

Beyond Lomé IV

Exploring Options for Future ACP-EU Cooperation

European Centre for Development Policy Management



European Commission



October 1996

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ISBN: 90-72908-21-X

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Acknowledgements



ECDPM is grateful to the French Ministry of Cooperation, the Italian Presidency of the

EU (first semester 1996) and the European Commission for co-sponsoring the Beyond Lomé IV initiative. Their support is an indication of their interest in an open review of ACP-EU cooperation.

We would also like to thank the ACP Secretariat and the Friedrich Ebert Stiftung for their support to the June 1996 Conference that culminated the process.

ECDPM would also like to thank the many people in the ACP countries who freely gave the authors their time and insights, especially those who enriched the initiative with their written contributions.

The ECDPM initiative coincided to a large extent with reflection in various official fora on future ACP-EU cooperation. We would like to thank, here, the Committee of ACP Ambassadors and its individual members who freely exchanged views on the topic and gave comments on our programme.

We are also greatly indebted to the Reflection Group of the European Commission for keeping us in touch with the state of the official debate in the European Union. The work of the experts who assisted the European Commission in its reflection and the proceedings of the two conferences organised under the auspices of the Reflection Group were a source of inspiration for our work.

Within ECDPM, most of the editorial work has fallen, as usual, on Peter Ballantyne. The organisation of the June conference, and the publication of this report, would have not been possible without the help of Suzanne Cartigny, Foffi Mavrakis, Annelies Duijnste, Jacques van Laar, Klaus Hoefsloot, Sophie Le Rue, Carola Baur and Irene Pascolo. Our thanks to all of them.

Foreword

New approaches is the search for common interests between ACP countries and the EU as well as the involvement of new actors are needed to shape the future of ACP-EU cooperation. This was the main conclusion of a Conference organised by the ECDPM in Maastricht in June 1996. The Conference brought together a unique group of specialists on the Lomé Convention, including ambassadors and researchers, officials from EU member states and NGO representatives, entrepreneurs and parliamentarians. Prior to this meeting, ECDPM had launched, with special support from the French Government, a consultation process with a wide variety of actors in more than 20 ACP countries.

This initiative aims to prepare the debate on the future of the Lomé Convention beyond the year 2000. Both in ACP countries and in Europe it cannot be taken for granted that the so-called 'acquis' of the Lomé Convention can be maintained. In Europe, the political tide is changing and foreign policy priorities have moved away from the ACP group. The ACP fear they will lose from this redefinition of EU development policies. The best way for the ACP to cope with the insecurity on the future of Lomé is through in-depth

preparation and re-assessment that allows them to effectively take part in discussions with the EU. This should not be limited to the many good points of the Convention, but should also address the weaknesses.

As an independent foundation, ECDPM is most willing to help frame the debate in a way that responds to the needs of both the ACP and the EU; to facilitate a common definition of issues and to explore balanced ways to address them. This was largely achieved during the June Conference. ACP actors were given the opportunity to meet with key policy-makers in the European Commission and officials from Member States. EU actors were able to get a good insight into the concerns of a wide range of ACP actors, especially from the private and non-governmental sectors.

No one can predict the outcome of the debate. Everyone appears to be convinced that without public debate in the ACP and Europe, the negotiations might result in a lose-lose situation. Only if new actors bring new views on the emerging common interests between Europe and its partners in the South can we prepare ourselves for the possibility of a win-win case. This will involve research in ACP countries, the emergence of interest-networks linking the new actors, and listening by officials.

As part of our 10th anniversary, ECDPM is proud to be involved in this debate and to make the result of our consultations available to a wider audience, in both ACP countries and the EU.

Louk Box
Director, ECDPM

List of Acronyms

ACP	Africa, the Caribbean and the Pacific
CDI	Centre for the Development of Industry
ECDPM	European Centre for Development Policy Management
EC	European Community
ECU	European Currency Unit
EDF	European Development Fund
EEC	European Economic Community
EIB	European Investment Bank
EP	European Parliament
EU	European Union
FTA	Free Trade Area
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GSP	Generalised System of Preferences
MFN	Most Favoured Nations
NAO	National Authorising Officer
NBR	New Banana Regime
NGO	Non-Governmental Organisation
NIP	National Indicative Programme
ODI	Overseas Development Institute
PMDT	Processing, Marketing, Distribution and Transportation
RIP	Regional Indicative Programme
STABEX	System for the Stabilisation of Export Earnings (under the Lomé Convention)
SYSMIN	System for Stabilising Minerals (under the Lomé Convention).
WIDE	Women in Development Europe
WTO	World Trade Organisation

Chapter 1: Introducing the Issues



The End of an Era

"This is the last Convention as we have come to know them" (Commissioner Pinheiro, Joint Assembly, Dakar, February 1995).

These words by the Commissioner for Development spell out the fears and the

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wishes of many people closely involved in the workings of the Lomé Convention¹. For some, the Convention no longer fulfils the expectations laid down twenty years ago. Others see a troubling shift in European policies and argue that defence of the preferences and support provided by Lomé is crucial to their own development and survival.

In between these views, there is a growing middle ground of observers who recognise that while all is not well with the baby, there are plenty of reasons not to let it slip away with the bath water.

Loss of interest in Lomé....

The clearly-observable decline in European interest for its ACP partners is a worrying trend for those people in ACP countries and Europe who really understand its significance. So, what are the origins of the problem? Europe's relations with the seventy ACP countries have been the victim of the profound geopolitical and economic changes currently taking place in Europe and elsewhere. The end of the Cold War and the rapid development of a global market have increased the marginalisation of ACP countries. The collapse of the Soviet grip on Eastern Europe, moves towards European Political Union, the loosening of East-West rivalry and migratory pressures from the Mediterranean region have led to a fundamental re-assessment by the European Union (EU) of its external policies. These are still being devised and it is not yet clear where the ACP will stand in a new configuration of EU external relations in the run-up to the year 2000.

Most observers expect that the ACP will descend on the list of EU priority regions, as was revealed by the recent re-negotiation of the financial protocol during the Lomé IV mid-term review. Few of the Member States were willing to even maintain their contributions to the European Development Fund (EDF) far less to increase them. Some fought for, and obtained, a reduction in their contributions. These difficult discussions reflect widely-held scepticism in Europe about the value of the 20 year old privileged Lomé relationship and lack of enthusiasm for its continuation beyond the year 2000.

Besides these factors, there is also a growing feeling that the very premises on which the Convention was created are no longer as important as they once were.

• *Dwindling sense of common interest.* When the first Lomé Convention was signed in 1975, there were strong historical ties and visible mutual interdependencies between the former colonies and the nine EEC member states. Since then,

¹First signed in 1975, the Lomé Convention provides a package of aid and trade measures to seventy developing countries in Africa, the Caribbean and the Pacific (ACP).

the *raison d'être* of the special relationship is disappearing and the foundations for any new rationale have not yet been defined.

- *Questionable impact.* In recent years, the effectiveness of the Lomé Convention has been seriously questioned. Despite there being very little hard evidence on the record of Lomé, critics continue to argue that Lomé is now part of the problem rather than the solution. In particular, they say that it perpetuates ACP dependence on the European Union, promotes paternalism and clientelism rather than partnership, and far from allowing the ACP a say in the use of development resources, the European Commission takes the lead in most decision-making and implementation.

- *Aid fatigue.* Public opinion in Europe increasingly wonders why they should provide aid when their own societies confront major economic and social problems. Despite this however, recent opinion polls in EU Member States indicate that public opinion still favours development aid, as long as there is evidence that it is well-used and effective.

- *Unclear role and place of EC development cooperation.* After more than thirty years, a "European Community" development cooperation policy has gradually emerged with the Lomé Convention as its centrepiece. However, although the Treaty of Maastricht incorporated articles on development cooperation, much of the momentum has been lost. There is growing confusion as to the roles that the EC should play in this area next to bilateral aid programmes of the Member States. Some Member States favour a reduced Community mandate and consequently put pressure on the Lomé Convention. In these cases, the trend is towards a "re-nationalisation" of EC development cooperation.

....requires that ACP states prepare thoroughly for the future

With such a range of pressures on the Convention, ACP countries are determined not to adopt a "wait and see" attitude. Between now and 1998, there is time to come up with a new rationale for a Lomé Convention. It should be a Convention that has been suitably adapted to the roles it is expected to play in today's world. If not, the ACP-EU partnership will further erode and it should be seriously considered whether ACP countries, in their growing diversity, have an interest in defending the current Lomé arrangements.

Officials at both ends of the Lomé relationship understand that the time is ripe to start a constructive debate. On the European side, the Commission presents its ideas in a Green Paper in November 1996. On the ACP side, the Committee of Ambassadors has begun a parallel reflection process to be ready in time for the ACP Heads of States and Governments Summit expected in October 1997. Joint fora, like the Joint Assembly and the EC Economic and Social Committee have also extended the debate. Elsewhere, there is an observable increase in the num-

Box 1.1: Objectives of the ECDPM Initiative

- Promote an ACP-driven debate on the future of ACP-EU relations, thus facilitating ACP agenda-setting for ACP-EU negotiations.
- Encourage linkages between different sources of expertise on Lomé (NGO, economic sectors, experts, research institutions) in ACP countries and in the EU.

ber of meetings, seminars, and research initiatives that are being organised. The tempo is rising.

All this activity should be very comforting. In some parts of the world however, in most ACP countries to be precise, these debates have just begun. This report, and the programme on which it is based, are designed to contribute to this slowly-awakening interest. From an ECDPM perspective, it is vital that the views of ACP stakeholders are articulated and integrated in the reflection process and the debate.

The ECDPM Initiative

In mid-1995, ECDPM began a programme of consultations and visits designed to both collect the views of ACP and other actors and to stimulate independent reflection in ACP countries. The overall aim was to promote constructive debates on the future of ACP-EU relations where the positions of the various ACP players could be expressed and given a hearing.

The first phase was to inform ACP people about the issues at stake in Europe, to collect their opinions on the future of ACP-EU relations, and to feed these opinions back into the European debate. Consultations were held in about 20 countries in all the ACP regions (see Annex 6). During the extensive information collection phase in ACP countries, discussions were held with governments, organisations representing private interests, non-governmental organisations, research centres, regional organisations, and EU delegations.

Linkages were sought with European decision-makers and other groups who have a stake in this debate. Finally, a conference was organised in Maastricht in June 1996. The two streams of reflection (in the ACP and in Europe) were pooled at the June conference. The experience was very enriching for both. It gave the ACP side a feeling of how European thinking on the matter is evolving

and it allowed the Europeans to grasp the realities of the field. It provided an excellent opportunity to contrast the views of ACP players with those in Europe.

Aside from general coordination of the initiative, ECDPM:

- *Informed ACP groups on the issues at stake.* By collecting views and information from ACP ambassadors to the EU, through visits to the field, through a newsletter, and by disseminating articles on ACP-EU cooperation.

- *Involved ACP groups in the thinking.* By soliciting contributions to the debate in the form of research or position papers (see Annex 3), or other types of activities such as workshops.

- *Linked with experts.* Key figures from Europe and the ACP were consulted and researchers were invited to focus their research on issues relevant to future ACP-EU cooperation.

- *Linked with European stakeholders.* NGO's and private sector associations worked closely with ECDPM and efforts were made to reach the wider public via the Internet.

- *Linked with decision-makers.* EU institutions and Member States were kept informed on the progress and findings of the initiative.

- *Pooled ideas from both sides.* After the preparatory work in both the ACP and Europe, the two streams fed into a broader debate at the June conference.

Echoes from the Field

At the end of the consultation period, the ECDPM team was left with two strong impressions. These are raised here, not with the expectation that this report can address them completely, but to stimulate further efforts by all who are involved in this debate.

- *Lack of awareness.* Globally, the level of awareness of the Convention and what it has to offer is rather limited. Real understanding seems to be confined to a few officials in each country who are responsible for day to day management of resources provided through Lomé. This lack of information and knowledge about ACP-EU relations can partly be attributed to a lack of openness in governments, to the complex nature of the Convention, and to inadequate information dissemination by the EU and its delegations. A major and concerted effort is needed to disseminate information on Lomé beyond the offices of the National Authorising Officers (NAO) in each ACP state. It must especially be targeted towards the line ministries, and many private and non-governmental organisa-

tions where levels of awareness seem to be lowest

- *Motivation to join the debate.* ACP people frequently asked whether their inputs and ideas would make any difference, and whether the EU would actually pay any attention to the views from the field. This reasonable concern is difficult to answer. Certainly, European Commission staff and representatives of the Member States appear to be receptive and interested in a wide debate. The onus is on people in ACP countries to come with good ideas and practical proposals that convince the bureaucrats to pay attention.

Part of the problem may be that officials, in the past, have encountered a lack of interest in Lomé in ACP countries (understandably, given the lack of information). They hardly expect the ACP countries themselves, and certainly not their non-official communities, to be sources of new ideas. Our consultations indicate however that there is a large and mostly unused reservoir of enthusiasm and interest waiting to be tapped. Most persons met, especially in the private sector and NGO community, sometimes also in Parliaments, are very interested and are eager to be involved. Some are committed to taking the debate further at their national level. In most cases, mobilising this enthusiasm just needs some concrete actions, some invitations to reflect and provide advice, a clear willingness to listen, and a commitment to opening the debate.

This Report

This report draws on the entire consultation and discussion process. It represents literally hundreds of opinions, views, and experiences expressed by ACP and European actors. These came from formal interviews, informal discussions, research papers, animated debate in small groups, and even electronic mail. In the interests of readability, these are not individually attributed, but are incorporated in the main text. The aim is to succinctly present the issues, to give some insight into the debates, and to identify proposals that have emerged.

In all of these discussions, several major themes could be heard, striking an echo in the minds of most listeners. These "themes" provided a framework for discussions at the June conference and a structure for this report.

Chapter 2 looks at how common interests and rationales for EU support to ACP countries can be identified. The historical rationale has been eroded, the commercial relevance of ACP countries is not tangible enough and "solidarity" arguments seem fragile. How can an enlightened reciprocal interest be found or built to sustain long-term and balanced cooperation?

Chapter 3 explores options for continuing the ACP as a group. On this issue, attitudes are very ambiguous. Many question the coherence and relevance of the ACP group whilst fearing the loss of privileges associated to it.

Chapter 4 looks at the types of trade arrangements that might be suited to the modern international trade environment. The trade regimes of Lomé, both in terms of preferences and with regard to the protocols, do not seem in line with new trade liberalisation. Ways must be found to accommodate both the needs of ACP countries and the EU's obligations to the WTO.

Chapter 5 reviews ways in which the concept of "partnership" can be adjusted to reality. Partnership was indeed the most innovative and praised value of the Convention. It has also been rather disappointing in practice. How can this trend be reversed and partnership revitalised?

Chapter 6 considers how cooperation can be opened up to non-state actors such as the private sector and NGO's. In their view, the Lomé Convention has for too long been between governments and it has proven neither efficient nor adapted to current redefinitions of the role of the State in development.

Chapter 7 reports on the search for ways to improve the overall management of cooperation. While the Lomé Convention is extremely rich in terms of instruments, there is a widespread under-use of the opportunities it can offer.

Chapter 2: Redefining Common Interests

Original Foundations No Longer Apply

"This is not the time for status quo approaches. We need to redefine the rationale and legitimacy of development cooperation beyond the provision of short-term emergency aid." (Commission official).

These words by a European official are the starting point for any attempt to re-think ACP-EU cooperation. The common interests that framed the original Convention and its instruments no longer apply, or have shifted in importance. New interests (of both parties) have come to the fore but are not adequately addressed in the current Convention.

The ACP group is aware that it has lost much of its political and economic clout with the EU. Europe's declining interest in Lomé has been aptly captured by an ACP researcher who says that the Convention is a "symbol of a period of colonialism that Europe would prefer to forget [...]. As trading partners, the ACP states have been a clear failure and have become less significant, politically and economically, with time." The ACP group fears that the EU has more pressing concerns and wants to abandon the Lomé Convention without fairly evaluating its development impact nor looking for suitable alternatives. It appears to them that Europe is "searching for an elegant manner to divorce its ACP partner."

