given to a fundamental reorganisation and a change in the culture of the organisation, namely a shift away from rules and procedures and towards a modern results-oriented management culture. The reorganisation should aim at integrating all responsibilities for development assistance in one directorate-general, streamlining at the same time the responsibilities, simplifying the rules and procedures, increasing transparency and decentralising implementation by giving more competencies to the Delegations.

To this end, a separation of political decision-making and project implementation would make sense. The five experts pointed to the bypass operations of the Commission by which it compensates inadequate human resources by employing staff financed from project and programme budgets. This reflects the urgency of finding a solution to the lack of staff. A reorganisation of responsibilities must also counteract the possibility of distorted competition and mismanagement involved if principal and agent are identical.

One step into this direction is the establishment of the Common Service - *Service Commun Relex (SCR)* - for project implementation in both development directorates, DG VIII and DG I. In addition to that, a new *Quality Support Group* will ensure that quality standards are maintained in project implementation. Further proposals for improving the culture of the organisation and its procedures have been produced in the regional evaluations and the DAC review of Community aid.

Since the Commission has its Delegations in many developing countries, it is close to the target groups. Rigorous decentralisation, i.e. the reallocation of competencies to the Delegations, would enhance the participation of local institutions and target groups in the recipient countries during the planning and implementation stages of aid programmes. This would be another way of improving the effectiveness of Community aid.

The **European Parliament** should contribute to the elaboration of a European development policy concept and monitor coherence of European policies affecting developing countries. The Parliament should contribute to a predictable European development policy and refrain from demanding ever new short-sighted actions and budget lines for the sake of publicity.

Parallel to the internal reorganisation of the Commission the **Member States governments** must work out a development policy concept that should be binding on both the Commission and the Member States. This will become the basis for a coordinated European development policy. European development ministers have repeatedly committed themselves to coordination of their activities and should now match words with deeds.

The definition of a plausible division of labour between Community and bilateral aid is likely to provoke more conflict. Governments of Member States must agree upon which tasks should be assigned to the Community and which other tasks to the Member States' bilateral aid. The next step would be to endow the Commission with the necessary competencies and resources, and, if need be, with an effective mandate for coordinating the bilateral aid of the Member States. The following criteria could be employed for the reallocation of tasks:

1. **Comparative advantages** of the different actors with respect to their past experience and successes and failures. In order to identify these comparative advantages as clearly as possible, parallel evaluations of comparable programmes using homogeneous criteria should be carried out.

## 2. **Relation to other Community policies:**

- Under this criterion trade promotion would be in the domain of Community aid. The Commission has the sole responsibility for EU trade policy and shares responsibility with Member States governments for the various issues involved in the completion of the Single Market. Trade promotion by the Commission should emphasise adjustment of developing countries' exports to European technical, health and environmental standards and requirements, which are becoming more and more sophisticated and relevant and can become barriers to market access.
- On the basis of the Community's experience with the different stages and policies involved in establishing a Single Market, development assistance for regional integration would also be in the domain of the Community.
- Prevention of crises and management of conflicts could be taken as Community tasks against the background of the Common Foreign and Security Policy.

## 3. **Relation to global problems and problems that can only be solved by joint efforts of all European actors:**

- Combating of international drugs trade, including possible trade sanctions.
- Promotion of human rights, democracy, and the rule of law. Only a harmonised position of the EU and all Member States offers some prospect for success in this delicate field, in particular vis-à-vis large developing countries.
- Promotion of framework conditions conducive to economic development with the combined weight of the EU so that development assistance of the Community and Member States is employed effectively.

In all other areas, it is questionable whether the Commission should continue to play the role of 16<sup>th</sup> donor in addition to the 15 Member States as bilateral donors. It is to be presumed that the Commission would contribute more to the effectiveness of European development assistance as a whole if it became more active in coordinating the bilateral aid of Member States (e.g. through coordination of country programming, testing of new concepts for development cooperation, commissioning of joint evaluations, etc.).

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### Additional Readings

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