



Overseas Development Institute

# European Development Cooperation to 2010

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European Centre for Development Policy Management



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**Working Paper 219**

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## **European Development Cooperation to 2010**

This is an important moment in the history of Europe's relations with developing countries. Over the next five years, an unprecedented number of decisions will be taken which bear on the relationship. These include the content of the European Constitution, the design of a Common Foreign and Security Policy, the size of the European budget, the future of various regional groupings, the architecture of European institutions, and decisions to do with trade policy and reform of the Common Agricultural Policy. All these discussions take place at a time when the global community as a whole faces troubled times, and when questions of European identity loom large in national debates.

Research institutes and think-tanks have a contribution to make. That is why the European Association of Development Institutes has launched this project, on European Development Cooperation to 2010. It is a way of involving researchers and helping to inform debate about the future of Europe's relations with developing countries. The project is intended to provide a vehicle for research, dissemination and debate, a forum in which the perspectives of different actors can be shared and developed.

At the heart of the project is a shared website, hosted by EUFORIC, Europe's Forum on International Cooperation ([www.euforic.org](http://www.euforic.org)). The website links participants in the project. It contains background papers and resources. It lists forthcoming events. And it offers the opportunity for those interested in the topic to share their views.

EADI does not want to work alone. We encourage partnerships with NGOs, parliamentarians and other civil society groups. For more information, see [www.eadi.org/edc2010.htm](http://www.eadi.org/edc2010.htm) or contact [info.edc2010@eadi.org](mailto:info.edc2010@eadi.org)

## Summary

The paper sets out the agenda facing Europe under six different headings, and then introduces a scenario planning exercise. The six themes are: (a) the development landscape to 2010; (b) Europe in the world; (c) trade; (d) development and humanitarian aid; (e) politics and partnership; and (f) the architecture of development cooperation.

European development cooperation has undergone significant change since the late 1990s, but a new wave of change is on the horizon. A complex timetable of decisions can be seen stretching through the rest of the decade. The issues range from the relationship between foreign policy and development, through the impact of enlargement and the future of EU-ACP relations, to questions about the role of EU Commissioners and the structure of the Commission. The timetable includes the inter-governmental conference on the Future of Europe, the culmination of the current enlargement process, the European elections in 2004, the appointment of a new Commission, the next Financial Perspectives negotiation, to set the European budget, and a variety of trade- and aid-related processes, globally and with different regional groupings. How can this multiplicity of activities, this *pot pourri* of issues and complications, be held together? By means, we suggest of a coherent vision of the future.

The scenario planning exercise identifies two key drivers of European development cooperation. The first is the depth of commitment to coherence, as opposed to independent policy-making by Member States. The second is the degree of commitment to the Millennium Development Goals, especially the goal of halving global poverty by 2015. The interaction of these drivers gives four possible scenarios for the future of Europe:

- (a) Greater coherence and coordination, and a greater commitment to poverty reduction. We call this 'Integration'.
- (b) Greater commitment to poverty reduction, but with a lower commitment to Europe. We call this 'Compartmentalisation'.
- (c) Greater commitment to Europe, but without a greater commitment to poverty reduction. We call this 'Segmentation'.
- (d) A low commitment to both poverty reduction and Europe. We call this 'Individualisation'.

The paper works through the aid, trade and political outcomes most likely to occur under each of these scenarios. It does not take sides. The four scenarios stand, for now, as independent imaginings of the future. However, the paper does conclude that there is an important job to do in preparing a structured discussion of options – both within Europe and with developing country partners. To use a currently fashionable phrase, we need a 'road map', indicating both stretches of clear motorway and the stretches where potholes predominate.

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# 1. Introduction

European development cooperation has undergone significant change since the late 1990s. The change process is still underway, with many of its main benefits still to be achieved. Yet a new wave of change is on the horizon, driven by a combination of external and internal factors.<sup>1</sup> A complex timetable of decisions can be seen stretching through the rest of the decade.

There is too little debate in Europe about the future of European Development Cooperation. Specialist communities debate the specifics of the Cotonou Convention, the poverty focus of EU aid, the impact of enlargement, the interface between aid and foreign policy, or the development content of the Convention on the Future of Europe.<sup>2</sup> Even here, the agenda is often short-term and insufficiently coordinated. Outside the specialist community, there is largely silence.

Figure 1 identifies key milestones in the decade following the Maastricht Treaty in 1992, distinguishing between formal treaties, policy statements, trade initiatives, and organisational changes. In the past three years, the main developments with respect to development cooperation have probably been the signature of the Cotonou Partnership Agreement, the approval of the new European development policy, and the restructuring of the Commission in 1999/2000. The last two of these, in particular, responded to criticisms made in a series of evaluations in the late 1990s, mainly about the lack of a poverty focus and about poor organisation.<sup>3</sup>

Definite progress has been made (Development Assistance Committee, 2002). The new policy statement commits the Commission to poverty reduction and to the Millennium Development Goals (MDGs) more generally (Council of the European Union, 2002). The new organisational structure has created a cross-cutting implementation unit dealing with aid to all regions. Deconcentration, involving greater authority for Delegations in the field, is expected to be completed by 2003. Country Strategy Papers for the next five years have been prepared for over 120 countries. Since last year, a single annual report on EU development cooperation is available (European Commission, 2002a). The Cotonou Partnership Agreement has been ratified, entering into force as of 1 April 2003.

At the same time, there are well known problems: over-arching issues to do with foreign policy and development; issues of policy coherence; the allocation of aid - with too little going to the poorest countries; and internal, bureaucratic problems related to aid quality the relationship between the different directorates, and the slow disbursement of funds (Dearden, 2002; Lister, 1998). The change agenda is certainly not exhausted: the road from development policy to successful implementation is still full of known hurdles.

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<sup>1</sup> Mackie (2003) provides a useful overview of the current and forthcoming agenda.