There is a growing awareness among the ACP that development cooperation faces a legitimacy crisis. In most European countries, ministers of development cooperation face a hard time defending aid budgets amidst domestic pressures to curb deficits and a major crisis of the welfare state. However, it should be noted that there is a strong desire in some ACP countries to break with "aid dependency syndromes."

Many ACP people resent the fashionable panaceas of globalisation and liberalisation. They fear that Europe will embrace this market ideology without proper consideration of its development implications. This threatens the maintenance of several positive provisions of the existing Convention that, according to some, have made "significant contributions to alleviating poverty in ACP countries, to establishing and improving infrastructure and in some notable cases to providing jobs through exports."

What does all this mean for the debate on the future of ACP-EU cooperation? Basically, it invites the different parties concerned to come up with convincing arguments to re-legitimise development cooperation. This, in turn implies a re-definition of the actual and potential "common interests" between the ACP countries and the EU in the run-up to the year 2000. This is a prerequisite for the revitalisation of ACP-EU cooperation.

Can New Common Interests be Identified?

Two opposing views can be distilled:

According to a minority view (mainly held by European policy-makers and researchers) it is no longer possible to find a solid "community of interests" between the ACP group and the EU (perhaps with the exception of France). The political and economic foundations of the partnership are particularly fragile. ACP countries are not vital partners for the supply of raw materials, labour and services. They are not major outlets for exports nor do they attract investments. Negative interdependencies (migration flows, drug trafficking, environmental degradation) are perceived to be negligible. The remaining justification - humanitarian motives - on its own is a shaky basis for future ACP-EU cooperation.

The majority view is less pessimistic. It acknowledges that the original foundations for ACP-EU cooperation have been eroded. However, they argue that a community of interests can still be defined. At the most basic level, cynics observe that the EU gets important returns from its cooperation with the ACP. Hard evidence on the "flowback" is not readily available, but there is a strong perception among the ACP that European companies, consultancy bureaus, research institutes and experts, derive substantial benefits from Lomé. Beyond this narrow perspective of self-interest, many feel that "ethics" and "international solidarity" remain a valid basis for cooperation. If properly used, they see development cooperation helping to prevent decline and conflicts, narrowing the gap between rich and poor, and creating decent living conditions in ACP countries. These goals are perceived to be also in the (security) interests of the rich world and they suggest that the building blocks of a new cooperation agreement can be found in these "negative interdependencies." Rather than adopting a short-sighted attitude, the EU is well-advised to develop a comprehensive and long-term strategy for international cooperation, including with regard to the 70 ACP countries.

The Way Forward

At face value, the arguments used by the majority group make sense. However, in the current political climate, it is doubtful whether they will suffice to revitalise

ise ACP-EU cooperation. Policy-making in Europe is obsessed with short-term domestic concerns. Exhortations for more solidarity with the South are not likely to generate much response. If the ACP countries want to strike a better deal with the EU, they will need to adopt a much more proactive approach. They will have to convince politicians and public opinion - with solid arguments and hard evidence - of two things. First, that cooperation with the ACP countries is a legitimate priority for the EU. Second, that this cooperation can be delivered in a transparent and result-oriented manner.

To this end, it is useful to de-construct the concept of "common interests" to see how it can be given more "meat." Three options have been suggested:

➤ ***Redefine common interests at different levels.*** This option argues that the concept of common interests needs to be disaggregated and redefined at three levels -- foreign policy, economic cooperation, and development cooperation.

- *Foreign policy.* The prospects of new partnerships based on foreign policy considerations look rather grim. It appears that the EU has no major geo-political interests to defend in the ACP regions. However, it can be argued that Europe has security interests in neighbouring Africa. It has little to win from political instability, conflicts and chaos that require costly emergency and rehabilitation operations. Prevention, experience suggests, is cheaper than the cure. This argument, however, makes less sense with regard to the Caribbean and Pacific which, for many European policy-makers, are perceived to fall into other geo-political settings.
- *Economic cooperation.* At first sight, it is also difficult to see (new) common interests emerging at the economic level. With the exception of some growth poles (such as Southern Africa, francophone West-Africa, Mauritius), the ACP is seen as having only marginal importance. On second analysis, however, this may be too narrow a view. Some people argue that Europe does have a range of medium-term economic interests to defend in Africa, the Caribbean and, to a lesser extent, in the Pacific. Africa, for instance, has a potential market of half a billion people and it is richly endowed with strategic resources. Europe's long-standing relationship with Africa gives it an advantage over other economic powers. Surprisingly, investments from the US and Japan have increased significantly in (Southern) Africa at a time when Europe seems to be adopting a wait and see attitude (and is even withdrawing).

People in the Caribbean claim that the potential for economic cooperation remains largely untapped. Joint ventures could be established in new growth areas (such as tourism, environment, services) and among a wide variety of European and Caribbean actors (much beyond the present scope of government-to-government relations). Moves towards reciprocity may give a fur-

ther boost to expanding trade relations and investments. The Caribbean has "a vital stake in safeguarding a diversified political and economic cooperation with Europe, amongst others to avoid an exclusive dependency from the US and Latin America." In return, it can offer Europe "a pathway to emerging regional markets in the hemisphere." Even in the Pacific, Europe may have some strategic economic interests to defend (sea-bed resources, tourism, environmental protection). With limited amounts of funding, the EU can have a high profile in the Pacific.

These examples suggest that there needs to be well-documented research to articulate actual and potential economic interests between the EU and the ACP in a medium and long-term perspective.

- *Development Cooperation.* It is less problematic to identify shared common interests in development cooperation. In the Maastricht Treaty, the EU has committed itself to ambitious development objectives. These priorities are perfectly in line with the development needs of the ACP group -- which harbours a majority of the world's poorest countries. In this context, it is argued that the debate on the future of ACP-EU cooperation is really about the issue of "globalisation" versus "development." Very few people argue about the central role of markets. Yet, beyond this point, many questions remain unanswered. How to ensure a smooth and gradual integration of weaker and poorer developing countries in the global market economy? How to prevent the marginalisation of most ACP countries? Or, as an ACP Ambassador put it: "What "judicious mix of policies and effective measures are needed to address the problems of a large section of the world's poor?"

➤ *Integrate private common interests.* In the past, public interests - pertaining to governments - have dominated the Lomé partnership. In an attempt to redefine common interests, it is critical to also include the interests of the private sector and civil society -- both in the ACP and in Europe. For instance, with the gradual "opening-up" of societies in Africa, the seeds have been sown for a dynamic private sector (in Kenya and Ivory Coast for instance). In the absence of a European response, these private operators are turning to Japan and the Middle East. It would be short-sighted if the EU would not see its mid-term interest in these emerging markets. Establishing linkages with these private interests may help to promote joint ventures between actors in North and South.

➤***Redefine common interests in a regional perspective.*** The proponents of this option argue that it would be much easier to redefine common interests on a region-by-region basis rather than through the overall ACP umbrella. In their view, it makes little sense to lump 70 heterogeneous countries together. This leads to a very poor definition of common interests (based on the lowest common denominator or on a bewildering variety of disparate interests), disconnected from the specific needs of each region. It also induces the EU to adopt standard policies and approaches.

These weaknesses could be avoided by adopting a regional approach. In the Caribbean for example, there are no major problems of governance and democracy that jeopardise cooperation with the EU. Most countries are primarily interested in developing a new trade partnership with the EU, based on a gradual introduction of reciprocity and support for the painful process of export diversification. A process of regional integration is slowly taking place, involving other Caribbean countries that are not associated to Lomé. All these factors seem to justify the need for a new cooperation agreement, to be negotiated on a regional basis. This would allow for a much more sound and solid partnership, anchored on mutually agreed common interests. For detailed discussion on this issue of regional differentiation, see chapter 3.

Redefining Common Interests

Redefine Common Interests at Different Levels

Integrate Private Common Interests

Redefine Common Interests in a Regional Perspective

Chapter 3: Re-drawing the Map: The Scope for Differentiated Approaches

History and Future of the ACP Group

"There is an intra-ACP solidarity even in the absence of concrete common interests shared by the three parts" (African researcher).

The creation of the ACP group was related to the United Kingdom's accession to the EEC. Twenty Commonwealth States in Africa, the Caribbean and the Pacific were invited to enter into special relations with the EEC -- along the lines of the association that already existed between the EEC and eighteen French-speaking African countries (through the Yaoundé Conventions).

These states were all former colonies of EEC Member States. This colonial past provides the foundation for the "geography" of the future ACP group. While the Lomé Convention was always intended to cover the whole of Sub-Saharan Africa, the colonial argument was the eligibility criterion for Caribbean and Pacific States to receive special treatment. This explains why the Lomé Convention has often been described as a "post-colonial agreement."

According to Dieter Frisch, former Director-General at DG VIII, "many Europeans were surprised when the African, Caribbean and Pacific countries sat down together at the EEC negotiating table in July 1973. One would have rather expected parallel negotiations to have taken place with the three groups. The formation of the ACP group - which may appear somewhat artificial - came about as a result of a number of common problems (sugar), but principally because the Caribbean and Pacific contingent wanted to take advantage of the bargaining power of Black Africa, which was then quite considerable."

Twenty years later, and looking to the year 2000, the question could be raised whether the ACP group is still a viable and effective concept. Does it make sense to keep this grouping together, taking into account the growing heterogeneity among the regions and countries involved? Can the Lomé Convention continue to provide special treatment to a specific set of countries or should this geographical approach be abandoned in favour of equal treatment for all countries with comparable levels of development? If a new geographical division is sought, what criteria can be used to differentiate future EU cooperation with the

developing world? Can "differentiation" be introduced while preserving the best principles of the Lomé Convention?

Pressures on the "Geography" of Lomé

"Would there still be an ACP group if the EU did not provide 14 billion ECU every five years?" (European researcher).

The question of the geographical coverage of the Lomé Convention (and the continuing existence of an ACP group) will feature prominently on the agenda in the debate on future ACP-EU cooperation. Several factors are pushing for a re-appraisal of the Lomé geography:

- *Growing heterogeneity of the ACP.* The wide diversity of conditions prevailing in the ACP creates tensions. It is, for instance, increasingly difficult to see what "common interests" tie the 70 ACP countries together. This tends to weaken their negotiating position towards the EU, while reducing the overall effectiveness of the ACP institutions. It may also help to explain the limited political leverage of the ACP in other international fora (such as the WTO, and the Bretton Woods institutions). Representatives from ACP countries with a good "track record" often express their frustration at the EU lumping them together with a group of "bad performers."

- *EU demands for greater differentiation.* "Value for money" concerns led the international donor community to increasingly differentiate among "categories" of developing countries, using a range of criteria (such as levels of development and commitment to economic reform). The EU is now keen to also introduce a greater degree of differentiation (and selectivity) in its cooperation relations. The current Convention does not cater for this need. It provides, to a large extent, a "standard treatment" to all ACP countries, regardless of their economic development, governance systems, administrative capacities and performance. The same trade arrangements apply to the whole group. Only a limited amount of differentiation exists in financial and technical cooperation (for example, through phased programming).

- *Internal political changes in Europe.* The European partner has much evolved since the signing of the first Lomé Convention. The European Union now has 15 Member States. Newcomers have generally tended to have little sympathy for the Lomé idea -- which they see as a "post-colonial relic" and "discriminatory." The planned enlargement of the Union will compound this problem. With the Treaty of Maastricht, the EU has set out its overall policy on development cooperation. Yet the Lomé Convention (and the EDF) stands outside this framework. There are now increasing pressures to integrate Lomé into the overall policy

framework and to "budgetise" the EDF (to make it part of the overall EU budget and procedures). Finally, privileged cooperation with the ACP group as such is no longer a shared EU foreign policy priority. Member States have different interests, either linked to their own history (Spain with Latin America), proximity (the South of Europe with the Mediterranean region), economic interests (South-east Asia) or the fight against poverty (in both Lomé and non-Lomé countries) .

Do the ACP Countries want to stay Together?

"For political and strategic reasons, the ACP group should be maintained, even when there is a growing economic distance between the different regions" (Caribbean official).

Obviously, ACP countries need to decide for themselves whether they want to remain together as a group in any future cooperation agreement with the EU. During our consultations, a rather ambivalent message came across. Most people consulted strongly defend the actual configuration of Lomé and the integrity of the ACP group. In their view, any attempt to "break-up" the geography of Lomé would weaken the ACP. Those in favour of keeping the ACP group, tend to argue the following:

- *Bargaining power.* This was the reason behind the formation of the group and it is still perceived as a valid argument. The group format "has enhanced the negotiating capacity of individual members and regions among the ACP in their interactions with the European Commission and the Council." This holds particularly true for the smaller Caribbean and Pacific islands states. According to many people in the Caribbean, "the Lomé framework had provided more bargaining power than the region would have obtained on its own." In the Pacific, there is a strong perception that the region would "simply slip into oblivion if it had to deal with the EU as a separate region."

- *Dialogue structure.* The consultative mechanisms in the Convention have enabled the Community to have dialogue and engage in cooperative ventures on common terms with a large section of the developing world. Splitting-up the group (for example, through region-specific arrangements) would require new dialogue structures, as well as increased bureaucracy and management capacity at Commission level.

- *Intra-ACP cooperation.* Even though relations are not always harmonious, artificial barriers have been removed to some extent and collaboration seems to have been enhanced between various parts of the ACP (including between Anglophone and Francophone Africa). The broad spread and diversity of the group has led to "a valuable sharing of experiences, of systems of governments and of cultures." Another reason invoked to keep the group together was its "vast po-

tential for South-South cooperation" -- although it is admitted that the record so far had been rather poor.

- *Doubts about discrimination of non-ACP states.* While recognising the special treatment enjoyed from the EU, several people argue that this has not led to major discrimination against non-ACP states with regard to their exports to European markets (they benefit through the generalisation of trade preferences). Moreover, EU cooperation with non-ACP least-developed countries far exceed the levels of its cooperation with many ACP countries.

At the same time, however, many admit that the "sacred ACP unity" has become "a rather hollow concept." In their view, it becomes increasingly difficult "to hide away, in such a big an incoherent group, the huge diversity of interests at stake and the antagonisms between the different countries and regions." The much heralded bargaining power has not prevented the erosion of the preferential treatment over time.

Against this background, the question is often raised whether "yet another global negotiation between 70 ACP countries and the EU would be the best way to defend the interests of the different component elements of the ACP group." In the views of this group, revitalisation of relations with Europe may require "much more specific regional agreements, based on redefined mutual interests." They argue that this should not entail the loss of the "spirit of Lomé." As one Caribbean researcher puts it: "history has its rights and change is by definition incremental; hence, the need to search for greater (regional) differentiation while safeguarding the overall Lomé umbrella."

Options for Differentiation

In this section we look in some detail at the different scenarios that have been proposed with regard to the future "geography" of Lomé and the related issue of differentiated treatment. Four major options can be distinguished:

➤ ***Preserve the status quo (with marginal changes).*** This option makes a clear choice for continuity. Its proponents argue that the ACP group functions relatively well. It makes little sense to break up this structure in the absence of alternative arrangements that offer similar political and institutional benefits to its members. Hence, there should be no major change to the "geography" of Lomé. A limited number of new members could join the ACP group (South Africa, Cuba), amongst others to ensure greater (regional) coherence. EU demands for increased flexibility and differentiation could be accommodated within the existing framework, either through a diversified use of the instruments for financial and technical cooperation, or through a refinement of phased programming.

From a strategic point of view, it is quite understandable that many ACP people defend this option. However, a status-quo proposal is not likely to generate much support at EU level, nor does it offer solid guarantees against further marginalisation of the ACP group.

➤**Extend the benefits of Lomé.** The idea behind this option is to abandon the geographical approach in favour of equal treatment for countries with comparable levels of development. This proposal is supported by several EU Member States. For equity reasons, they want to extend the benefits provided by a future cooperation agreement to other poor (least-developed) countries. This would be consistent with the overall poverty alleviation focus, contained in the Treaty of Maastricht development cooperation objectives. Proponents of this option also argue that the trade agreement for the ACP as a group is partly challenged in the WTO because it discriminates against countries with comparable levels of development. However, this option also carries risks. The "newcomers" would probably include highly populated countries of South-east Asia (Bangladesh) and, depending on the criteria used, perhaps also countries such as India or China. Such an extension would lead to a major redistribution and dilution of available financial resources -- mainly at the expense of Africa. It would also jeopardise EC attempts to obtain greater political leverage by concentrating its development cooperation efforts.