<sup>2</sup> See for example the websites of the European Centre for Development Policy Management ([www.ecdpm.org](http://www.ecdpm.org)), EUROSTEP ([www.eurostep.org/strategy/future/index.html](http://www.eurostep.org/strategy/future/index.html)), the British Overseas Network of Development NGOs ([www.bond.org.uk/eu/index.html](http://www.bond.org.uk/eu/index.html)), Europe's Forum on International Cooperation ([www.euforic.org](http://www.euforic.org)), the EU-ACP Forum ([www.ue-acp.org](http://www.ue-acp.org)), and the European Development Policy Study Group of the Development Studies Association ([www.edpsg.org](http://www.edpsg.org))

<sup>3</sup> See Cox, Healy, and Koning (1997), Bossuyt, Lehtinen et al. (2000), and European Commission (2000).

**Figure 1 Key Milestones in the decade following the Maastricht Treaty**

| Year | Constitutional and Legal   | Key Development Policy Papers   | Trade Relations   | Structure and Organisation   | Other   |
|------|--|---|---|--|---|
| 1992 | Maastricht Treaty<br>Council Regulation on aid to Asia and Latin America (ALA) | 'Horizon 2000' – EC Communication & Council Resolution on the Run-up to 2000  |   |  |   |
| 1993 |  | EC Commission & Council Resolution on the Campaign Against Poverty  |   |  |   |
| 1994 |  | EC Communication & Council Resolution on Food Security Policy   |   |  |   |
| 1995 | Lome IV Convention signed  | EC Communication & Council Resolution on Complementarity  | Framework Agreement on Inter-Regional Cooperation with MERCOSUR                           |  | Barcelona Process on Mediterranean launched (Barcelona Declaration)                 |
| 1996 | EDF 8  | First EC Communication on LRRD (Linking Relief Rehabilitation & Development)  |   |  | First Asia-Europe Meeting (ASEM)  |
| 1997 |  | Council Resolution on Coherence   |   |  |   |
| 1998 |  | EC Communication on Democratisation & State of Law  |   | Common Service for External Relations established  |   |
| 1999 | Amsterdam Treaty ratified  | EC Communication on Complementarity between EC and MS Policies on Development Cooperation   | Free Trade Agreements signed with Mexico  | New European Commission and DG structure<br><br>High Representative for Common Foreign and Security Policy (CFSP) appointed<br><br>Amsterdam Treaty makes development policy a co-decision (EP-Council) matter |   |
| 2000 | Cotonou Partnership Agreement (CPA) signed                                     | EC Communication on Operational Co-ordination between EC and MS in Development Cooperation<br><br><b>New European Development Policy agreed</b> | FTA negotiations with Mercosur start<br><br>Free Trade Agreement signed with South Africa | EuropeAid Cooperation Office established   | EU-Africa Dialogue launched in Cairo (April) (Cairo Declaration and Plan of Action) |

| <b>Year</b> | <b>Constitutional and Legal</b>   | <b>Key Development Policy Papers</b>  | <b>Trade Relations</b>   | <b>Structure and Organisation</b>               | <b>Other</b>   |
|-------------|---|---|--|---|--|
| 2001        | Nice Treaty agreed  | Second EC Communication on LRRD (Linking Relief Rehabilitation & Development)<br><br>EC Communication on Conflict Prevention                    | 'Everything but Arms' (EBA) initiative agreed<br><br>Doha WTO Development Round launched   |   | Laeken Summit sets up Convention on the Future of Europe<br><br>EC Communication to the Council on Europe & Asia |
| 2002        | EU enlargement agreed (15+10)   | Seville EU Council statement on the EU Programme for the Prevention of Violent Conflicts<br><br>EC communication on Migration (and Development) | ACP-EU trade negotiations begin, with the aim of setting up Economic Partnership Agreements (EPAs) (Sept)<br><br>Euro-Mediterranean Free Trade Agreement signed with Algeria, Egypt, Jordan, Lebanon, Morocco, and Tunisia<br><br>Free trade agreement signed with Chile | Seville Summit abolishes EU Development Council |  |
| 2003        | Nice Treaty ratified (February)<br><br>Cotonou Partnership Agreement ratified (1 April) | EC proposals for Cotonou Mid-Term Review expected<br><br>EC Communication on EDF Budgetisation expected late in year                            |  |   | Commission proposals published on the reform of the Common Agricultural Policy                                   |

## 2. The Future Timetable

At the same time, new and diverse issues are emerging. The most important ones are:

1. **The role of development vis-à-vis foreign policy objectives:** At the most general level, a debate about the place of international relations, and development in particular, in the EU Convention process being led by Valéry Giscard d'Estaing. There are questions about the fall-out of the Iraq War and its impact on internal EU agreement with respect to Foreign Policy; about whether the EU 'punches up to its weight' in international development; and about what measures would enable the Commission, in particular, to strengthen its development policy work. Within that context, the relative responsibility of the Council (through the office of the High Representative) and the Commission (through the Commissioner for External Relations) is much discussed. These issues will be debated in the drafting period of the Convention, up to June 2003, and in the Inter-Governmental Conference that will follow.<sup>4</sup>
2. **Enlargement and its implications:** The impact of EU enlargement to 25 member states is an issue, with many of the newcomers having little history of or commitment to international development. This ties in with the need to strike a balance between Europe's world view and its particular (and legitimate) preoccupations with the 'near abroad' in Eastern Europe, the former Soviet Union, and the Mediterranean – with implications across the board, not least for the allocation of aid funds.
3. **The future of the EU-ACP relationship:** Opportunities, but also complications, are presented by an invigorated African perspective through the African Union (AU) and NEPAD (New Economic Partnership for African Development). Opportunities for a new approach to development cooperation arise, illustrated, for example, by the commitments made at the 2002 G8 Summit in Kananaskis, Canada. But there are complications also: for example, the AU and NEPAD involve ACP states south of the Sahara as well as non-ACP Mediterranean states.<sup>5</sup> In that connection, there are questions about the future of the ACP group, whether special relationships should continue, and how. And if they do not, can the Cotonou Partnership Agreement, including its innovative elements, be preserved?
4. **The architecture of EU development co-operation:** At a more parochial, but nevertheless important level, the need with the coming of EU enlargement, to review the structure of the Commission, particularly the division of responsibilities between the external affairs and development portfolios. There is renewed interest in all three main EU Institutions and in the Convention on the old question of whether the EDF should cease to be a separate fund, but should instead be 'budgetised', that is incorporated within the EU budget.