➤**Vary the geometry.** This option proposes a Lomé "umbrella agreement" as the basic framework, objectives and principles of cooperation. The more detailed aspects of cooperation could be covered by sub-agreements to which certain groups of countries would be eligible. The main benefit of this option would be to reconcile to a large extent the concerns of the defenders of the status quo and those who would like to see a greater differentiation. The option of variable geometry could be elaborated on the basis of four criteria:

- *Geography.* One possibility is to break the ACP into three separate groups. Several ACP interviewees favour keeping an overall Lomé framework while introducing differentiation through a set of separate conventions with each of the three regions of the ACP group. In their view, such a "regionalisation" of Lomé would allow the partners to focus much more on the specific problems and development patterns of each region. It would make it possible to find a better match with ongoing regional integration processes.

For the Caribbean, for instance, it has been argued that it would make little sense to exclude Spanish speaking countries from a new deal between Europe and the Caribbean. A geographical restructuring could take place, along the lines of the Association of Caribbean States.

In the case of Africa, there is much debate whether "regionalisation" would

mean a single convention with the whole of Sub-Saharan Africa, or rather a set of sub-regional agreements (an option mainly advocated by Southern African interviewees). A majority seems to favour a single convention, taking into account the fragility of sub-regional integration processes in Africa, the danger of reduced bargaining power and the management problems associated with a variety of sub-regional arrangements.

"Regionalisation" seems a far more dangerous option for the Pacific. The region is probably too small, heterogeneous and "far away from Europe" to be covered in a fair and balanced agreement. The perceived lack of common interests could lead to a withdrawal of Europe -- a scenario much feared by Pacific people, taking into account their levels of aid and trade dependency.

- *Development indicators.* Using this criterion, differentiation would be based on levels of development within the ACP group. The purpose is to treat poor countries (Mozambique) differently than those with middle incomes (Barbados) or even those with relatively high incomes (the Bahamas). A deconstruction of Lomé would allow more aid resources to be allocated to the poorest countries, in line with the EU priorities for poverty alleviation. This type of differentiation could be based on criteria such as per capita income or human development indicators. Some also suggest to look at criteria such as purchasing power. On the basis of some of these criteria it would be possible to split the ACP Group into sub-groupings of least developed countries, less developed countries and middle income countries. Some warn against to rigid a definition of such categories. It has, for instance, been argued that per capita income does not necessarily reflect the full depth of development or of the pervasiveness of poverty in society. In some ACP countries, per capita income, even though high, is generated in large measure by existing preferences. If those countries lose their preferences, you

Options for Differentiation

Preserve the Status Quo

Extend the Benefits of Lomé

Vary the Geometry

Dismantle the ACP

will see a shuddering drop in their per capita incomes.

- *Content.* Another way to ensure differentiation is to introduce a Lomé à la carte. The idea is to have different sub-agreements according to the nature and content of the cooperation relationship. A menu of options would be available to ACP countries, with or without reciprocity. Individual ACP countries or regions could select the options in the menu that best suit their needs. This would, in turn, lead to the establishment of different types of partnerships, ranging from a mere aid agreement to a free trade area.

- *Performance.* This criterion is put forward by a number of European policy-makers. It advocates the introduction of differentiated treatment on the basis of "performance" criteria. This proposal is consistent with the "new politics of aid" which emphasise the need for credible partners in development cooperation, good governance, and accountability. Under this scenario, countries are distinguished according to, for example, whether they are in "deep political and social turmoil," seriously reforming economies, or at the early stages of reform processes. Proponents of this option argue that such categories may help to identify the most appropriate support packages.

➤ ***Dismantle the ACP.*** This fourth option advocates a more radical approach. It starts from the premise that there will no longer be a Lomé "umbrella agreement." In this scenario, the EU would probably negotiate a new set of separate agreements with each of the three regions of the ACP group. Another possibility is to associate some ACP countries to existing arrangements (the Caribbean might have a joint agreement with Central America).

Additional Research is Needed

The issues of the changing "geography of Lomé" and related differentiation of ACP countries and regions opens a broad and complex policy agenda.

Both issues appear to be priorities on the EU agenda in the Beyond-Lomé IV debate. Much brainstorming is taking place on these topics, without much consultation so far with the intended "beneficiaries" or "victims" of the proposed changes.

From this analysis, it is also clear that this debate is still rather embryonic in ACP countries. Fears to become even more marginalised prevent many ACP actors from openly considering the potential benefits of any redefinition of the Convention's geographical coverage. Hence, the need for additional (joint) research into the different options and their likely implications.



Chapter 4: **Revitalising ACP-EU Trade Cooperation**

Changing Interests in EU-ACP Trade Cooperation

"Even though preferences have been and are being eroded, there will still be margins of preference well beyond the year 2000..., together with competitive enhancing measures [they can] enable an energised ACP private sector to get a foothold in the EU market" (ACP Ambassador).

Despite preferential access to the EU market offered under the Lomé Convention, ACP export performance in Europe has deteriorated in the last two decades. Lomé trade provisions have now come under increased pressure and their value and existence beyond the year 2000 are under threat. Trade is still considered to contribute to development. The question is how trade cooperation can be adapted to become a more suitable instrument of development, and to more effectively address the challenges faced by ACP countries in the 21st century.

Trade relations between Europe and many ACP countries have long existed and some date back to the colonial period. Strengthening the economic relationship between the EU and the ACP remains important today, though probably on different grounds. Guaranteed supplies of raw materials at stable prices may have become less of an issue for the EU these days, as it can source them more reliably and cheaply elsewhere or has its own producers to think of. But the ACP countries think the EU ought to have a continuing interest in the ACP as outlets for its products, and possibly to develop spheres of influence.

This latter argument (for ACP countries to become trading bases for the EU) is identified by some as also being in the interest of the ACP. They argue that the growing division of the world in economic trading blocks makes it increasingly relevant for the EU to link up with its ACP partners. For example, the Caribbean could, in the words of a local researcher, "offer the EU a pathway to access regional markets in the hemisphere." For the ACP also, it is beneficial that the EU acts as a counterweight to other major trading partners in their region. "A commercial strategy for relations with the Pacific is essential to counterbalance expansionism of the Asian block."

For many ACP countries, the trade provisions are the most valuable part of the Convention. However, recognising the limitations of current Lomé trade provi-

sions (which are primarily based on preferential market access), most support the search for new forms of trade cooperation which can assist the ACP become more competitive in the world market.

Impact and Value of Preferences and Protocols: A Lost Battle?

"The low impact of the privileged access give a reason to think preferences have been irrelevant, or - worse - damaging in so far as they have encouraged dependency and kept the status quo in place between North and South" (Pacific researcher).

On the whole, the impact of non-reciprocal preferences and the Protocols offered to the ACP countries has been disappointing. During two decades of Lomé preferences the ACP share of the EU market dropped - from 6.7% in 1976 to 2.8% in 1994 - while less preferred developing countries gained market share (see Table 1).

Table 1: Developing countries' share of EU imports, 1976-1994 (%)

	1976	1980	1985	1990	1992	1994
ACP	6,7	7,2	6,7	4,7	3,7	2,8
Asia	4,2	5,9	6,5	11	13,6	13,1
Latin America	5,3	5,1	6,5	4,6	5,1	5,4
Mediterranean	6,1	6,1	8,1	6,5	6,2	6,1
All Developing Countries	44,8	42,4	34,7	31,2	29,2	34,2

Source: Eurostat

In addition, most ACP countries have failed to diversify their exports into non-traditional products. Most have not managed to become more competitive in the world market. Observers conclude that the preferential treatment enjoyed by the ACP countries is not sufficient to develop their trade, and other factors appear to have limited the intended effects of the preferences.

Some of the limiting factors identified by ACP business people are inherent in the trade provisions. They include: some remaining non-tariff barriers on agricultural goods (even though relief from the Common Agricultural Policy enjoyed by the ACP under the Lomé Convention is the best of any partner), the

relatively protective rules of origin, and limited awareness of the provisions and their complicated procedures. Other limiting factors, probably more significant, are linked to the supply capacity of ACP countries themselves. In several ACP countries, trade and fiscal policies do not favour the expansion of exports, and shortages of financial and physical infrastructure and skilled labour hinder their trade development.

However, not too pessimistic a picture should be projected. It is argued that some ACP countries have put preferences to good effect.

Box 4.1: Significance of Protocols: Stakeholder Estimates

The Protocols for Sugar, Bananas, Rum and Beef and Veal give free access to EU markets for a fixed quantity of exports from selected traditional ACP suppliers. For the Sugar and Banana Protocols, ACP countries also benefit from a relatively generous EU price for their exports (often two to three times higher than the world price in the case of sugar) thanks to the Common Agricultural Policy. Trade liberalisation has put the benefits of higher prices and the guaranteed access of the Protocols at risk, while the pressure of the WTO and major trading partners also threatens their very existence - as demonstrated in the banana dispute involving the Windward Islands in the Caribbean.

- *Sugar Protocol.* The transfer linked to the price stability and guaranteed market access provided by the sugar Protocol is substantial. For Mauritius and Guyana it amounts to 6% of GDP; in Fiji it was estimated at account for about 4% of GDP between 1980 and 1990. The importance of these transfers is underlined by the large numbers of people dependent on the sugar industry -- in Fiji, sugar represents 40% of the agricultural sector and provides direct employment for 25% of the economically active population.

- *Banana Protocol.* Banana exports accounted for around 78% of agricultural exports by the Windward Islands in 1990. In terms of the share of total export earnings from the EU, this represents approximately 90% in St Lucia and Dominica, 60% in St Vincent, and 20% for Grenada in 1992. The share of GDP in 1988 varied from 37% for St Lucia, 32% for Dominica, 25% for St Vincent and 4% for Grenada. The privileged and guaranteed market access that Windward Island banana producers enjoy over the Latin American "dollar" banana producers, has to be substantial considering these statistics. Without the Protocol they are unlikely to be able to compete in the EU market without major improvements in quality and productivity.

- *Beef Protocol.* On average, Botswana, which is the main beneficiary of the Beef and Veal Protocol received annual payments from the export of beef to the EU of 24 million Ecu between 1990-94. This equals 20% of all development assistance received

These include:

- Countries such as Mauritius, Jamaica, Kenya, and Zimbabwe which diversified their economy into non-traditional exports (clothing, processed fish and horticultural exports for example) for which preferential margins were relatively large compared to traditional commodity exports.
- Countries such as Fiji and Saint Lucia which benefited from one or more of the Lomé Protocols on rum, beef and veal, bananas and sugar (see Box 4.1).

If Lomé trade provisions are not extended, countries which have benefited most from them will be most adversely affected. For other ACP countries, the potential positive impact will be taken away and exports are not likely to pick up without alternative measures that address trade development.

Nevertheless, international trade liberalisation - as agreed in the recent Uruguay Round for instance - and new trade arrangements granted by the EU to other trading partners, such as the Mediterranean and Central and Eastern European countries, are likely to further erode the value of preferences and thereby reduce their potential impact in ACP countries. The question is therefore whether Lomé preferences are still worth fighting for, especially now when the international trade environment is much less generous towards them.

WTO Incompatibility - Does it Matter?

Apart from the effectiveness and desirability of the continuation of non-reciprocal preferences and Protocols, their political acceptability in the international environment will determine their future. As it stands, many of the basic Lomé trade provisions are incompatible with the spirit of the Post-Uruguay Round arrangements policed by the World Trade Organisation (WTO). The ACP exception to the most favoured nation (mfn) principle is more difficult to defend than before. For two main reasons:

- *Discrimination among developing countries.* ACP countries receive more favourable access than countries of a similar level of income which makes the provisions unacceptable as an advance on the mfn treatment for developing countries.
- *Non-reciprocal nature of Lomé preferences.* The trade agreement between the EU and the ACP cannot be accepted as an exception in the context of a regional trade agreement (WTO article 24) because it is non-reciprocal.

The Lomé Convention received a waiver from the WTO for its non-compliance with the mfn principle, but this will expire in February 2000. The current situation is therefore unsatisfactory, even if it was extended after 2000. The argument put forward by many people is that this unsustainable situation must be remedied and that compatibility with the WTO is an unavoidable criterion for future trade arrangements between the EU and ACP. Others argue that the WTO is primarily a political forum in which the EU and ACP together could have sufficient clout to make the current type of preferences acceptable to the other trading partners -- if the EU has the political will to do so.

The difficulty with the compatibility issue is that none of the current alternatives to make Lomé more "WTO compatible" are without problems, not least because the WTO rules were not drafted with a Lomé-style arrangement of North-South cooperation in mind. One suggestion is therefore to modify the WTO rules by developing a new model of North-South trade cooperation alongside article 24.

One way to make Lomé more compatible under the existing rules is to extend ACP membership to include all developing countries of similar levels of development. As well as complying with the non-discrimination principle of the WTO, this would satisfy internal EU critics who are unhappy with the concentration in the ACP of ex-colonies of a small number of member states. Another alternative may be to introduce reciprocity in the context of a free trade agreement between the EU and the ACP countries.

Reciprocity or Non-reciprocity?

Non-reciprocal preferences have reached their outer limits or are "past their sell-by-date" and could no longer be instrumental in improving ACP trade performance. (Caribbean researcher and business representative)

Aside from any compatibility with the WTO, reciprocity could benefit ACP states by bringing them the economic benefits associated with liberalisation. An alternative view however, is that the link between reciprocity and the WTO is not so clear-cut. Proponents of this view argue that efficiency gains are usually associated with liberalisation towards all trade partners and not just a partial opening to one. Furthermore, there is a danger that reciprocity is not sufficient to sustain a case under WTO article 24 on free trade areas because it would not cover a sufficient share of the trade between the partners.

EU representatives favour reciprocity - they stand to lose little from it - and associate it with the concept of mutual interest between the EU and ACP. The

ACP side wonder what they would gain by opening up their markets to European exporters, while under the current agreement they already have almost full access to the EU market (see Box 4.2). One conclusion is that gains and losses would vary by country and decisions call for a case by case evaluation.

The region most prepared to exchange current trade provisions for a regional agreement with the EU based on some degree of reciprocity is the Caribbean. According to representatives from the Caribbean, the advantages include increased security and transparency that benefits trade and investment, opportunities to negotiate further access for agricultural products and to restore some of the lost value of other preferences, and the possibility of assistance for trade and investment development -- including special incentives for joint ventures between EU and Caribbean companies. Most African representatives fear, however, that their local industries would not survive the competition by EU exports in their markets. They are afraid it will cause their manufacturing industries, which are already fragile, to collapse, leading to increased unemployment and possible social unrest.

Box 4.2: Costs and Benefits to the ACP of Reciprocity

costs:

- loss of fiscal revenue previously gained by the ACP from taxes on EU imports;
- ACP producers will face fiercer competition from EU exporters of the same goods in their own country. If no protection is maintained this could cause companies to go out of business and unemployment to rise;
- possible negative implications this may have for ACP relations with other major trading partners which currently offer generalised preferences.

benefits:

- will reduce the cost of EU imports to ACP consumers and producers of final products;
- could be used as bargaining tool for increased market access, dismantling of non-tariff barriers and protective rules of origin, and trade development assistance;
- when introduced in the context of a free trade agreement, may ensure more secure access, transparency and stable rules compared to a temporary preferential scheme;
- increases likelihood of acceptance by WTO.

Conditions for an ACP-friendly Transition to Reciprocity

It is generally agreed that the EU needs to provide for an ACP-friendly transition to reciprocity if and when it is introduced. Several conditions for such a smooth transition have been suggested by the ACP.

A set of new trade arrangements will need to be asymmetrical in time and probably in coverage of products, include the right of ACP countries to protect certain sectors and products, and have an adjustment period. This could vary between regions and countries according to criteria such as their levels of development, income or human development, debt overhang, level of competitiveness, vulnerability to preference erosion, and export dependency on the EU market.

These factors already hint at a differentiated approach among ACP countries -- both between and within regions. In terms of income levels, the previous chapter has already indicated that variations among ACP countries and between ACP and other developing countries are too large to ignore. Regions and countries also differ in the constraints they suffer in developing their trade.

The need for differentiated approaches is clear. In their dependence on the EU market for export revenue, ACP countries differ extensively. Global changes that do not take account of differences and especially of the vulnerability of some states will be disastrous. In Africa for example, the average dependency of countries on the EU market is 46%, in the Caribbean it is 18%, and in the Pacific it is 23%. Within regions, there are also large variations. In the Caribbean, the dependency rate in St. Lucia is 70% and in St Vincent it is 60%. In the Pacific, Vanuatu relies on the EU market for 53% of its export earnings while in Africa, Equatorial Guinea, the Central African Republic, Mauritius, Niger and Uganda are all above 75%.

Options for Revitalised Trade Cooperation

"Artificial trade protection [for ACP countries] cannot be maintained indefinitely" (EU representative).

Non-reciprocal Lomé preferences for ACP states

This option can be seen as the near-status quo and has the advantage that the Lomé acquis is maintained and preferences are not lost. To compensate for pref-

partners, scope for extra concessions and relaxed rules of origin can be investigated. However, considering the difficulties encountered in the mid-term review of Lomé IV, this may not be easy. To address the relatively modest success of preferences so far, more attention should be paid to other factors impacting on trade performance (see Box 4.3 for some suggestions). To the extent that the agreement remains limited to ACP countries, it continues to be discriminatory and will not be WTO compatible. Nonetheless the ACP have a 'window' until 2000 to exploit existing preferences to the maximum and to test-run new techniques that enhance their competitiveness.

Non-reciprocal preferences for all developing countries

In this scenario, least developed countries are integrated into a Lomé-type agreement, while ACP countries of a higher level of development would graduate to the Generalised System of Preferences (GSP). Or, all ACP countries are integrated in a global and graduated trade policy towards developing countries in the form of a renewed GSP.

Box 4.3: Measures to Support Trade Development

Whichever scenario is considered, both the EU and the ACP should try to ensure that market access provisions provided to ACP exporters are used better. Considering that ACP advantage over other exporters will decline in coming years (there is little scope for new preferences), it is clear that the ACP must prepare themselves for greater competition in the international trade environment. Suggested ways to assist ACP countries include:

- addition of innovative instruments such as an export financing and guarantee scheme which relieves the constraints of exporters and producers;
- support for research, training and technical cooperation aimed at increasing productivity, efficiency and diversification in ACP countries;
- continued support for infrastructure on a national and regional basis;
- channelling of more information and financing directly to commercial organisations which utilise the provisions;
- strengthening the ACP to become more significant players in international trade negotiations;

Either way, ACP countries share their privileges in the EU market with other developing countries (such as Bangladesh) and face more competition. Some of the more developed ACP countries would see their access to the EU market reduced. The advantage may be that such an agreement would be WTO compatible. As it remains a non-reciprocal agreement, there is no increased competition from EU exporters in ACP markets.

Asymmetric free trade agreements based on reciprocity

This type of agreement would oblige ACP countries to gradually open their markets to EU exporters. One option is to establish a Free Trade Area (FTA) between the EU and all ACP countries. However, this may be impractical and undesirable as it implies that all ACP countries need to also open their borders to each other (if the WTO definition of an FTA is applied).

A more likely version of this option is to establish regional agreements between the EU and sub-regions of the ACP. This matches the current fashion for region-to-region agreements in which the EU is taking an active part. Access to the EU market would remain the same as now, including the advantages which ACP countries have over other developing countries, but they would provide reciprocal advantages to the EU in exchange. The WTO is more likely to approve of such an agreement -- especially if the agreement complies with the conditions that "substantially all trade" is included in the agreement (although it has not defined what this means yet) and that the transition to the free trade agreement takes no more than 10-12 years. Maintaining protection for certain industries and sectors beyond the transitional period, as some propose, is not allowed under the current WTO regulations for an FTA.

Under this scenario, ACP producers would face fiercer competition with EU goods in ACP markets, which is in the interest of the EU producers and makes the trade agreement potentially easier to defend in the EU.

Umbrella Lomé Convention with variable geometry

This combines non-reciprocal and reciprocal agreements in an agreement in which the general Lomé framework is maintained, together with a structure that allows some ACP regions (or countries) to voluntarily go further in their trade arrangements with the EU than others and to trade mutual "concessions." These could include reciprocity. This would introduce an *à la carte* element to the trade relationship.

General support and access would be available to all under the framework agreement. Additional specialised support and new provisions would vary according to the needs of particular sub-groups. For example, least developed countries might require additional assistance to improve supply capacity while more competitive states would gain from improved access to, for example, services and investment.

In this, and the previous option for a regional FTA's, a framework agreement along the lines of the Lomé Convention could remain, with the ACP group also retained. The EU could also negotiate with each region individually. If this was to happen, a break-up of ACP solidarity and a reduction in its political clout in negotiations would be unavoidable. On the other hand, it might make it easier to focus on regional needs without having to find compromises to accommodate the needs of other regions (such as concessions on particular products or relaxation of some rules of origin).

What Next?

The fundamental question remaining is whether any of these options would facilitate and encourage the integration of the ACP countries in the world economy as is called for by the Treaty of Maastricht (article 130u). Although it may be accepted that the current Lomé provisions need to be adapted in order to take account of the specific needs of the ACP countries in an increasingly competitive environment, it may not be enough to update trade cooperation between the EU and the ACP alone.

Box 4.4: Criteria to Assess the Suitability of New Trade Arrangements

- maintain or even expand the value and scope of Lomé trade provisions;
- improve the impact of trade provisions on diversification, competitiveness, attraction of investment and growth in ACP countries;
- smooth transition of ACP countries with improved resources and instruments;
- differentiated approach adapted to needs of various groups of countries;
- support for regional cooperation as a way to stimulate integration of ACP countries in the world economy;
- enable countries to compete with other regional trading blocks;
- contributes to trade rules that facilitate "fair trade" and ensures that trade contributes not just to growth but to development;
- coherence between EU trade and development policies;
- allow ACP countries to conclude Free Trade Agreements Based on Reciprocity
- acceptable to the WTO and major trading partners of the EU and ACP.

The development of a new model for North-South cooperation which would address the difficulties of the least developed countries may actually touch on principles which are currently taken for granted in the international trade environment.

For example, "globalisation" has taken on a major role in current trade discussions. The Chairperson of the ACP Committee of Ambassadors, as well as some European NGO's see globalisation conflicting with the needs of development (see Annex 1). They would prefer that the EU contributes to the emergence of a framework of trade rules that facilitate "fair trade" and ensure that trade contributes not just to growth but also to development. This implies a re-thinking of the EC's global trade policy as well as sufficient political will to influence WTO debates in this direction.

Box 4.4 lists some criteria to be considered in judging the suitability of new trade arrangements between the EU and the ACP. Given the wide variation in views among ACP and EU actors, no effort is made to prioritise them. Further work is needed to evaluate the four options outlined above, overall and country-by-country, and to refine the criteria into a set to which both the EU and ACP can agree. Additional work is needed to:

- estimate the practical and economic implications of these options for ACP and EU economies;
- suggest instruments and intermediary measures that can be introduced to support trade development and especially a smooth transition to a new set of arrangements;
- consider how a global EC trade policy can take account of the needs and difficulties of the least developed and least competitive countries.

Chapter 5: ***Identifying New Approaches to Partnership***

Erosion of the Lomé Partnership

"Partnership has become a label devoid of meaning, which no longer reflects a true desire to cooperate on the basis of a shared political agenda; it has become the prisoner of short-term, bureaucratic aid management concerns" (African parliamentarian).

"Partnership" has been a central, almost magical notion in ACP-EU relations. The first Lomé Convention (1975) claimed to introduce a contractually agreed "partnership between equals", based on mutual rights and obligations. Both parties made long-term commitments to achieve common goals. ACP countries took a lead role in managing Lomé resources, with the EU playing a supportive role. A (rather complex) set of joint institutions was set up to structure different forms of dialogue and to promote effective implementation. This concept of partnership, together with the principles of dialogue, contractuality and predictability, add up to the so-called "Lomé culture."

Twenty years later, the Lomé partnership has lost much of its soul and practical effects. Its evolution has been compared with the move of a pendulum. Lomé I (1975) put the ACP partners clearly in the driving seat, with Europe adopting a "laissez-faire" attitude ("it's your money, you decide on its use"). Successive Conventions sought to integrate donor concerns into the partnership. Currently, the pendulum seems to have shifted further to the opposite extreme, with the EU adopting an increasingly "paternalistic" approach ("it's our money and we decide on its use").

The erosion of the Lomé partnership is confirmed by consultations in the field and at the ECDPM conference. Disillusionment and frustration are growing on both sides of the relationship.

On the whole, the ACP countries feel they are no longer Europe's preferred partners, in terms of both trade and aid. Conditionalities are replacing dialogue. Development models are imposed by the donor community, often with little consideration for local realities, implementation constraints, and differences between countries.

Efficiency concerns force the EU to reduce recipient roles in partnership and rather general "hands-on" approaches are applied to all ACP countries. Furthermore, complex and rigid procedures make it difficult for each country to benefit from available instruments and resources. Non-state actors in ACP countries are also frustrated and see Lomé as a "thing of the government." Such a monopoly position is seen as outdated and ineffective. There is furthermore a largely shared perception that the EU does not have a long-term vision on how to support ACP development.

At the EU level (the European Commission and Member States), it is argued that genuine partnerships are difficult to establish with ACP countries that have poor governance or administrative capacities. This leaves little room for transparent and efficient use of resources. It leads the Commission to adopt a more interventionist (substitution) approach. Its staff in the field observe that the Lomé partnership has become a "burden" rather than a development tool.

Most admit that the Commission lacks human and institutional capacity to properly assume its role in partnership. At the global policy level, the ACP are no longer at the top of EU geopolitical, economic and security concerns. The perceived limited effectiveness and impact of Lomé further compounds its legitimacy crisis. This erosion of EU interest for the ACP countries is heavily criticised by European (lobbying) NGO's. They see this downward trend as short-sighted and contradicting stated EU policies on poverty alleviation.

Towards a Modern and Business-like Partnership

This rather gloomy picture of partnership raises major questions for the EU and the ACP. Is partnership still a useful concept? Are the basic principles of the Convention and related procedures still valid or are they in need of a fundamental reform? How can the Lomé partnership be revitalised?

A valid concept in need of thorough redefinition ...

The adequacy of the term "partnership" for future Lomé cooperation is the subject of a lively debate. Some favour dropping it altogether, arguing that it makes little sense to keep alive a myth of an "equal partnership." Others warn that such a move may reduce cooperation to mere "charity." They argue that there is nothing wrong with the basic principles of the Lomé partnership (i.e. recipient responsibility, dialogue and predictability).

The problem is rather with the application of these principles. A partnership cannot be assumed to exist simply because a contract has been signed; it needs to be achieved rather than declared. With hindsight, one could argue that the implementation of the Lomé partnership was based on too many assumptions, including the existence of common interests and shared objectives, well-functioning and accountable governments in ACP countries, EU preparedness to tackle internal inconsistencies, and capacities in both the ACP countries and the Commission to effectively manage Lomé.

In addition, Lomé partners have largely failed to adjust the Convention to major changes in the international policy environment (such as shifting views on the role of the state; participation of non-state actors) and to the new requirements of development cooperation (governance, accountability, transparency). As a result, the Lomé partnership has become obsolete in many respects.

Against this background, partnership appears to be a valid form of cooperation, but its rationale, elements and modus operandi need to be fundamentally reviewed. This means tackling pervasive implementation problems on both sides of the relationship and modernising the Lomé partnership.

... based on detached analysis of current bottlenecks

The next step is to identify the main shortcomings of current partnership approaches. Five major factors can be identified:

- *Weak political foundations.* When the first Lomé Convention was signed, there were strong historical ties and perceived mutual interdependencies between Europe and the ACP countries. This no longer holds true. Current partnership is primarily concerned with mobilising, spending and accounting for aid. In such a restrictive interpretation, the focus is on "bureaucratic control" rather than on the "substance" of cooperation. In the words of an ACP participant: "there can be no partnership in the absence of a sound political basis for cooperation; it becomes a mere form of assistance with donor agencies inevitably in the driving seat."

- *ACP and EU cohesion.* It takes "two to tango" and it is not evident that the ACP and EU groups are suitable dancing partners. While there may be good reasons to keep the ACP group together, ACP solidarity also has a cost. Several ACP respondents admit that the group is simply "too large and too heterogeneous" to broker a deal with the EU that suits the needs of the different ACP partners. A similar situation prevails at the EU side. An increasingly fragmented Commission has to cope with 15 Member States, each with different perceptions on development and the specific role of the Commission. Not surprisingly, little progress has been achieved in the field of coordination and policy coherence.

- *Balance and reciprocity.* Finding a "match" between recipient needs and donor priorities is a problem in most partnerships. Either-or approaches offer no solution. Donor-driven approaches look tempting, but will fail without recipient ownership and participation. Promoting democratic reform, for instance, can be a shared objective of EU-ACP cooperation. However, as an African participant observes: "it makes little sense to see democratisation as a 100 meter Olympic sprint; each country should be given the chance to develop its own system of democracy." At the same time, there is nothing wrong with donors putting forward their own objectives and priorities. This is often a precondition for continued support by European tax payers. The Lomé partnership still has to find a "break-even" point where recipient needs can be reconciled with donor priorities in a mutually acceptable way.

- *State monopoly.* The overwhelming consensus is that the Lomé potential has not been fully tapped because it depends too heavily on the state. This dependence prevents other actors (the private sector) to assume their roles in development (on the basis of the subsidiarity principle). Particularly in countries with weak and unaccountable governments, this is a recipe for failure. Also at the European side, there is scope to partly "de-bureaucratise" the management of development cooperation programmes.

- *Lack of appropriate implementation strategies.* Defining an enlightened set of basic principles is a necessary, but not sufficient step to ensure effective implementation. In the view of many practitioners, the Convention lacks a clear operational framework, adapted to the growing heterogeneity of ACP countries and the capacities of the European Commission. For instance, giving a lead role to ACP countries is a necessary, but not sufficient condition to make partnership work. These basic principles need to be translated into clear operational systems that can be adapted to different local conditions and capacities.

Building Blocks of a Modern Partnership

How can a new culture of partnership be developed? What are the constituent elements of a more mature and efficient partnership? What needs to be dropped, safeguarded or added to the current Lomé culture? In this section, we review some of main options raised during the consultation process.

Give partnership a solid political basis

Future ACP-EU cooperation will have a more political character. Human rights, democracy and good governance are now essential elements of the partnership. The EC sees the promotion of the "rule of law" as a key development objective. "Politicisation" is likely to increase as development cooperation is more strongly shaped by domestic economic conditions and changing foreign policy and security concerns rather than by the needs of developing countries.

The winds are also changing on the ACP side. Dissatisfaction with current aid approaches and fear for the future fuel the search for a new political partnership with Europe. This is gradually leading to a split within ACP countries. Those resisting change are coming under pressure as was shown at the Joint ACP-EU Assembly in Namibia (March 1996) where ACP countries supported a resolution condemning the Nigerian regime.

These changes are promising. They suggest that a 'new deal' can be brokered. However, the ACP argue that this requires improved dialogue. Current approaches are more like political dictates than agreements negotiated between equals. Such approaches do not allow for serious consideration of local political realities, home-grown alternatives to policy reform, themes important to the ACP, donor inconsistencies and double standards. To move forward, the process of ACP-EU dialogue needs to be refined (see Box 5.1).

Box 5.1: Refining the ACP - EU Dialogue

- create a real political dialogue based on clear definitions of shared political objectives and mutual interests;
- open political dialogue to non-state actors;
- use partnership to arrive at mutually binding commitments (rather than unilaterally imposed conditionalities);
- define, on a pragmatic basis, appropriate role divisions between partners;
- revamp the joint institutions -- which many view as having become "jamborees" rather than policy-making forums;

Match recipient needs with donor concerns

"Donor agencies have a major role to play in promoting serious macro-economic policies and governance in weak ACP countries. In any type of partnership, realistic conditions should be discussed and jointly agreed upon. If, for any reason, promises are broken, donors have the obligation to withdraw their resources" (Representative from African civil society).