Underlying these questions are debates in the wider development community, for example about the new security context, poorly performing countries, financing for development, global public goods, global governance institutions, trade liberalisation and development, and the achievement of the MDGs. Core questions arise for the EU about its comparative advantage in relation to other bilateral and multilateral development bodies. How can the 'unique selling point' of the EU be defined?

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<sup>4</sup> The final report of the Convention will be presented to the European Council at its meeting in Thessaloniki, Greece, on 20-21 June 2003.

<sup>5</sup> It was notable that the EU-Africa Dialogue Summit in Lisbon, planned for April 2003, was postponed because of a political dispute about sanctions on Zimbabwe.

There is a complex EU timetable relating to these questions, summarised in Figure 2, using the same format as in Figure 1. In particular, the development-specific decisions, for example about the Cotonou Partnership Agreement, will take into account the wider context and timetables set by, for example, the Inter-Governmental Conference and the decision on Financial Perspectives.

**Figure 2 Future timetable of key European development decisions**

| <b>Year</b> | <b>Constitutional and Legal</b>  | <b>Key Development Policy Papers</b>   | <b>Trade Relations</b>   | <b>Structure and Organisation</b>                                     | <b>Other</b>  |
|-------------|--|--|--|---|---|
| 2003        | June: Draft Convention published<br><br>December: Inter-Governmental Conference, Italy (tbc) | June: EC proposals for CPA Mid-Term Review of the NIPs and RIPs<br><br>November: EC Communication on EDF Budgetisation<br><br>EC Communication on the new Financial Perspectives | September: WTO Cancun Ministerial  | Deconcentration of EU Delegations completed                           | June: Mid-Term Review of CAP  |
| 2004        | Inter-Governmental Conference reports<br><br>Current enlargement completed                   | Formal negotiations start on new Financial Perspectives (including possible budgetisation of EDF)  | Generalised System of Preferences expires<br><br>Policy negotiations on investment and competition (TRIPS, TRIMS)  | May: European Parliament elections<br><br>New Commission takes office | Mid-Term Review of performance on Cotonou NIPs+RIPs and EDF 9 allocations |
| 2005        |  |  |  |   | Negotiations begin on EDF 10  |
| 2006        | Agreement on Financial Perspectives  |  |  |   |   |
| 2007        | Current EDF (9) runs out   |  | Negotiations on Economic Partnership Agreements to be completed  |   |   |
| 2008        |  |  | WTO Waiver for ACP countries' trade preferences expires<br><br>Economic Partnership Agreements (EPAs) set to begin |   |   |

### 3. European Development Cooperation: Issues for the Future

#### (a) The development landscape to 2010

There is sometimes a risk, in discussing Europe's relations with developing countries, of moving too quickly to 'house-keeping' issues, like the structure of the Commission, or the possible budgetisation of the EDF. The crisis in the international system triggered by the war in Iraq reminds us that we need to start at a different point, with the state of the world and the nature of the development debate: changes here could easily shape Europe's relations with developing countries, in unexpected ways. There are three main issues.

First, Iraq has given added urgency to a long-standing debate about the culture and characteristics of the world we are likely to find ourselves living in. Will it be a unipolar world, or bipolar or multipolar? Will multilateralism and a commitment to the UN feature on the agenda of the major powers? And will the world, as those debates play out, be more or less secure? Europe will have answers to these questions, and will try to influence the outcomes – see the discussion below on Europe in the world.

Second, and independently of the political landscape, the world is changing. There are both trends and shocks to take into account.<sup>6</sup> Key drivers include population growth, urbanisation, technical change, and further economic globalisation. To take just one example, we characteristically think of the developing world as being mostly rural – yet urbanisation is proceeding rapidly, to the extent that by 2020, there will be more urban people than rural living in developing countries. In West Africa, there will be more than thirty cities with population of over 1 million (Snrech, 1995). In India alone, the urban population will increase by over 200 million people, many of them members of the new middle class, with global values and aspirations (Waslekar et al., 2002). Increasing environmental degradation also affects the poor and their livelihoods disproportionately, and the next 10 to 20 years could see major shortages of the most basic resources, such as water, in many parts of the world. Key shocks include HIV/AIDS, perhaps in the future also SARS, environmental disaster, terrorism and war.

The third issue, then, is whether these changes, political, economic and social, will force a change in development thinking. The discourse today is characterised by a high degree of consensus: a commitment to the Millennium Development Goals, a consensus strategy on how to reduce poverty, the widespread use of Poverty Reduction Strategies, and a raft of new implementation modalities, including sector wide approaches, budget support, and results-based management.<sup>7</sup> This is a powerful framework, but there are threats. For example, as a reaction to the perceived threat of terrorism, will the development landscape shift towards security-related issues, away from poverty reduction? Does the experience of Afghanistan and Iraq suggest that the emphasis will shift towards humanitarian aid/rehabilitation work and the enforcement of democratisation, with less focus on pro-poor policies and on partnership and cooperation?

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<sup>6</sup> For a recent compilation of data relating to trends and shocks, see Urey and Kannemeyer (2001).

<sup>7</sup> For a review, see Maxwell (2003).

## (b) Europe in the world

If this paper had been written in May 2002, rather than May 2003, it would have been logical to emphasise a gradual strengthening of a European identity with respect to the rest of the world: the slow awakening of a common foreign and security policy; the appointment in 1999 both of a Council High Representative for the CFSP and a single Commissioner for External Affairs; the creation of a rapid reaction force; and the creation of a network of institutions for dialogue with developing countries (the Barcelona process, the Cairo process, ASEM etc.). Furthermore - and without being complacent about the gap between rhetoric and reality - it would have been appropriate to point to the salience given to coherence between different elements of policy (coherence being one of the famous 'three Cs' enshrined in the Maastricht Treaty<sup>8</sup>), and to the commitment in the Amsterdam Treaty of 1997 to 'consistency' between CFSP and other policies (Bossuyt et al., 1999; Duke, 2000).