Achieving a subtle balance between recipient responsibility and donor accountability is the key to a "mature" partnership. Many ACP respondents argue that "the best partnership is to be found where there is maximum overlap between recipient aspirations and donor expectations."

The Lomé partnership has not been very successful in finding this balance. Recent reforms have accommodated legitimate donor concerns. Yet in the process, the principle of "recipient responsibility" has been eroded too far. For instance, the EC tendency to substitute for defaulting governments is seen as a backward step into the realm of paternalism or even a "capitulation" to the real development task ahead.

A preferred option for future partnership relations that emerges from ongoing discussions can be summarised as:

- There can be no major discount on the principle of "recipient responsibility" in the name of short-term (aid) efficiency. Development is an internal process. Donors can act as agencies of restraint and can help to implement major reforms. But at the end of the day, no amount of external pressure can substitute for domestic responsibilities.
- It is perfectly legitimate for donors to put money where it can best be used. However, instead of reverting to old-style, donor-driven and control-oriented approaches, the Commission should adopt country specific approaches. Where real trust exists, a flexible and open-ended partnership could be agreed; if a mutually acceptable "matching" of expectations cannot be found, the EC should consider alternatives to partnership.

The evolution of articles 4 and 5 of the Lomé Convention (related to the objectives of development cooperation) is an example of this. In its current version (Lomé IV bis), the Convention proposes a match between ACP development priorities and those of the EU (as expressed by the Treaty of Maastricht). From a European perspective, it was argued that it was difficult to see how the Treaty's broad development objectives (sustainable development, poverty alleviation, integration of developing countries in the world economy, human rights, and democracy) could conflict with ACP interests, at least in terms of principles. The

real challenge is rather to develop new mechanisms to ensure a fair and balanced application of these principles.

Further work is needed to work out the modalities of such partnerships. Two steps are of paramount importance. First, to build capacity in ACP countries for partnership. This means creating conditions for them to develop their own ideas, plans and strategies. Targeted capacity building support to both public sector institutions and (autonomous) think tanks will help to ensure a more recipient-driven policy dialogue. Second, to delegate management authority to the field. This is a precondition for partnership approaches inspired by local realities rather than by official discourse.

Find alternatives to "aid entitlements"

"The continuation of partnership will depend on ACP preparedness to ensure a 'responsible management' of external resources provided to them" (EU official).

The Lomé culture of "aid entitlements" - based on five-year country allocations regardless of performance - is hard to reconcile with a modern and business-like partnership in which there is room to critically assess the recipient country's performance in fulfilling mutually agreed obligations.

The EU in particular argues that future cooperation should be based on performance. External support is there "to help those that help themselves." This calls for greater selectivity in the choice of partners and differentiation between "good performers" and "poor performers." The "end of the entitlement culture" also means that new criteria for aid allocation need to be defined. This raises major questions with regard to substance and process.

With regard to substance, it is suggested that future aid allocations should be based on two major criteria: needs and merits. The 'needs' criterion should not be a major bone of contention. It would, for instance, make it possible to put poverty alleviation upfront in future cooperation. This is a shared political objective of both the Lomé Convention and the Maastricht Treaty. Furthermore, poverty levels can be 'measured' in a relatively objective way.

Allocating aid on the basis of 'merit' is more delicate. Merit can be assessed at different levels, including performance in managing (Lomé) aid, adopting sound macro-economic policies or ensuring 'good governance'. Major controversies are likely to exist on how this type of performance can be measured.

Options being explored are:

➤ **Absorptive capacity.** This option is heavily criticised as assessing ACP performance on the basis of quantitative targets (how much money has been disbursed?) rather than qualitative criteria (what results have been achieved?). Effective implementation is seen as a more promising yardstick.

➤ **Economic performance.** In this option, 'good performers' include those countries that take macro-economic reform seriously. For the EU, the proposed standards would probably be largely in line with those of the Bretton Woods institutions (albeit with greater attention to social and other "soft" dimensions of adjustment). ACP countries may have different views, especially with regard to the content, pace and sequencing of reforms.

➤ **Political performance.** While the concept of "human rights" is seen as an intangible criterion, there is less unanimity on "democracy" or "governance." Europeans contacted in this study prefer the concept of "responsible governance" -- which seems a more objective criterion than the highly normative concept of democracy. ACP representatives warn against too rigid definitions of any such criterion; they are also sceptical about attempts to measure, let alone to quantify political performance.

On process, it is essential that new criteria for aid allocation be jointly identified and applied. This requires independent research, extensive dialogue and institutional mechanisms to ensure proper implementation and monitoring.

Reach beyond government

"Bureaucrats should no longer be the main actors in future EU-ACP partnerships" (representative of African private sector)

The period when development partnerships are "reserved" for governments seems definitively over. This was confirmed during our consultation process. The overwhelming majority of ACP respondents feel that any new cooperation agreement needs to be based on a "pluralistic partnership."

Here again, the critical test is with implementation. Current Lomé partners have little experience in working with a wide range of actors. Changes of attitude and roles are required at different levels; the role of central agencies needs redefinition; new decision-making and management systems are required; and inter-institutional cooperation - rather than competition - to be promoted. This all requires new capacities at all levels. (see chapter 6).

Clarify European responsibilities in the new partnership

Partnership is a two-way street. EU demands for improved recipient governance, transparency and accountability would be more credible if similar standards are also applied to the donor partner. The challenge in the next years is to explore operational ways to restore reciprocity in partnership. Three main priority actions are:

➤ **Improved coherence.** If taken seriously, this debate opens a huge and complex agenda. Greater EU coherence can be achieved at the level of EU procedures, cooperation policies and instruments (between aid and trade). It calls on the Commission to clarify its specific role and added value (compared to the 15 Member States). Perhaps the most difficult area is coherence between different EU policies affecting developing countries (agricultural policies for example).

➤ **Support in international fora.** It is generally agreed that the EU could do more to defend the interests of its ACP partners in the WTO and the Bretton Woods Institutions where the EU is a heavyweight. However, the primary responsibility remains in the ACP group itself which, so far, has done little to ensure effective representation in key decision-making fora outside Brussels.

➤ **Debt.** The message is clear: the development prospects of the ACP are bleak in the absence of a solution to the debt problem. This structural impediment should be integrated in a future partnership agreements. The EC is expected to put this item on the agenda of the Member States.

Building a New Partnership

Give Partnership a Solid Political Basis

Match Recipient Needs with Donor Concerns

Find Alternatives to Aid Entitlements

Reach Beyond Government

Clarify European Responsibilities

Chapter 6: **Opening Cooperation to New Actors**

An Inevitable Evolution

"Future ACP-EU development cooperation should no longer be the reserve of central agencies, but be widened to actors that have been marginalised hitherto" (African private sector representative).

This is a key message that emerged during our consultation process. While it is certainly true that the new partnership between Europe and the ACP countries will be cemented at government level, it will need to be guided, both in its spirit and in the way in which it is put into effect, by institutional pluralism and cooperation between different actors in the development field. This process of extending European cooperation to non-state actors has been made inevitable as a result of:

- *Internal processes of change.* In most ACP countries, important political and economic reforms have been introduced over the last decade. The "rolling back" of the state has created new opportunities for participation in the political process by the private sector and by all the various constituents of civil society. These "new" actors now demand that they be associated in the ACP-EU development cooperation process;
- *Participatory development.* This concept has been around for a long time, but is now increasingly accepted as the centrepiece of development partnerships. This has fuelled the search for new modalities of aid delivery (such as decentralised cooperation) that may bring cooperation closer to the needs of people. Donor agencies, including the EC, are slowly adapting their attitudes, management systems and procedures accordingly;
- *Concerns to get "value for money."* Public opinion in Europe is increasingly critical of the use of aid resources. Accountability demands are putting pressure on policy-makers and aid administrators. Confronted with the failure of the "developmental state" (mainly in Africa), they are looking for other partners that can ensure both efficiency and accountability. This explains, for instance, the spectacular growth in the number of (southern) NGO's and the levels of funds accruing to them.

Great Potential to be Tapped

During the consultation process, it was systematically argued that more participatory approaches - both in national policy-making as well as in the use of Lomé resources - could yield major development benefits:

- *More realistic policies.* During the past decades, the limitations of a highly centralised and bureaucratic approach to development policy management have become evident. Bringing other actors into the policy formulation process, may help to define policies that are better embedded in the social and economic reality of the countries concerned.

- *Complementary roles.* The emergence of new actors may lead to a better division of tasks and a search for complementarities (i.e. new public-private partnerships). However, this will require a redefinition of the role of the state. Many feel the pendulum has shifted too much towards a "minimal state." In their view, no development can take place in the absence of a functioning state apparatus -- as is illustrated in those ACP countries where the state is in danger of collapse..

- *Enhanced ownership and accountability.* In general, top-down approaches have not enhanced a sense of ownership among aid beneficiaries, nor have they fostered transparency in the management of funds. The opening-up of Lomé may facilitate a more efficient allocation of resources while reducing the problems of aid absorption. The closer the accountability is brought to the beneficiaries, the more likely it is that value for money will be achieved.

Beware of the Risks

One should not underestimate the complexity of the process of transition to new forms of participatory and decentralised cooperation. Many people stress the danger of too radical a change. The decentralisation of development cooperation should not be regarded as a panacea for all ills. It will not lead automatically to a greater level of either participation or transparency. The following risks have been identified:

- *The danger of ignoring the state.* It would be unwise for the EU to simply circumvent central government and to distribute resources at random over a wide range of non-state actors. First, there is little support for donors taking on too prominent a role in deciding on their own with whom they want to work. This

raises major issues of sovereignty and political accountability (particularly in

- unbridled privatisation and the dismantling of the state would be just as great an error as centralisation - as illustrated by the experience of East Asia. Development from below requires development from above. Whilst the private sector and civil society may be able to complement the role of the state, they cannot replace it. If anything, future cooperation should aim at strengthening the ability of the state to play its redefined role in development. In some parts of Africa, what is at stake is nothing less than the "reconstruction of a viable state."

- *Confusing money with substance.* Why is the involvement of non-state actors sought in European cooperation? Is it just a question of shifting Lomé funds from the state to non-state actors? Is it merely geared to re-allocating responsibilities for the implementation of development programmes? Or is the purpose rather to promote an open and transparent debate between different local actors on how to best utilise EU support?

- *Loss of control.* Major concerns exist as to the danger of transferring funds to non-state actors without also setting up appropriate control and monitoring systems.

- *Lack of capacity.* One should not overestimate the ability of decentralised actors to participate in the development process and to manage development cooperation programmes. Swamping non-state actors with huge amounts of aid is a recipe for failure. In the case of the private sector, this would create unfair competition and might kill the very dynamics that make the private sector successful. Capacity constraints also exist at the European Commission. Adopting a more participatory approach implies a profound change in donor attitudes, management, procedures and organisation.

In the remainder of this section, we look more detail at what this "opening up" of

Box 6.1: Preconditions for Success

- Define the institutional role played by governments in the new system.
- Develop new institutional arrangements for dialogue, decision-making and implementation.
- Guarantee the decentralised actors a certain degree of financial independence by introducing new financial instruments to which these actors would have access.
- Ensure that non-state actors are well organised and supported by strong representative bodies.

ACP-EU cooperation might mean for the private sector and civil society organisations.

Opening Cooperation to the Private Sector

"The EU can help the private sector both directly and indirectly to become an important stakeholder in the socio-economic development of ACP countries" (Caribbean private sector representative).

The revised Lomé Convention puts increased emphasis on private sector development and investment promotion in ACP countries. These priorities reveal a growing consensus among ACP states and the EU on the essential contribution of the private sector to development. The "triumph" of the free-market economy and the globalisation of trade, coupled with the tremendous social problems faced by most of the ACP countries, require the presence of a dynamic (indigenous) private sector that can create employment and wealth.

The underlying policy agenda is quite impressive. Private sector development implies, amongst others, a supportive environment, the right incentives, new public-private partnerships, a wide range of new institutional arrangements and major investments in building entrepreneurial and management skills.

The primary responsibility for bringing about these changes lies in the hands of ACP governments. This is repeatedly stressed by ACP non-state actors, who are generally very critical of the attitudes of their governments. In their view, the private sector is still too often perceived as "an enemy" rather than "an ally" in the development process.

Many ACP governments have yet to create the enabling and friendly environment to foster private sector development. Or, in the words of an African private sector representative: "ACP countries must help themselves before seeking the help of others." The EU can play a catalytic role in this process, provided it fundamentally reviews its strategies, approaches and instruments in favour of private sector development. The following priority actions have been suggested:

Increase understanding of the private sector

"Where it refers to the private sector, the Convention is full of everything on paper but very vague in terms of concrete and actionable policy proposals" (African private sector representative).

This is the first step in the process of "reaching out" to private sector operators. A clear and detached analysis of the current state of affairs reveals a simple truth: the private sector feels "completely marginalised" in ACP-EU cooperation. The main frustrations of the ACP private sector towards successive Lomé Conventions can be summarised as follows:

- *Lack of participation in policy dialogue.* ACP governments seldom provide opportunities for the private sector to participate in formulating national development policies or in setting priorities for the utilisation of Lomé funds. There is hardly any dialogue between the private sector and the EU (perhaps with some exceptions like the dialogue established through the Caribbean Council for Europe). As a result, private sector interests are generally poorly reflected in ACP-EU cooperation. Adequate support measures and incentive packages are found wanting. Potential growth areas (such as tourism in the Caribbean) do not receive the attention they deserve. Political considerations may supersede efficiency criteria in allocating Lomé resources (for example, in the use of STABEX funds to reduce budgets deficits).

- *Unclear EU policies.* The rationale for EU support is neither clearly spelt out nor well understood. Is it to assist ACP firms to integrate in the global economy, to enhance the competitiveness of ACP enterprises, or to encourage the emergence of an indigenous industrial capacity? Or is it primarily geared at helping EU firms identify investment and market opportunities? In the field, people observe a lack of policy coherence at the EU level. Lomé resources are spent over a longer period to support cash crop production while later on these products are denied preferential access to EU markets.

- *Centralised management.* ACP private sector actors fail to understand why "bureaucrats should have the responsibility to manage Lomé funds geared at private sector development." This complicates access to the Convention, renders transparency elusive and creates much red tape. All of this acts as a major disincentive for private operators to participate in the life of the Convention.

- *Inappropriate (use of) instruments.* In several ACP countries, examples are given of an efficient utilisation of existing Lomé instruments in support of the private sector (the coffee industry in Uganda, the horticultural sector in Kenya). On the whole, however, the Convention does not really provide a coherent, diversified and flexible set of policies and instruments, adapted to the specific

needs of the private sector (who requires a stable environment; access to credit and venture capital, development banks for small and medium enterprises, supportive business infrastructure, and a global investment protection and promotion agreement). No specific resources are allocated to the private sector. The suffocating bureaucracy at both ends is a major obstacle. The potential of the EIB and the CDI has remained largely untapped -- partly as a result of the way in which these organisations are currently structured and managed.

- *Lack of information.* It is difficult to obtain relevant information on the opportunities created by the Lomé Convention for private sector development. Responsibility for this is shared. In most countries, the private sector is not sufficiently organised to find its way to the Lomé Convention. ACP governments are often blamed for "confiscating" information. Many feel that the Commission could have done more to disseminate information, either through user-friendly manuals or through awareness creating seminars.

Create mechanisms for dialogue and consultation

"The attitude of government must change. If it is not willing to help the private sector, there is not much that can be done" (African private sector representative).

This is a prerequisite in establishing new public-private partnerships. By involving the private sector in a constant and fruitful dialogue with their respective governments, it will be possible to gradually reduce the "historic mistrust" between the two sectors. This, in turn, would facilitate information flow, communication, participation in national policy formulation and, related to this, a "fair and equitable" involvement in the programming and management of Lomé resources.

To this end, a new set of (formal and informal) institutional arrangements for dialogue and consultation has to be designed. The formula of a "Social and Economic Council" was proposed as a possible structure to bring together the public and private sectors together. It has a relatively sound track record in the EU and can be adapted to the ACP environment. Experience in some ACP countries suggests that for such a Council to work, the governance conditions must be appropriate. Different fora could be organised under this umbrella. Membership would be open to different types of private sector actors. Other stakeholders (trade unions, civil society organisations and academics) could be co-opted. This type of "interface structure" would also provide a platform for a (tripartite) dialogue with the EC (in programming national and regional indicative programmes). Linkages could also be envisaged with counterpart organisations in

the EU. In the case of small island states, such consultation mechanisms could also be established at the regional level.

Provide direct support

It is now widely agreed that a "bureaucratic approach" to private sector development makes little sense. The logic, interests and dynamics of the public and private sectors are simply too different. For instance, private sector actors operating in the market cannot afford the luxury to engage in cumbersome and time-consuming applications for project funding. If private sector development is to be supported in future ACP-EU cooperation, more decentralised management approaches are needed, combining efficiency with functional government involvement. Different options can be envisaged:

➤ ***Manage decentralised funds within a national or regional indicative programme.*** This option builds on the premise that there is a genuine policy dialogue between the public and private sectors on development strategies and related priorities in allocating external (EU) support. In this case, it should also be possible to delegate the management of some of the agreed programmes to private sector actors. This option has two major advantages. First, it frames support measures to the private sector in a national policy framework. Second, it allows for a pragmatic division of management responsibilities based on comparative advantages. Experience indicates that this formula can work if conditions are appropriate.

➤ ***Direct funding.*** This option proposes the creation of a separate window in favour of private sector development. A percentage of the resources allocated to a country would be reserved in a "private sector fund", under the direct management of the EU and its private sector partners. Many ACP non-state actors support this solution. It reflects their distrust of government interference and their desire for autonomy, including in their dealings with the Commission. While this option may ensure greater flexibility and efficiency, it also carries risks. Direct funding can undermine the legitimacy of the state. There is a danger of supporting a multitude of uncoordinated activities, delinked from a national policy framework. It may increase rivalry over access to funds and attract unqualified (and unaccountable) private sector operators. Furthermore, the private sector in most ACP countries is poorly structured to enter into this type of direct partnerships. The Commission may find itself in a difficult position, both at policy and operational levels (in setting priorities or in selecting "credible partners").

Box 6.2: A Decentralised Approach to EDF Projects

The adoption of a decentralised approach in relation to certain EU projects (such as the Export Development Programme in Zambia) appears to generate encouraging results in the field. In the Zambian case, although the programme is supervised by a para-public body (the Export Board of Zambia), the administration of the programme has been delegated entirely to private sector operators (i.e. manufacturers' associations) who are members of the Board, and are solely entitled to decide on the allocation of financial resources (i.e. credit facilities) and the utilisation of technical assistance.

Those responsible for the programme at a local level claim that its success clearly lies in the absence of interference by government in the day-to-day administration of

➤ ***Private sector trust funds.*** This idea is to allocate resources to independent intermediaries, usually established as national (public) institutions. Funds would be dispensed within the context of a national policy to organisations applying for resources on a competitive basis. Authority would be given to a board of trustees, representing the different parties at stake (governments, private sector, donor agency). This option makes it possible to avoid some of the risks associated with direct funding while simplifying the participation of private sector. In the Caribbean, for example, it is planned to open a "private sector desk" at the Caribbean Development Bank. The desk is to be run by an independent foundation - a sort of trust fund whose management would be equally divided between government and private sector representatives.

Adopt flexible and country-specific approaches

Private sector development is a "catch-all" phrase. It usually embraces a wide range of actors, including the formal and informal sectors, large, medium and small enterprises and the foreign private sector (whose role is essential in bringing foreign direct investment and transfer of technology to sustain export).

Beyond this point, however, diversity reigns. Governance conditions, public policies, the overall institutional environment, the roles and capacity levels of the private sector all tend to differ from country to country. This calls for differentiated, country - or region specific approaches. This, in turn, has major implications for the design of adequate EU policies, implementation strategies and instruments in support of the private sector.

In many ACP countries, the prospects of a "smooth and gradual integration into the world economy" (Treaty of Maastricht, article 130u) are grim. If anything, marginalisation is the order of the day. In these countries, support strategies will, inevitably, be rather low-profile and incremental. The focus will probably be on improving the political environment and overall capacity for (small and medium) private sector development.

The EU could provide "indirect support in the form of conditionalities whereby the private sector is allowed to play a more meaningful role in the economy." In small Caribbean islands dependent on bananas, the task is to help restructure the industry to ensure a greater complementarity between trade and aid, and to support the emergence of a viable small business sector. In the more advanced ACP economies with a highly developed private sector (like Mauritius), it will be essential to "speed up the integration of these economies in the globalisation processes through international trade and foreign direct investment."

Develop capacity at all levels

"It takes time to create an entrepreneur, especially in countries where there is not a tradition of risk taking and private sector initiative" (Caribbean private sector representative).

The success of any attempt to widen cooperation to the private sector will depend on the preparedness of the different actors involved to develop new institutional and human capacities.

***Box 6.3: A Response to Organisational Problems:
the Enterprise Network***

The example of the Enterprise Network in West Africa bears witness to the role which groups representing private interests may play in a regional perspective. Having identified a series of priorities for supporting the development of the private sector in the region, the Network set itself the short-term goal of improving the capacity of its members (who are organised in the form of national platforms) to participate in the national political dialogue.

In the medium term, and in the context of a European cooperation policy that is geared towards a greater degree of decentralisation, the Network wishes to become

First the private sector has to put its act together if it wants to be treated as a serious partner. Depending on country conditions, the institutional agenda may comprise the following:

- building leadership qualities in the private sector (so it can assume its social role in development);
- developing representative bodies which can promote the interests of the private sector (in all its diversity) towards governments and donor agencies;
- creating new institutional arrangements to channel EU support;
- designing effective systems of monitoring, control and accountability;
- improving analytical capacity and negotiating skills;
- investing in human resource development and entrepreneurship
- strengthening the capacity to link up with European private sector partners.

Second, capacity building has to take place in the public sector. Rather than dismantling the state, it is necessary to develop new institutional and human capacities to facilitate the management of reform and the functioning of a market economy in the context of the overall development process. New skills are also needed to communicate, participate in dialogue and arrive at joint decision-making with private sector actors.

Third, the Commission needs to invest in capacity building, with a view to designing a more coherent package of policies and instruments in support of the private sector and of managing the field programmes in a decentralised and flexible way. This will require a strengthening of its own internal capacities (through the recruitment of specialists from the private sector), both at the level of the Delegations and in Brussels (where responsibility is scattered over a number of different units).

Open up to the Private Sector

Increase Understanding of the Private Sector

Create Mechanisms for Dialogue

Provide Direct Support

Adopt Flexible and Country Specific Approaches

Collaborating with Civil Society

Distant stakeholders ...

"Our government simply refuses to involve NGO's in EU cooperation. Several requests to get at least a copy of the National Indicative Programme were turned down" (African NGO representative).

Civil society organisations (rural and village groupings, co-operatives, NGO's, trade unions, human rights associations, etc.) are another set of actors that are pressing to become full-fledged partners in ACP-EU cooperation. They want to participate both in the implementation of the current Lomé IV Convention and in the debate on the future of this cooperation agreement.

They too, are frustrated with the current state of affairs. Despite much rhetoric about "people-centred and participatory development", most ACP governments are reluctant to involve civil society in the life of the Convention. This "top-down" approach is also perceived to prevail in regional organisations involved in EU cooperation. Structures for dialogue at national level are found wanting. There are few opportunities for civil society to participate in the Convention's joint institutions. Promising attempts are being made to "open-up" the ACP-EU Joint Assembly to non-state actors, but this is a far cry from establishing a real political dialogue between different stakeholders. The marginalisation of civil society can be illustrated with a simple fact: "halfway through the programming exercise for the 8th Development Fund, the EU and ACP states have taken major decisions on resource allocation and on priority programme areas without any efforts to either inform or consult with non-state development actors."

Not surprisingly, the EU is criticised by many non-state actors for not practising what it preaches. Admittedly, efforts were made to create special schemes for them. Already under Lomé I (1975-80), community organisations could benefit from micro-projects. The scheme may have been successful in many ACP countries, but one should realise that micro-projects represent only a very small amount of total Lomé resources (2.5% under Lomé III). Also in the 1970's, the Commission established the "co-financing" scheme which paved the way for intensive cooperation between southern NGO's and their northern counterparts. While the funds accruing to this scheme have increased spectacularly, this cooperation mainly focuses on implementing projects at grassroots level -- a task for which civil society organisations are perceived to have a comparative advantage. However, southern NGO's in particular, want to be more than simply "cheap delivery systems" for the implementation of projects. They also question the need to channel this aid through European NGO's.

One of the main innovations of the Lomé IV Convention (1990-95) was the introduction of "decentralised cooperation." It aimed to make a wide variety of de-

velopment actors eligible to use Lomé resources. It is claimed that decentralised cooperation reflects the primary objectives of EU development cooperation (promotion of democracy, participatory development and poverty alleviation). However, here again, practice turns out to be quite different. Little progress has been made in implementation, mainly because of a lack of information, political resistance from ACP states, and poor mechanisms for follow-up. During the mid-term review of the Lomé IV Convention, there was much insistence from the European side to broaden the opportunities for non-state actors to (directly or indirectly) benefit from Lomé. Attempts were also made to create space for upstream participation of decentralised actors in the policy and decision-making processes of ACP-EU cooperation. This mandate has not really materialised. Marginal openings were obtained for non-state actors to participate in the formulation and implementation of Lomé, let alone to receive direct support. There has been no review of the monopoly position of central government agencies in allocating Lomé resources.

The net result is a striking paradox. While it is increasingly acknowledged that civil society organisations have a critical role to play in development, particularly at community levels and among the large number of disadvantaged and vulnerable people, they are treated as "secondary actors" in ACP-EU cooperation.

... *with great expectations* ...

"What we badly need is a Lomé for the poor" (European NGO representative).

Most civil society respondents feel that they have a major input to make in the redefinition of ACP-EU cooperation. Through their experience in development work, civil society organisations have accumulated a body of knowledge and expertise on how to "reach out" to the poor. A more effective and systematic use of this know-how may help to achieve stated ACP-EU development objectives. By associating them with national policy-making, it may be possible to design a different set of socio-economic policies and home-grown adjustment programmes that are better adapted to local realities and the needs of the "excluded" (women and youngsters).

What do civil society organisations expect with regard to the future? What changes would they advocate if the Convention would be radically redesigned? Three major expectations have been put forward:

➤ **Improve access to funds.** For most civil society organisations, this is the top priority. They want their "legitimate piece of the cake" from the Lomé resources under the 8th EDF. The experience thus gained would help them to build capac-

ity to participate in the "Beyond-Lomé IV debate."

Two main modalities to channel these resources are proposed. A majority of non-state actors favours direct funding. They see this as the "safest and most efficient channel", provided "new criteria are developed to ensure the selection of legitimate, credible and accountable organisations." The popularity of this option provides a clear indication of both their mistrust towards governments and their desire for autonomy. Others believe the way forward is rather to expand and refine the application of "decentralised cooperation." Ideally, this approach puts civil society organisations in the driving seat while promoting linkages with other actors (local governments) and central government policies. This is seen to harbour more promise than to distribute EU resources among a multitude of civil society organisations, working in isolation.

➤ ***Forge constructive public-private partnerships.*** This message is primarily heard in ACP countries where relations between government and civil society are relatively open and collaborative. In these countries, non-state actors argue that it would be a mistake to marginalise governments. What is at stake is rather "to redefine the kind of intervention that is of the realm of governments and the public sector." EU cooperation can help to foster synergies between the two sectors. According to Eastern and Southern African NGO's: "partnership and collaboration between responsible and committed public, private and civil sectors both within and between ACP countries, are the only way in which we can find solutions which benefit people and protect our countries' interests." In the near future, it will be critically important to find new ways and mechanisms to ensure this type of collaboration, at both the policy and practical levels.

➤ ***Put poverty alleviation first.*** This is the primary political aim that civil society organisations (including European NGO's and their networks) pursue in their advocacy work on Lomé. The focus on poverty alleviation opens a broad policy agenda. It means that civil society organisations need to wake up and to defend the best provisions of Lomé. It invites them to undertake serious studies that assess the possible impact of trade liberalisation for the poor (at various levels). It means putting more efforts into lobbying for a fair consideration of the social dimensions of adjustment and debt relief. Some NGO's go a step further and argue that what is at stake is to fundamentally challenge the neo-liberal ideology and related globalisation processes that are seen to create poverty in both the South and the North.

... but poorly equipped to participate in the beyond Lomé IV debate

It appears that civil society organisations have a long way to go before they can seriously participate in the rapidly evolving debate on the future of the Lomé Convention. It is a sad paradox. Now that the political barriers to their involvement are being removed in most ACP countries, non-state actors may find them-

selves unable to play a major role. Some of the main bottlenecks preventing their participation include:

- *lack of awareness.* Most civil society respondents admit that they had "no clue of what Lomé was all about." There is an overall lack of information and awareness on the basic features of EU development cooperation, the main policy debates, and the instruments, often including those specifically designed for civil society organisations (micro-projects, decentralised cooperation). The net result is a kind of "apathy" towards the Lomé Convention and the whole debate on its future.

- *Weak capacity.* In many ACP countries, civil society is rather fragmented, weak in organisational terms and poorly structured. Southern NGO's, for instance, are often young organisations, struggling to establish an identity or to keep their projects going. Few venture into advocacy work. Those who focus on lobbying tend to see other issues (influencing national policies, environmental or gender issues, social development) as more important than a "distant thing like Lomé." These organisations generally cannot mobilise the political and analytical "critical mass" needed to make a major dent in the discussions.

- *Limited avenues for dialogue.* Civil society organisations have few well-established channels of communication and dialogue with their governments or with the different European institutions (Delegations, the Commission in Brussels, the European Parliament, etc.).

- *Fragile linkages with northern counterparts.* In Europe, the NGO community spends (a rather limited) part of its resources on advocacy work, including issues such as ACP-EU cooperation. This work is either organised at national level or through different European networks (NGDO Liaison Committee, Euro-Cidse, EEROSTEP, APRODEV) and thematic networks (WIDE, EURODAD). They put quite more effort into European development cooperation issues, often with little support from their member NGO's. On the whole, however, European NGO's have not really been able to fully associate their southern partners in the design and implementation of lobbying strategies. The "voice from the field" is too seldom heard in Europe. This tends to hamper the quality and effectiveness of lobbying work.

The message is clear: in the absence of information, internal capacity building, channels for dialogue and strategic alliances with northern partners, civil society organisations are unlikely to have much impact on the Beyond-Lomé IV debate.

Collaborating with Civil Society

Improve Access to Funds

Forge Constructive Partnerships

Put Poverty Alleviation First

Increase Awareness on Lomé

Strengthen Capacity

Provide Avenues for Dialogue

Build Links with Northern NGO's

Chapter 7: Improving the Management of Cooperation

Managing Lomé: An Impossible Task?

"Is it still worthwhile to go through all these lengthy and cumbersome procedures?" (ACP National Authorising Officer).

On paper, the Lomé Convention may be the finest and most complete instrument of North-South cooperation ever and the flexibility of the Lomé framework may have facilitated innovative approaches and successful programme implementation in many ACP countries. However, the reality is not always as rosy at the operational level. Practitioners on both sides are frustrated. They see a growing gap between the Convention's grand ambitions and the modest achievements on the ground. They have to work with an increasingly complex Convention, whose management requirements and procedures have been described as "a nightmare."

The signs on the wall are there. Large amounts of money remain unspent. There is generally a major time-lag between "commitments" and "disbursements", a trend that can even be noticed in countries with sufficient levels of administrative capacity. Long delays appear in different parts of the system (in programming, tendering and execution). Bureaucratisation is rampant. Several instruments remain largely unknown and therefore under-utilised (decentralised cooperation). Demotivation with regard to Lomé is a reality in ACP administrations and in the EU Delegations.

The message is clear: discussions on the future of ACP-EU relations should not only deal with the "big issues", but should also radically rethink the way in which aid is implemented and the many smaller pictures are managed. A broad range of questions needs to be addressed. How can a more simple and user-friendly cooperation agreement be designed? What instruments of the current Convention need to be preserved? How can coherence in the use of different instruments be improved? Is programming still a useful exercise? Should the system of "co-management" be retained? Is there a need for country-specific management approaches?