Despite disagreements about Iraq and other tensions, for example regarding Zimbabwe, the EU remains engaged with the rest of the world, collectively as well as individually. Evidence of this is to be found in the animated discussions around the external sections of the Convention on the Future of Europe. The Draft Articles on external action in the Constitutional Treaty were made public in April 2003 (Convention on Europe, 2003). There have been many contributions, before and since, about the relationship between CFSP and development.<sup>9</sup> There are again three issues.

First, the relationship between foreign policy and development remains in play. Many NGOs, in particular, have expressed concern about the possible subordination of development to the exigencies of foreign policy (Liaison Committee of Development NGOs to the European Union, 2002; BOND, 2003a; Eurostep 2003). They have pointed to speeches by relevant players in the EU and in national administrations<sup>10</sup>; and they have combed the various texts of the Convention for evidence that development priorities will be sacrificed to concerns about security or immigration.<sup>11</sup> A particular debate has concerned the likely 'merger' of the posts of High Representative and External Affairs Commissioner into a new 'double-hatted' post of EU Foreign Minister, reporting to both the Council and the Commission, and with oversight of development issues.

Second, the debate continues about whether or not European foreign policy and development cooperation should privilege the 'near abroad', especially in Eastern Europe and the Mediterranean, or whether they should concentrate on poverty reduction in the poorest countries. Critics point to the high share of development cooperation which is spent on the 'ring of friends'. The Annual Report on EC Development policy for 2001 shows that total payments in the year amounted to 7.7 billion euros, of which about a quarter went to countries not eligible to receive official development assistance on DAC criteria, mostly in Eastern Europe, and a further 17 per cent or so to poorer countries in Europe and North Africa (European Commission 2002a). Critics question the EU's record in terms of the share of aid reserved for poorer countries arguing that it is substantially worse than that of individual EU member states.<sup>12</sup> Those less critical observe that the flows to less-poor countries in the near-abroad are largely additional to regular aid.

<sup>8</sup> See Dacosta et al (2001), Gill and Maxwell (2001), Hoebink (2001), Schrijver (2001).

<sup>9</sup> See for example Winn Neil (2001), Magalhães, Lehtinen, and Haccius (2001), Olsen (2002), Santiso (2002), Youngs (2002), and most recently the 'Joint Position Paper on Development Co-operation in the New Treaty for the European Union' signed by seven EU development ministers and released on 1 May 2003. In addition, see the 'Documents' section of the website of the Convention on Europe, <http://european-convention.eu.int>.

<sup>10</sup> For example, BOND report Javier Solana, the High Representative, as calling for development aid to be allocated according to security imperatives ([www.bond.org.uk/eu/convsub.html](http://www.bond.org.uk/eu/convsub.html)).

<sup>11</sup> Preserving the impartiality and neutrality of humanitarian aid might be a particular concern.

<sup>12</sup> See DFID (2002).

Third, worries about disproportionate favouring of the ring of friends are reinforced by the prospect of taking into account the priorities of the 10 accession countries that will join the Union in 2004. These countries<sup>13</sup> currently have very small aid programmes (typically substantially less than 0.1% of GDP) and also have natural interests in their own immediate regions (Dauderstädt, 2002; BOND, 2003b). As Poul Nielson observed in April 2003:

‘I would find it natural for you to argue in favour of stability in the Balkans, the Caucasus and in the Central Asian Republics. You bring history and experience to those relations, and I look forward to your contribution.’ (Nielson, 2003:5)

This is not to be interpreted negatively, however. The challenge facing Europe in the coming years will be to build on the history and experience of the accession countries, whilst simultaneously inducting them into the values and practices of their new partners.

### **(c) Trade**

Historically, the EU has pursued differentiated strategies with different partners or groups of partners, seeking reciprocal free trade agreements in many cases, but offering unilateral concessions in others, for example through the (controversial) ‘Everything But Arms’ initiative, which offers tariff free access to European markets for all Least Developed Countries.<sup>14</sup> From a developing country perspective, the three key challenges are whether or not bilateral preferences will be eroded as a result of multilateral negotiations in the Doha round; whether or not the successful completion of those negotiations would significantly improve trading conditions for the poorer countries; and whether or not to sign FTAs with the EU, US or other developed countries. The answers matter because trade remains the single most important factor for accelerated poverty reduction, well beyond any change in quantity, quality, or sectoral re-allocation of aid.

The erosion question is relatively easy to answer – in the affirmative. Gradual liberalisation on a world scale inevitably erodes the value of prior concessions. Special and differential treatment for developing countries, and derogation or waivers from global rules, can delay full integration, but not for ever. For example, the current WTO waiver for ACP trade preferences expires in 2008. The question about trading conditions is more difficult to answer, because the negotiations are not complete. A recent review (ICTSD/IISD, 2003) shows that progress is slow across the whole range of issues, including agriculture, services, intellectual property rights and investment, as well as institutional agenda items like dispute procedures. The Cancun Ministerial Meeting in September 2003 may or may not break the logjam. It should not be thought, however, that developing countries are passive participants in the negotiation process. Research by Sheila Page shows that developing countries are increasingly well-organised and successful in this regard (Page, 2003). However, serious capacity constraints, especially among the least developed countries, risk confining them to the sidelines, largely following a donor-driven agenda.

In addition, there is a growing trend towards the bilateral (i.e. discriminatory) opening up of developing country economies through Free Trade Agreements (for instance, in EPAs and other EU FTAs; the FTAA in the Americas; or the US with individual LDCs). These pose difficult choices for developing countries which can see the advantages that incoming investment and competition may bring, but fear that their economies are still too vulnerable to withstand the pressures of free trade with developed countries.

<sup>13</sup> Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia.

<sup>14</sup>See Matambayala and Wolf (2001), European Commission (2002b), Babarinde and Faber (2002), Bilal (2002), Page and Hewitt (2002), and Brenton (forthcoming).