Consensus on the Main Bottlenecks

There is little disagreement on the main management problems that hamper effective implementation of financial and technical cooperation:

- *Inflation of the Convention.* Over the years, the scope of the Lomé Convention has expanded dramatically. Its volume doubled, as new principles and objectives were added -- reflecting evolving fashions in development cooperation, such as the attention for the environment and gender sensitivity. This inflation, however, did not reflect a consistent development strategy, nor was it in line with the management capacities at both the ACP and EU levels. "Digesting" Lomé is an intractable problem for many ACP countries. They tend to become increasingly dependent on (costly) EU technical advisors working directly for the ACP government -- with the impending risk of poor ownership.

- *Focus on instruments at the expense of strategy.* The first Lomé Convention captured peoples' imaginations with its wide range of (innovative) instruments. Successive re-negotiations were primarily concerned with instrumental aspects (refining the application of the trade provisions, reviewing procedures, creating new facilities). In contrast, very little attention was given to the more fundamental debate on strategies. This proved to be a recipe for bad development assistance. The relatively poor record of instruments such as STABEX and the trade preferences illustrate this. Instruments are the means to ends, not the ends themselves.

- *Proliferation of schemes.* With each new negotiation, the range of instruments and financial schemes has widened. In a single country, the Lomé package may comprise a national indicative programme, a regional indicative programme, financing under STABEX, SYSMIN and the Structural Adjustment Facility, a range of small schemes (decentralised cooperation, micro-projects) and, in some cases, food, refugee and disaster aid. For some, it is now an "impossible mission to use such a panoply of instruments in a coherent manner."

- *Poorly-defined management responsibilities.* Under the "equal partnership" of the Lomé Convention, responsibilities are "shared." In practice, this often makes it difficult to know who is responsible for what. There is now very little support for the system of "co-management" on both sides. It is perceived as a major cause of delays in implementation (as noted in the Post-Fiji study). In ACP countries with well-functioning governments and sufficient capacities, it is resented as "paternalism." In countries with poor governance or administrative capacities, "co-management" turns out to be a fiction. Another major problem is the concentration of power in the hands of the National Authorising Officer. This is not the best way to promote a transparent use of resources. Non-state actors complain that the National Indicative Programme is often "a top secret document."

• *Centralisation and obsession with control.* Concerns for "efficiency", "disbursements" and "outputs" have led to highly-centralised Commission services as well as a preference for standard approaches and procedures. This has fuelled bureaucratisation in the application of Lomé procedures. It makes it difficult for Delegations to respond effectively to the different realities in the field. In addition, donor agencies are under great pressure to account for every penny spent. This has led to a real (financial) "control obsession" within the EC. Staff in one Delegation comments that "power [in Brussels] seems to be primarily in the hands of accountants, most of whom have never lived in a developing country and who have defeated the innovative spirit that existed in DG VIII in the early 1980's when development-oriented Commissioners ran the place."

• *Capacity constraints.* It is now widely agreed that both parties do not have the required capacity to play their respective roles in the Lomé partnership, nor to ensure a proper implementation. However, serious remedial action is yet to be taken.

Priority Actions

Most of these bottlenecks have been around for a long time. Previous reform attempts apparently failed to properly address them. This suggests that bolder approaches are required to achieve real progress. Both the ACP and the EU have an interest to move beyond "business as usual." The credibility of development cooperation is at stake.

Design a user-friendly agreement

*"We must be more practical and produce a more compact instrument"
(ACP Ambassador).*

For most people involved in Lomé, a simple, leaner and user-friendly agreement is needed to make cooperation more effective. Some even argue that "a one-page agreement would suffice, if it contained the basic terms of cooperation."

This is a tall order. However, the underlying principles are clear. The key words are clarity, realism, accessibility and transparency. Clarity means unambiguous statements on the political basis of cooperation (the mutually agreed rules of the game). Realism is necessary to define objectives and targets that are not over-ambitious. Accessibility is needed to open EU cooperation to non-state actors (in South and North). Putting transparency upfront calls for a pragmatic division of management tasks between partners.

Reverse the logic: Put strategy first

In the view of the Commission's Reflection Group on "Partnership 2000", it makes little sense to have yet again a major discussion on the "nitty-gritty" aspects of instruments and procedures. This type of "mini-engineering" approach to reforming Lomé is inappropriate, taking into account current geopolitical realities and the legitimacy crisis of (European) development cooperation. It also fails to provide an appropriate response to the development needs of ACP countries. In redesigning Lomé, it is important to get "back to basics." This means giving priority to strategy before instruments and procedures. It calls for a different logic in defining and implementing cooperation programmes.

The Commission therefore advocates a new approach in which the main development constraints and challenges for the different ACP countries and regions are first identified, possible response strategies are then set out, detailing the specific contribution the EC can provide and only then are the implementation strategies and instruments selected.

This approach opens new perspectives for ACP countries as well. It makes it possible to put their (differing) development needs upfront. It allows for a serious discussion on the added-value of European development cooperation (compared to that of bilateral and other donors). It may also help to identify the most suitable "package of instruments" tailored to the needs of different ACP regions and countries.

Ensure coherence between instruments

In theory, there is nothing wrong with Lomé having a wide range of instruments. Diversity provides flexibility and allows for integrated approaches based on a combination of different instruments. In practice, however, few ACP countries really succeed in utilising the Lomé potential in a coherent and integrated manner. Efforts were made in recent years to address this problem, but without much result.

Some of the options to make future ACP-EU cooperation more coherent are:

➤ ***Reduce the number of instruments.*** The preferred victims of such a reduction process are the different financial schemes under the non-programmable resources and the "incentive allocations" (such as support for institutional and administrative reform). In the original concept, the National Indicative Programme (NIP) was the cornerstone of Lomé cooperation. Traditionally, a major part of the European Development Fund was pre-allocated (as a form of entitlements) to the NIP. Over the years, however, the EU sought to increase its leverage on the

use of Lomé resources by putting more money in special funds, reserved for countries that comply with eligibility criteria. While this may have satisfied donor accountability requirements, this "compartmentalisation" of Lomé has complicated day-to-day management.

Many EU officials feel it is necessary to resist the tendency to build more compartments into future agreements. If anything, the number of schemes should be drastically reduced. Others disagree with this proposal. They favour a variety of performance related funds that are allocated to "those who deserve it on a first-come first-serve basis."

➤***Restore the centrality of the programming exercise.*** This is undoubtedly the preferred option for many interviewees. They argue that greater coherence is linked to the centrality of the programming exercise as the basis for aid allocations at the national level. Instead of spreading the money over a wide variety of separate funds - each with its own procedures - it is preferable to pull these resources together and to integrate them in national development policies and plans. This was why NIP's were created twenty years ago. The ACP view is that the NIP remains as valid an instrument as ever before. It puts the initiative in the hands of the developing country. While ensuring predictability, it is also the instrument "par excellence" for policy dialogue.

At first sight, this proposal looks highly attractive. On second analysis, however, it appears that a successful application of this option depends on prevailing local conditions. It can work in ACP countries that have well-functioning political and economic management. If real trust between the partners exists, the European Commission should restore the centrality of the programming exercise and adopt a much more flexible approach in deciding on the use of Lomé resources. Depending on the specific needs of the country, it should be possible to use the NIP to coordinate all EC funds for investment, balance of payments aid, budget aid or debt relief.

This option seems less realistic in ACP countries confronted with political turmoil, serious governance problems or general breakdown of administrative capacity. It is hard to see how these countries can be expected to genuinely identify their most pressing development needs, to set appropriate priorities and to engage in a dialogue with the Commission on a national programme. Concentrating money in the hands of unaccountable governments is no longer acceptable in Europe. Direct budgetary support cannot really be envisaged here. In these countries, a different type of partnership will have to be nurtured, based on a different set of instruments (for example, a small indicative programme, focused on a limited number of sectors and subjected to high profile conditionality).

➤**Break the Convention into different parts.** This option aims to achieve greater effectiveness and coherence by breaking the Convention into different funds, on a functional basis, to be managed independently by different actors on the basis of their comparative advantage (applying the principle of subsidiarity). Instead of having one Lomé fund in a given country - managed exclusively by the state - there would be several funds. One such scenario is to have three major funds: a government fund (much along the lines of current NIPs to ensure the execution of the government's most functions), a private sector fund, and a poverty alleviation fund (primarily directed to civil society organisations).

Invent new management approaches

The following options have been proposed to overcome long-standing bottlenecks in day-to-day management of successive conventions:

➤**Find alternatives to co-management.** As mentioned before, there is a large consensus that "co-management" is a dead-end street. Here again, in searching for alternatives, country differentiation seems to offer a solution. In ACP countries with well-functioning governments, the Commission no longer has an excuse to adopt highly centralised management approaches. A new system needs to be devised that gives "full" responsibility for managing Lomé resources to the local partner while ensuring result-oriented donor control. Co-management also makes little sense in countries with poor governance or administrative capacities.

Different options can be envisaged here, according to local conditions. In some cases, the EC may conclude that no partnership relation can be established. In other countries, it might decide to take over part of the management responsibilities from the ACP partner -- with the related risks of aid dependency. If capacity constraints are the main problem (as in small Pacific islands), the provision of institutional support may help to create the necessary conditions for effective implementation of the development programmes by the ACP countries themselves.

➤**Review the role of the NAO.** While recognising the role of the NAO as reference point and chief negotiator, it is generally felt that future ACP-EU cooperation should also allow inputs from other relevant ministries and from non-state actors. One way of doing this is to organise structured forms of dialogue at the national level through steering committees with all the national actors and stakeholders (government, private sector, NGO's, researchers) to collectively decide on the use of Lomé funds. A similar structure exists in Côte d'Ivoire with the "Comité National pour la Gestion du Programme Indicatif National." This has been effective in identifying broad national priorities for EU cooperation. In this

approach however, the management of funds, has to remain firmly anchored in the central bureaucracy, to the frustration of non-state actors.

➤ *Channel Lomé resources directly to beneficiaries.* This option is very much supported by non-state actors in ACP countries. Some favour direct funding, without government interference. Others accept that support to non-state actors has to be framed in a national policy framework. Governments have a role to play in this and will, inevitably, retain overall political and financial authority in deciding on the use of aid resources. In their view, however, the government cannot claim a similar role in managing (implementing) Lomé programmes. At this level, management responsibilities should be allocated to those actors best suited to perform the tasks.

A good example is the private sector. While the public-private sector dialogue is essential in determining national priorities and related EU support, the management of "private sector development programmes" should be firmly in the hands of these organisations themselves. If this option is pursued, it should not be done in an improvised manner. There are some potential risks that should be carefully looked at, such as the questions of legitimacy and accountability of civil society and private sector organisations (see chapter 6).

Decentralise EC decision-making and implementation

"The control obsession of the Commission is a clear symptom of an institution in crisis. Commission staff spend most of their time with tender procedures, payment orders, financial control. There is hardly any time left to discuss the content of cooperation" (Technical Advisor to an NAO).

Several options to overcome this long-standing problem were suggested.

➤ ***Decentralisation to the field.*** Reinforce the Delegations and provide them with more decision-making-responsibilities, including decisions on larger expenditures;

➤ ***Review the roles and responsibilities of Commission staff*** in Brussels and in the field. Instead of putting the emphasis on purely bureaucratic functions (financial control, payments orders) staff should be much more involved in content and analytical work;

➤ ***Establish regional pools*** where the core of the Commission competence should be concentrated and where most financial control and technical expertise should be located.

Give a realistic mandate to the European Commission

It is increasingly acknowledged that internal EC capacity constraints are part of the implementation problem of Lomé. In any future cooperation agreement, these donor inconsistencies should be fully addressed. While under-staffing in Brussels and the Delegations is certainly a critical problem, the "impossible" mandate of the EC is also largely responsible.

Since Lomé I, the scope of intervention of the EC has systematically broadened. The EC is supposed to be active in all policy areas and coordinating all Lomé instruments in a coherent way. Possible reform options include:

➤ ***Improve and increase staff levels.*** This short term minimalist approach advocates investments in human resource policy by installing more flexibility in the recruitment of permanent staff. In this context, more use could be made of relevant expertise in the EU Member States;

➤ ***Entrust the EC with a more realistic mandate.*** This is a more ambitious approach in line with its status as a supranational organisation. This could be done by limiting the involvement of the EC to a number of core areas where it

➤has a positive track record. The concentration on a small number of themes per country would make it possible for the EC to make a real difference in the selected areas, by achieving the financial critical mass that is needed -- within the framework of a serious policy dialogue.

Chapter 8: What Can be Done to Influence the Debate?

Improving the Management of Cooperation

Design a User-friendly Agreement

Reverse the Logic: Put Strategy First

Ensure Coherence between Instruments

Invent New Management Approaches

Decentralise EU Decision-making and Implementation

Give a Realistic Mandate to the European Commission

"The 'Beyond-Lomé IV' debate fundamentally rethink the ways to design and



in fact invites us to nature of our cooperation and implement it" (EU official).

The process of rethinking Lomé has just began. The current Convention runs out on 29 February, 2000. Eighteen months before Lomé IV expires (i.e. on 1 September 1998) negotiations will formally start "to examine what conditions shall subsequently govern relations between the Community and the Member States on the one hand and the ACP States on the other hand" (Article 366, 3 of the Convention).

This means that less than two years are available to properly prepare for these negotiations. This is a relatively short period of time, if we take into account the "information deficit" on Lomé matters, the need for extensive consultation and dialogue at different levels, and the complexity of redesigning a twenty-year old cooperation agreement.

With its programme on "Beyond-Lomé IV", ECDPM sought to reduce the information gap and to stimulate fresh thinking, particularly in ACP countries. With this report, it hopes to contribute to a better understanding of the main issues at stake in the process of rethinking Lomé taking into account the fears and expectations of different stakeholders, and the possible reform options.

In this final chapter, we provide some pointers for those who want to influence the rapidly evolving debate on the future of ACP-EU cooperation.

An Informed Debate Can Make a Difference

As mentioned before, ACP representatives from different walks of life, are very sceptical, if not pessimistic, on the chances of a fair debate. They fear that "Europe had already made up its mind" with regard to the ACP and that consultation and dialogue will not change this.

The current political climate in Europe may nurture such beliefs. Yet it is our firm conviction that an informed debate can make a difference. Much could be achieved if ACP governments join the debate with a different mindset than in the past. This means moving beyond "business-as-usual" and the mere defence of the "acquis." It implies accepting a different type of partnership, based on the best elements of the "Lomé culture" (recipient responsibility, dialogue and predictability) while incorporating a new set of basic principles that reflect EU priorities and concerns (such as performance related aid, accountability, transparency, institutional pluralism).

The ACP private sector has much to gain from an active participation in the debate. They are well-placed to make proposals as to how future cooperation could better address their needs, including the design of new instruments. Civil society organisations could also make a dent, if they can mobilise their constituencies and organise themselves for advocacy work. In the Treaty of Maastricht, the EU has legally committed itself to combating poverty, promoting sustainable development and ensuring the integration of developing countries in the world economy. These legal provisions offer a perfect "entry point" for serious advocacy work in favour of the developing countries currently associated to the Lomé Convention.

Hard Evidence and Research are Vital

This is not the time for "policy-making without facts." Exhortations for international solidarity or doomsday scenarios will not suffice. The best way to convince European politicians and public opinion is to come up with policy proposals that are based on hard evidence and solid research findings. Content-wise, the agenda is very broad. There is, for instance, a major need to evaluate the past performance of the different Lomé instruments and for "balance sheets" that indicate the impact of the EDF on ACP development (through country case studies, for example). It means research into the consequences of trade liberalisation for ACP economies and social development. It means serious analysis of the possible gains and benefits of a regionalisation of Lomé and related split of the ACP group. Research is also needed to design new mechanisms for decentralising aid delivery (modalities for direct funding). Above all, it calls on the ACP actors to work out their own ideas on future cooperation -- rather than simply reacting to European proposals. From an organisational point of view, it requires that ACP research capacity is mobilised and the result linked into the policy-making process.

EU's Entire Development Policy is Up for Review

The different parties involved need to realise that this rethinking of Lomé fits into a broader, review of the EU's entire development policy. The Treaty of Maastricht provides development cooperation with a legal foundation in the European construction. It defines clear development objectives and calls for improved coordination, complementarity (between the efforts of Member States and the Commission) and policy coherence.