Many observers think that the acid test of success in the Doha round (from a developing country perspective) will be whether or not agricultural liberalisation is accelerated – this because of the potential effect on growth and poverty reduction which would result from the increased potential for exports and reduced competition from imports (Green and Griffith, 2002; IMF and World Bank, 2002). There may be a certain amount of slightly exaggerated optimism about the extent to which agricultural liberalisation would benefit the poorer producers in the poorer countries, but liberalisation of agricultural trade remains an important symbol. However, the ICTSD/IISD review describes WTO Ministers as ‘utterly divided’, particularly on agricultural export subsidies, and cites the chair of the agricultural negotiations as identifying six key issues, viz.:

- i. Significant differences in interpreting the Doha mandate;
- ii. The different levels of detail in the modalities proposed;
- iii. Developing countries split on special and differential treatment;
- iv. The concept of graduated treatment for certain groups of developing countries, acceding countries and Members in transition;
- v. The role of non-trade concerns; and
- vi. Some Members linking the agriculture negotiations to progress in other negotiating areas. (ICTSD and IISD, 2003, Briefing Paper 2, P. 2)

The progress of the global trade negotiations has particular relevance for the EU’s own attempts to build on the Cotonou agreement and move towards Economic Partnership Agreements (EPAs). These are problematic in any case, because of the heterogeneity within the ACP Group with respect to countries’ development stage and needs (ECDPM/ICTSD/ODI, 2003). In addition, the EU will face substantial difficulties in implementing EPAs because:

- (a) of the significant adjustments required by the ACP countries;
- (b) of a slow change in discourse towards a more differentiated view of trade liberalisation (UNDP et al., 2003), which will not advance ownership of agreements even if countries sign up under pressure of otherwise diminishing aid levels;
- (c) ACP countries are currently rethinking their trade relations vis-à-vis the compatibility of the EPA process with regional integration processes and the already overloaded multilateral agenda. For example, some Caribbean and African countries show more of an interest in gaining access to the US rather than the EU market, while ACP countries in the Pacific reflect the same interest concerning Australia and New Zealand.

An additional point concerns enlargement. Some developing countries are concerned that enlargement may slow down the pace of reform of the Common Agricultural Policy, since many accession countries have large agricultural sectors.

#### **(d) Development and humanitarian aid**

Improving development aid has been a major focus of EU reform efforts since 1999: reference has already been made to the reorganisation of the Commission, the new development policy, deconcentration to country level, and better programming (Bossuyt et al., 2000; ECDPM, 2001).

The latest Annual Report summarises progress in more detail (European Commission, 2002a). EU actions are largely consistent with the current development agenda, and in some cases (e.g. the commitment to PRSPs) leading the way.

There is more to do to improve quality – some think much more (Reisen and Stocker, 2002). Discussion of further improvement is likely to lead into discussion of resources at the centre, of organisational issues, and of the relationship between the various institutions within the EU system.<sup>15</sup> There will also need to be a discussion about the relationship between humanitarian aid disbursed by ECHO and within the framework of the CFSP.<sup>16</sup> There are two other issues on the table.

First, there has been a debate about ‘budgetisation’ of EU aid (Reisen, 2000; Patten, 2003). At present, about three quarters of external aid is financed from the budget and one quarter from the European Development Fund (European Commission, 2002a: 190). The budget figures include aid to some pre-adhesion countries and sums for a variety of budget lines – such as democracy and human rights, anti-personnel mines, or tropical forests. They are governed by the overall Financial Perspectives for the EU as a whole, agreed every seven years, and by the annual negotiations involving the European parliament. EDF sums are extra-budgetary, agreed by the EU Member States in the EDF financial protocol and then managed by the Commission with oversight of EU Member States through the EDF Committee. The European Parliament is only involved at the budgetary discharge stage and has no say on the allocation of funds.

EDF budgetisation would bring all monies within the full purview of the political process with the parliament: this might help improve the allocation to the poorest countries, but might not. Another big change would be that unlike the EDF, the EU Budget works on an annual principle with unused budgets lapsing at the end of each year. From an ACP point of view, therefore, budgetisation would involve another erosion in the traditional security of the EDF aid contract unless some ‘ring-fencing’ mechanism can be agreed.

Budgetisation also holds problems for some EU Member States as it would change the relative burden on each of them. For example, the UK pays 14.3% of budget expenditures, but only 12.7% of EDF.<sup>17</sup> For France on the other hand the calculation would work in the other direction. For accession countries, budgetisation could reduce the total cost of participating in aid programmes.<sup>18</sup> As Poul Nielson has remarked:

‘Increasing development assistance will be quite a challenge for many of our new Member States. It would be unreasonable to expect the new members to go to 0.39% by 2006. The best advice I can give is for the new members to support budgetisation of the EDF. They would get credit for their contribution, influence the policy and access bidding on contracts.’ (Nielson 2003:4)

The second issue is about the capacity of the EU to respond to global concerns – for example, the funding of global public goods (Kaul et al. 2000, 2003). At present, most funds, especially those through the EDF, are allocated to developing countries, leaving the Development Commissioner

<sup>15</sup> Especially the role of the European parliament has figures more prominently since Nice. See Aprovev (2002).

<sup>16</sup> There are general issues about the politicisation of humanitarian aid. See, for example, Macrae and Leader (2000), Macrae et al (2002).

<sup>17</sup> The UK’s share of the EC budget is shown for 2002. The UK’s share of the 9<sup>th</sup> EDF covers the period between 2000 and 2005. Figures taken from the DG Budget website <http://europa.eu.int/comm/budget/>.

<sup>18</sup> So far, accession negotiations have exclusively focused on ACP agreements and the candidate countries’ contribution to the EDF. While possibly reducing the total cost of EU external assistance for accession countries, budgetisation could also enable broader negotiations on the whole of EU development assistance. On the accession negotiations see Krichewesky (2002).

with little room for manoeuvre. In some previous conventions with the ACP, allocations have been so inflexible that it was impossible to reallocate even between developing countries (Nilsson, 2002). On the other hand, from the ACP countries' point of view, the contractual security this provided was one of the unique attractions of Lomé. In the latest EDF, reallocation is possible depending on performance, though how far this will be carried out remains to be seen.

Underlying the various debates about aid remains the critical question about the comparative advantage and 'unique selling point' of the EU, compared to Member States. There are some obvious advantages to multilateral aid, especially economies of scale, lower transactions costs, more efficient procurement and, sometimes, less political conditionality. These advantages can be even greater if the quality of multilateral aid is greater than that of bilateral aid. EU aid is a form of multilateral aid. However, its potential advantages have never really been explored systematically, nor have they been quantified. How, then, can the comparative advantage be further refined? If the comparative advantage of the EC as a donor can be delineated and defended, the share of Member States' aid channelled through Brussels may increase. If not, it may well decline from the current average of 20%.<sup>19</sup>

Related to this is the increased impact that could be achieved with EU aid (EC and Member States) as a whole, if greater efforts were made to ensure good *complementarity* of EC aid with that of EU Member States and greater *coordination* between them. It is possible to envisage a division of tasks between the EC and the EU Member States with each focussing on what they do best. The 2000 European Community Policy Statement did go some way down this road suggesting that EC aid should concentrate on 6 sectors in particular where the EC had expertise and could offer added value. But thereafter the debate on the division of tasks between the EC and Member States was only really ever conducted at the country programme level.

### **(e) Politics and partnership**

Partnership has been a consistent theme of EU relations with the developing world since the Yaoundé Convention, and it has been a leader among the development community: in its broad definition of the scope of partnership (political as well as economic); in creating institutions to pursue partnership (for example, joint parliamentary assemblies); and in developing a (limited) form of reciprocity and mutual accountability<sup>20</sup> (Box 1). The intention of the Regional Economic Partnership Agreements has been to develop a broad set of relationships of this kind with groups of developing countries.

#### **Box 1 Reciprocal accountability? The Cotonou Agreement**

The Cotonou Agreement between the EU and 77 ACP countries covers aid, trade and the political relationship. It is governed by a joint Council of Ministers on which all parties sit. If the provisions of the Agreement are broken, with respect to human rights, democratic principles, or the rule of law, then 'appropriate measures' may be taken, including suspension. The Council of Ministers acts as a court of appeal, but independent arbitration is also available. This framework has yet to be tested fully, but it has real potential and should be extended.

Source: Maxwell, 2002

<sup>19</sup> Source: Development Assistance Committee, 2003

<sup>20</sup> On partnerships in general, and EU partnership in particular, see Maxwell & Riddell (1998), Maxwell & Conway (2000), and Maxwell (2002).

The ACP, of course, is at the apex of the network of relationships, and has the strongest structure of partnership. This has many strengths, though it is problematic that other important groups of countries, containing many poor people, are, for historical reasons, excluded from the relationship. South Asia is the main example.

The questions for the future are whether the ACP will thrive, or even survive, and whether genuine partnership can be maintained in other ways. It may seem extraordinary to question the survival of the ACP, so soon after the ratification of the twenty-year Cotonou Partnership Agreement in April 2003. There are threats, however, especially from the emergence of new groupings which cut across traditional ACP boundaries. NEPAD is the main 'culprit', providing political impetus to a development dialogue between Africa and its development partners, and in so doing involving both North African countries and South Africa. It is not difficult to imagine that NEPAD initiatives, in consultation with the newly-reformed African Union, could draw African interests away from dialogue with the EU through the ACP. At present the EC has no funding instrument which relates directly and easily to all-Africa projects. Would this drawing away accelerate if EDF development aid were budgetised, or if the trade dialogue became increasingly focused on the WTO?

However, it is also possible to imagine that a stronger AU which was better able to articulate and give coherence to the African position within the ACP could strengthen the ACP Group as a whole. The Group has, after all, often tended to suffer from differences of view within the ranks of its African members. Building further on this argument, the greater strength in numbers of the ACP's 77 members against the AU's 53 members might then still hold an attraction in international arenas, and not just vis-à-vis the EU, but also in other key fora such as the WTO. The other side of the coin is, of course, how difficult it is to organise into a cohesive political force such a large group of member states (either 53 or 77) on the international scene. In Europe, there are enough problems with 15 when it comes to foreign policy!

Outside the ACP, there are other issues, involving other regions. For example, there are deep-seated problems related to understandings of democracy, good governance, rule of law, reciprocal economic relations, and the link between aid and economic policy reform. Will there be an increasing demand that dialogue include broader international affairs agenda and not just 'development and aid'?

## (f) The architecture of development cooperation

A final set of issues relates to the internal architecture of the EU. Reference has already been made to the over-arching issue of the relationship between foreign and development policy, and to the implications of creating a new, double-hatted post of EU Foreign Minister. In this connection, many outside observers have identified the abolition of the Development Council, at the Seville Summit in 2002, as a harbinger of bad things to come<sup>21</sup> though others point out that there were also problems with the old Development Council and suggest that there are opportunities in the new formation not least in the fact that a broader General Affairs Council will attract more media attention.<sup>22</sup>

At a more parochial level, the reorganisation of the Commission in 1999 was confused.<sup>23</sup> The ideal would have been a clear distinction between a commissioner for foreign affairs, one for development, and one for trade. Instead, the development portfolio was effectively split between the external affairs commissioner and the development commissioner, with the former being *primus inter pares* among external commissioners and retaining responsibility for Asia and Latin America. The creation of EuropeAid as the implementing body went only a small way to remedying the inevitable problems of coherence and communication which resulted from this compromise. Despite the relative success of EuropeAid, the reorganisation has left DG Development weakened, and has undermined the overall impact of reform.

Even from this brief review, it is clear that the agenda is crowded: a veritable *pot-pourri* of issues and complications. An important point is that the issues will be pursued in a variety of arenas - from the Security Council and the UN, through the WTO and NATO, to regional and bilateral discussions with a variety of developing country groupings. How can this multiplicity of activities be held together? By means, we suggest, of a coherent vision of the future. And this is where scenario planning comes in.

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<sup>21</sup> Among others, the General Assembly of Eurostep has adopted a statement: 'Retaining the Development Council is Critical for the EU', <http://www.eurostep.org/pubs/position/convention/Sd20023.htm>. See also the opposition of Trócaire and 1,200 other European Development NGO's, <http://www.trocaire.org/press/newpress.php3?pageno=17>.

<sup>22</sup> For a discussion of the pros and cons of the new GAERC see Simon (2003).

<sup>23</sup> For a good discussion on the restructuring of the Commission see Reisen (2001).

## **4. Towards a Scenario Exercise on the Future of EU Development Cooperation**

The principle of scenario-building is to identify the main drivers of change, reduce these down to a manageable number, and then construct alternative scenarios for the future. Note that ‘scenarios’ are not predictions, but rather alternative imaginings about what might result if different drivers prevail. They help to form a vision of the future.

What, then are the drivers of future change in the EU? The list could include:

- the enthusiasm for coordinating development efforts among EU Member States and the degree to which the EC is used as a framework for aid delivery;
- the degree to which the EU wants to set itself apart from the USA;
- the degree to which foreign and security policy dominates development policy, or to which a balance is achieved, and more broadly the degree to which the EU is willing to seek coherence between its internal and external policies;
- the extent to which there is a continued focus on regionalism and blocks;
- the level of commitment to poverty reduction as the over-arching UN-led goal of development policy; or
- the level of commitment to and investment in the capacity of the EU development apparatus.

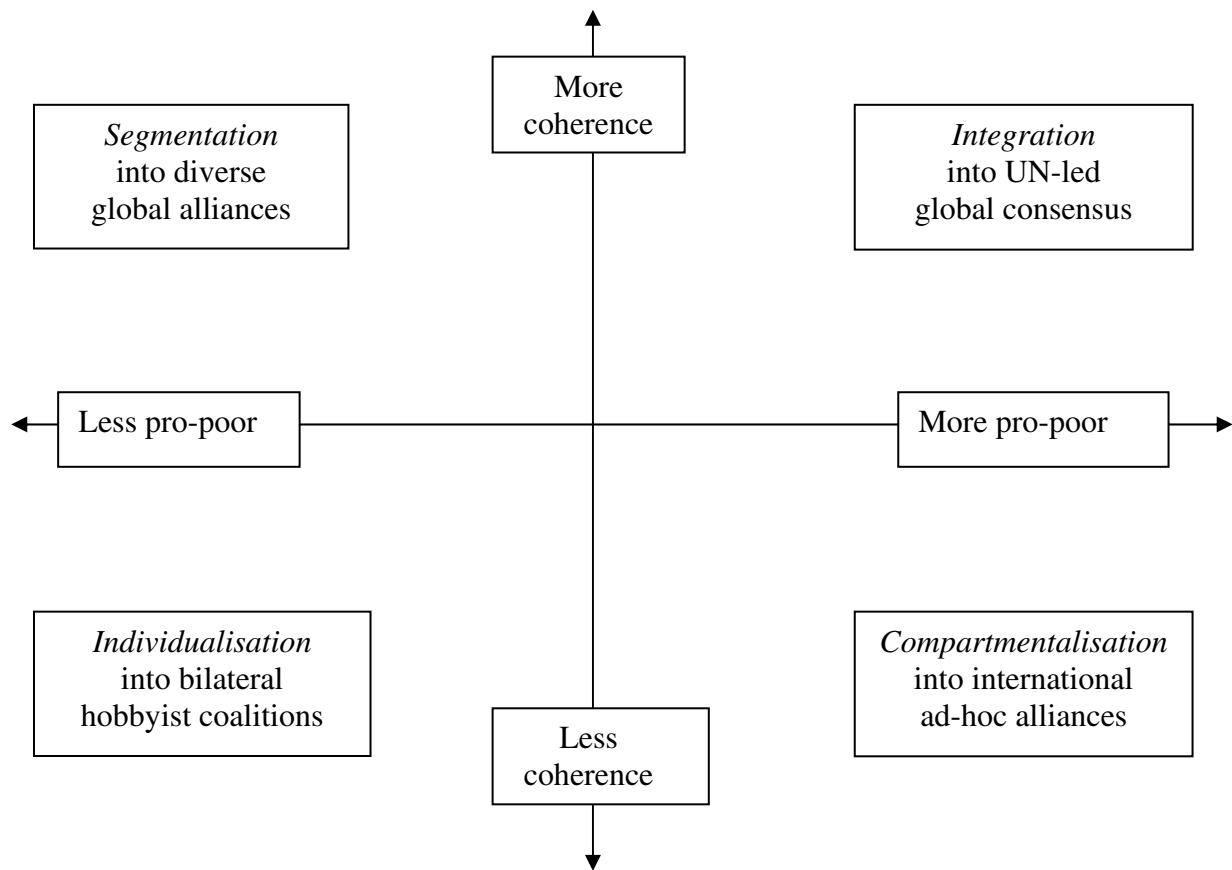
We propose to simplify these down into two axes, giving four alternative visions of future EU development cooperation. Each of these can be given a name, as in Figure 3. In this model, the two key drivers are:

1. coherence, coordination and complementarity (CCC):<sup>24</sup> the extent to which the Convention on the future of Europe results in a greater commitment to European policy coherence, coordination and complementarity among Member States and Commission – as opposed to independent policy making by member states and continuing incoherence between different policy areas; and
2. the degree of commitment to the Millennium Development Goals, and particularly to the over-arching goal of reducing poverty by half by 2015 – with consequences not just for aid policy, but also for the EU stance on trade issues.

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<sup>24</sup> The subsidiarity principle should in principle take care of coordination between the Members States and between Member States and Commission (complementarity). The question is whether the internal debate and decision-making lead to the implementation of a coherent external policy (coherence).

**Figure 3 EU Development Cooperation to 2010: Four Scenarios**



Based on this choice, a 2 x 2 axis gives four alternative scenarios, or imaginings of the future. These are:

- The top right hand quadrant: a scenario in which there is both a greater coordination and coherence in European external policies and a greater (realised) commitment to poverty reduction. In Figure 1, this is labelled '**Integration**'.
- The bottom right hand quadrant: a greater commitment to poverty reduction is combined with less commitment to European coordination and policy coherence. It leads to more emphasis on ad-hoc bilateral action by Member States. This is labelled '**Compartmentalisation**'.
- The top left hand quadrant: a greater commitment to European coordination and external policy coherence is combined with a static or falling commitment to poverty reduction. Because of its effects on global development policy consensus, it is labelled '**Segmentation**'.
- Finally, the bottom left hand quadrant illustrates the position with low commitment to European coordination and external policy coherence paired with a low commitment to global development goals and poverty reduction. It leads to bilateral hobbyism and is labelled '**Individualisation**'.

In the **Integration Scenario**, it might be expected that:

- Europe develops a more coherent voice on both foreign and development policy.
- Institutional capacity is created and strengthened to support this.
- A greater share of aid budgets is channelled through the EC.
- Greater complementarity is actively sought between EC and the EU Member States' international development programmes.
- Foreign relations and external actions are differentiated among different regions.
- Aid is focused more explicitly on poorer countries and regions; historical groupings such as ACP restructure themselves.
- Trade concessions to the poorest countries, such as the EBA, are accelerated.

In the **Compartmentalisation Scenario**:

- Movement towards a common foreign and security policy remains slow.
- There is little enthusiasm for increasing the share of aid budgets channelled through Europe.
- But what aid there is becomes more strongly poverty-focused and better-administered; the EU provides a forum for better coordination among European bilateral donors.
- This has implications for the ACP and for other regional groupings, some of whom win and some of whom lose.
- Meanwhile, trade negotiations continue, with a pro-poor focus. However, Member States become more reluctant to make concessions which have costs within their borders: policy coherence remains far away. EBA is unlikely to continue.

In the **Segmentation Scenario**:

- The Convention produces a consensus around greater europeanisation of development cooperation, including a stronger commitment to CFSP.
- National and foreign policy interests remain powerful and aid money flows in large part to 'nearby' and middle-income countries.
- Regional agreements are maintained and strengthened, mostly based on foreign and security concerns.
- The aid programme remains diversified in focus, with several Member States disagreeing about allocation.
- Trade negotiations falter. There is little support for radical opening up of markets.



**In the Individualisation Scenario:**

- Lip service is paid to European development cooperation and to the principles of CFSP, but in practice, no progress is made with respect to EU institutions.
- The Financial Perspectives fail to secure an increase in aid flowing through the EC.
- Member States increasingly challenge the decisions and orientations of the Commission; there are no new agreements on Joint Actions.
- Member States discuss re-nationalising EU aid.
- Trade talks falter, while bilateral agreements begin to acquire more prominence.
- The EU development aid delivery system reaches crisis point by the end of the decade.

## 5. Conclusion

We have noted the weight and complexity of the agenda facing the EU in respect of its relations with the developing world. We have discussed the main issues arising. And we have suggested four possible outcomes of the decisions that will shortly be taken. What we have not done is take sides. The four scenarios stand, for now, as independent imaginings of the future.

There are, however, three final points to make about the way ahead.

First, it is notable that the relative weight of the EU in Member States' aid programmes has changed significantly in the last decade, and this may also change the politics. Table 1 illustrates the point. It uses DAC data to show the share of Member States' aid channelled through the EU in 1992 and 2001.<sup>25</sup> In the earlier period, only Ireland, Spain and the UK provided more than 20% of their aid through Europe. Most large donor countries provided less than 15% of total aid through this channel. This was one reason why they perhaps paid less attention to quality issues. By 2001, eight countries out of 15 had shares exceeding 20%: the UK had slipped to 10<sup>th</sup> out of 15 – behind France and Germany, who both spent well over 20% through Brussels. These shifts result partly from deliberate decisions and partly from the interplay between unrelated decisions about the size of aid budgets, the attribution of the EU budget and the outcome of negotiations with the ACP. However they come about, they change the politics. An interesting possibility is that the constituency for reform might be larger and more determined than previously.

**Table 1 Percentage of EU Member State aid allocated through the EU**

| Country     | %    |      |
|-------------|------|------|
|             | 1992 | 2001 |
| Austria     |      | 18   |
| Belgium     | 19   | 22   |
| Denmark     | 6    | 5    |
| Finland     |      | 14   |
| France      | 11   | 25   |
| Germany     | 16   | 23   |
| Greece      |      | 47   |
| Ireland     | 42   | 21   |
| Italy       | 14   | 38   |
| Luxembourg  |      | 11   |
| Netherlands | 9    | 6    |
| Portugal    | 16   | 26   |
| Spain       | 23   | 20   |
| Sweden      |      | 7    |
| UK          | 21   | 18   |

Sources: ICVA/EUROSTEP/ActionAid, 1994; Development Assistance Committee, 2003

<sup>25</sup> Source: Development Assistance Committee, 2002. 2001 is the latest year for which data is available.

Second, we think there is an important job to do in preparing for a structured discussion of options. The main tasks will be to identify the options for change, describe the position that different players take on the issue, assess how important each issue is to each player, and then develop a negotiating strategy. To use a currently fashionable phrase, we need a 'road map', indicating both the stretches of clear motorway and the stretches where potholes predominate. The alternative is a great deal of wasted effort. This debate must take place in the public domain but ultimately it must gain sufficient momentum to drive a debate in the EU Institutions themselves: in the Parliament, in the Commission, and, in particular, in the new General Affairs & External Relations Council where development issues are now located.

Finally, it would be quite wrong for the forthcoming discussion to be conducted in a purely European context. Developing countries need to be involved in the debate. To some extent this is already happening: NEPAD is precisely a challenge from African leaders to donor countries, asking them to change the terms of cooperation, and the AU is starting to challenge the EU to review the funding instruments it has available to support development in Africa. These voices need clearly to be heard in the debate if the paradigm that emerges from it is to be both innovatory and relevant for years to come. A caution, however: the debate needs to rise above the confines of traditional groupings and traditional agendas.

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