Much work is still to be done at the European level to sort out the implications of these objectives for day-to-day practice. It will be important to keep abreast of policy changes in this regard, as they may affect the future place and shape of ACP-EU cooperation.

There is also a need to watch the development of EU foreign policy in general, especially in relation to the "Inter Governmental Conference" (that is currently reviewing the Maastricht Treaty) and the envisaged enlargement of the Union (which is likely to have major effects on ACP-EU cooperation). Lomé countries are also well-advised to analyse in detail how the EU has entered into cooperation agreements with other regions (Asia, Latin America and Eastern Europe). Different partnership arrangements, decision-making procedures and financial

mechanisms have been utilised in these schemes. For instance, Lomé is the last Convention in the EU's foreign relation programme to contain a "contractual" commitment in the form of a financial protocol up to the year 2000. This seems to suggest that Lomé will also be "de-contractualised."

Don't Forget the Member States

On the side of the Commission (DG VIII), there seems to be a genuine desire to openly discuss the future of ACP-EU cooperation, without taboos and in a spirit of participation. But what about the Member States? Their views and interests with regard to the future of Lomé diverge. Moreover, what is at stake is not just the renewal of development cooperation with the ACP states, but the balance of power between national aid agencies and the Commission. The compatibility between development concerns and the interests of trade, industry and agriculture is also in the balance. All these suggest the need to ensure proper communication and dialogue with Member States. It is critically important, particularly for ACP bodies and European NGO's, to keep abreast of the thinking in the different member states and to ensure their constructive involvement in rethinking Lomé.

Packaging the Message

A final suggestion is the need for a modern communication strategy. ACP actors, in particular, are well-advised to develop a "marketing" strategy to bring their fears, interests and expectations to the fore. If they want to strike a better deal with the EU, they will have to "make their case." The Europeans and their Governments need to be convinced that cooperation with the Lomé countries is a good investment. ACP actors will need to demonstrate that development cooperation remains a vital support to their own efforts, to indicate what might happen to them (and the EU) if this type of cooperation is reduced, removed or altered, to show how this cooperation can serve the aims and objectives of the EU itself, and to offer guarantees that taxpayer's money can be properly used.

This means that the ball is primarily in the ACP court. If they can deliver a strong and convincing message, the chances of a positive EU response sharply increase. This would open new perspectives for arriving at a mutually beneficial partnership relation, adapted to the development challenges of the year 2000 and beyond.

***Annex 1a:
Are Globalisation and Development Mutually Exclusive? Speech of Ambassador Cumberbatch***

I should like first of all to thank the Director of the ECDPM for organising this Conference and for inviting me and several of my colleagues from the ACP Group to participate.

It is being suggested in some quarters that development as we know it should no longer be a focus of attention. Development policies, it has been suggested, have not worked and in any case the world has changed. Globalisation and liberalisation are the order of the day. They are the processes which will transform this world economy including the economies of the developing countries.

This debate (and others that are taking place) on the future of ACP-EU cooperation is really about the issue of "globalisation" versus "development." The wealthy, powerful and certainly the competitive favour globalisation; the poor, weak and defenceless need development. Are globalisation and development mutually exclusive?

These discussions preceding the negotiation of a post Lomé IV Convention in 1998 will determine where the European Union stands on this vital issue and whether it is possible to find a judicious mix of policies and effective measures that address the problems of a large section of the world's poor.

I have been asked by the ECDPM to focus on the following issues:

- What are the main concerns of the ACP with regard to the future of Lomé?
- In redefining ACP-EU relations, what needs to be retained and what needs to be changed in the current Lomé framework?
- Is the ACP Group still a viable and effective concept?

The Main Concerns of the ACP Group with Regard to the Future of Lomé

The ACP Group and people in ACP countries want better conditions of life. They want to see an acceleration of the pace of development of their countries. The successive Lomé Conventions which have made significant contributions to alleviating poverty in ACP countries, to establishing and improving infrastructure and in some notable cases to providing jobs through exports, is valued by ACP countries.

ACP countries are therefore concerned that the new fashionable and much-touted panaceas of globalisation and liberalisation could undermine support in Europe for the maintenance of several positive provisions of the existing Convention.

In this regard, the ACP are concerned about:

- attempts to reduce aid flows under the pretext that aid is not being effectively used or that ACP countries lack the absorptive capacity to use the aid;
- attempts to terminate, render less effective or to reduce resources for aspects of the current Convention from which many ACP States derive benefit such as for example STABEX and SYSMIN;
- the loss of preferences which, although not fully utilised in the past have provided several ACP exporters with a competitive edge in EU markets;
- the erosion of benefits which are derived from the Commodity Protocols -- Sugar, Bananas and Beef and Veal.

ACP concerns - and by concerns in this sense I mean wishes - are simple. They want:

- a good workable Convention unencumbered by conditionalities which limit its effectiveness;
- measures in a new Convention which help to create the conditions and the climate in ACP countries that investors need and other measures to encourage investment in our countries;
- provisions which really do give encouragement and support to the private sector - the formal and the informal - and facilitate business development between ACP and European enterprises;
- a much more efficient and less bureaucratic system for dealing with the programming and other processes associated with the disbursement and use of EU aid.

In Re-defining ACP-EU Relations, What Needs to be Retained and What to be Changed?

I hope that it is generally agreed that the principles underpinning the Lomé IV Convention constitute valuable *acquis* and must be retained in a new Convention: principles like partnership, respect for the sovereignty of Member States, observance of human rights, of democracy, and non-reciprocity.

In seeking to answer the first question I referred to some of the measures in Lomé IV which are of special interest to the ACP and which we should like to have retained :

- preferential trade access to EU Markets
- the Commodity Protocols
- STABEX and SYSMIN
- the system of NIPs and RIPs, among others.

I would like to say a few words about preferences. The ACP are not unaware of the effect on their preferential treatment of the Uruguay Round and of other measures being undertaken by the EU. Even though preferences have been and are being eroded, there will still be margins of preference well beyond the year 2000. If these margins continue, as we expect for some time, they could, together with competitiveness-enhancing measures, enable an energised ACP private sector to get a foothold in the EU market. There has been a wake-up call in ACP countries which our private sector has heard.

With regard to STABEX and SYSMIN, we would like to see these important systems which are valued by the ACP less hampered by conditionalities which delay for very

long periods access to their resources. This problem must be addressed. Ways must be found to make some of these systems self-sustaining but this will require further study.

The ACP Group would like a new Convention to be much more user-friendly than the existing one. There are too many provisions in Lomé IV which merely make good reading for the few people who bother to read them but have no practical effect as they are never implemented.

Provisions on PMDT (Processing, Marketing, Distribution and Transportation) abound in the Convention but not enough practical measures have been taken to enable ACP countries to enter the more lucrative parts of the business associated with the export of commodities and raw materials. This makes for an unnecessarily long and sometimes ambiguous Convention which is interpreted and used mostly by National Authorising Officers in ACP countries and by officials in the Commission.

I believe that for post-Lomé we must be more practical and to produce a more compact instrument, one that is usable by civil society and not a restricted group.

Resources should also be earmarked for informing the private sector and civil society in general in both the ACP and in Europe about the new Convention.

Is the ACP Group Still a Viable and Effective Concept?

If the ACP Group did not exist, it would have to be created. Although the ACP may originally have been formed for historical reasons, the Group, despite its size (seventy States) has worked remarkably well together and mechanisms in the Convention have enabled the Community to have dialogue and engage in cooperative ventures on common terms with a large section of the world community. The Group format has enhanced the negotiating capacity of individual members and regions among the ACP in their interactions with the European Commission and the Council. In this way the ACP-EU consultative mechanism has benefited both sides.

Regionalisation - which has been advocated in some quarters - would weaken the ACP. It would also require an increased bureaucracy and lead to increased costs for Member States of the EU. While it might seem logical to deal with the three geographical entities in the ACP separately, account should be taken of the fact that the broad spread and diversity of the Group has led to a valuable sharing of experiences, of systems of Government and of cultures.

Although ACP countries have benefited from a special relationship with the EU, non-ACP countries have not been disadvantaged as a result. It has already been proven that non-ACP developing country exports, which in any case benefit from GSP or Super GSP treatment, have been increasing in European markets. And in some cases EU development cooperation with non-ACP least developed countries far exceed the levels of its cooperation with many ACP countries.

It has been argued that ACP countries with middle incomes should be treated differently than those with lower per capita incomes. Caution must be exercised in this judgement

since per capita income does not reflect the full depth of development or of the pervasiveness of poverty in a society.

In some ACP countries, per capita income, even though high, is generated in large measure by existing preferences. If those countries lose their preferences you will see a shuddering drop in their per capita incomes. Per capita income also does not reflect the capacity for competitiveness which is today our most important consideration.

I would suggest, Mr. Chairman, that more relevant criteria should be sought if we are to meaningfully differentiate between ACP States.

The Future

I cannot address a Conference on the Future of the ACP-EU relationship without saying what additional elements I would like to see included in a new Convention.

I believe that there is still a wide area of mutual interests between the EU and the ACP. There are the broad common interests in the environment which know no boundaries, common interests in the prevention of the spread of communicable diseases, and in migration by people fleeing from conflict, hunger and deprivation.

The ACP are paying a great deal of attention to the question of mutual interest because we believe it is important in a close and lasting relationship. Work is therefore being done to bring to the fore existing economic, commercial and political interests and to identify in the development plans of ACP countries, the extent of projects from which our European partners can be major beneficiaries.

The pattern of ACP exports to the outside world shows its preponderant focus on the EU market. As ACP economies grow, as many have begun to do, their demand for goods and services, and for capital, will also grow. European countries should be the main beneficiaries if a new Convention were tailored to encourage more EU investment in ACP countries and to establish a wider range of business contacts between European and ACP enterprises.

Investment, private sector development, enhancement of competitiveness, and sustainability, should be prominent features of a new Convention. The positive effects of monetary union and a single EU currency and their relationship with ACP currencies and exports must be explored. So too should the role of guarantees for European investors in ACP countries as well as the effect of fiscal measures in the EU on ACP countries.

In a new Convention, greater attention must also be paid and specific measures devoted to accelerating the pace of regional economic integration in ACP countries. Critical mass is a motive force for investment and ACP countries, surely in need of investment, must move more swiftly to establish regional economic zones if they are to attract more foreign direct investment.

Conflicts in several ACP countries have their origin in poverty, deprivation, exclusion and violations of human rights. The EU has the capacity - financial, economic and dip-

lomatic - to tackle the roots of conflict and possibly to prevent some from occurring. The Lomé Convention, as currently fashioned, does not have a conflict prevention and management focus.

Similarly, drug trafficking and rising levels of crime affect both the ACP and the EU. While there are established mechanisms outside the ACP-EU framework for addressing these problems, some aspects may be worthy of treatment in our ACP-EU framework.

Even though I have not exhausted all the areas of common interests that the ACP share with the EU, it is clear that, even in this post cold-war era, the ACP remain of considerable strategic interest and importance to the EU.

In the months ahead we must all put our minds to fashioning a good flexible framework for enhancing the common interests between the EU and the ACP and for attacking the root cause of the problems which inhibit the growth of this relationship. The adjustments we make to the Lomé IV Convention and the new solutions we devise in a new Convention must contribute to the accelerated development of ACP countries in the next millennium and to an ever closer relationship with our partners in the European Union.

Annex 1b:

Summary of Speech of Mr. Fornari Representing the Italian Presidency of the EU

European Viewpoint: Adapt to Changed Conditions

Mr Fornari spoke for the Italian Presidency in a reaction to Ambassador Cumberbatch. Acknowledging the urgency of a debate on the future of ACP-EU relations, Mr Fornari stressed the importance of moving from development aid to development cooperation. He argued that new forms of partnership will have to be devised if the cooperative relationship is to be maintained. The role of the State in this relation will need to be redefined. In Italy the experience over the past 15 years is unambiguous in this respect. Mr Fornari used the example of Government intervention for disaster relief in Northern versus Southern Italy. In the Mezzogiorno or South, the State itself intervened massively after an earthquake, through large assistance programmes. In the North, the State channelled relief-funds in the case of a comparable disaster, through civil society and non-governmental organisations. A comparative analysis gave telling results. In the South, relief led to aid dependency and little development occurred. In the North a miracle occurred due to a strengthening of the economic fabric of society. Conclusion: the State needs to count on civil society in disaster relief and to strengthen it.

This conclusion has wider applicability to European development cooperation. During a Workshop in Milan held by the Italian Presidency, the question was asked: how can European co-operation be strengthened through small and medium enterprises? Conclusions: by specifying clear and simple rules for funding support, and by realising that pri-

vate enterprise development happens in a context of public administration. One of the consequences is therefore that public administrations will have to adapt and decentralise. It takes decentralised administration and co-operation to stimulate private initiative. In this respect Mr Fornari proposed that a study be done to determine the factors of success in developing countries, especially with regard to the role of civil society. States could be distinguished according to the degree of freedom allowed to civil society interests, in particular small and medium enterprise. The study would need to be applied in nature and lead to recommendations for decision makers in the private and public sectors.

Annex 2:
Lomé IV Convention - Financial Protocol 1995-2000

in millions ECU

Overall amount = 14625	
EDF = 12967	EIB
Grants = 11967	Risk capital = 1000

Stabex = 1800	Sys-min = 575	Structural adjust. ¹ = 1400	Emergency refugee assistance ² = 260	Interest rate subsidies = 370	Regional coop. ³ = 1300	Other grants = 6262
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¹ Resources specifically allocated to structural adjustment. Part of the national programme monies may also be allocated for this purpose

² Consisting of: - Emergency aid = ECU 140m (also ECU 160m from the Community budget)
 - Refugees = ECU 120m

³ including: - CDI = 73m
 - Regional trade promotion = ECU 85m
 - Joint Assembly = ECU 4m
 - Institutional support = ECU 80m

Note: In addition to the ECU 14625 allocated to ACP States, the sum of ECU 200m has been earmarked for overseas countries and territories (EDF = 165m, EIB = 35m)

Annex 3:

Background Papers for the June 1996 Conference

d'Almeida, G.L. Contribution to the Reflection on the Future of ACP-EU Relations Beyond Lomé IV. Senegal: International Multi-Services.

This paper suggests that the limits of Lomé as a cooperation agreement are that it neglected the needs of essential development actors. The failure to inform private entrepreneurs of the opportunities represented by Lomé and the inappropriate development strategies of many ACP governments account for a poor record of the Convention. Therefore one of the ways to improve the utilisation of Lomé would be to involve other beneficiaries, such as the private sector, in the formulation and the implementation of development policies. This reform should be complemented by a more significant regional integration strategy involving the private sector. Mrs. D'Almeida illustrates this argument with the example of the West African Enterprise Network, an initiative of the private sector to structure itself on a regional basis. The network tries to conduct a "positive dialogue" with governments aimed at promoting appropriate legal and regulatory framework reforms for a better business environment. Such private sector networks represent a valuable potential partner for the EU, with a knowledge of field realities.

Barrack, G.W.S. and J. May. Fiji and the Sugar Protocol: A Case Study. Sugar Commission of Fiji.

The authors demonstrate the importance of the Sugar industry for the Fiji economy. The benefits that have been reaped from the Sugar Protocol are substantial and the paper argues that the foreign exchange revenue from sugar exports to the EU has acted as a social safety net in Fiji. The case for trade as opposed to aid is strongly made by the sugar representatives who argue that the multiplier and dynamic effects of trade are significant. The impact of current trade liberalisation in the world and particularly in the EU will not have an effect in the medium term but in the long run it is recognised that a change in the EU policy and price setting towards its traditional sugar suppliers will affect their foreign exchange revenue. It is therefore suggested that extra revenue acquired from sugar exports to the EU as well as further financial and technical assistance for the restructuring of the economy, be used to help countries cope with the changes.

Boulle, J. Le Survol de la Coopération UE - ACP dans l'Océan Indien. Port Louis, Mauritius: Analysis - Research Consultants

Despite of that apparent failure of economic development in some countries of the region (Madagascar and the Comoros), Lomé has been a unique tool for development whose impact has been significant though different in each of the countries. This differentiated impact can be explained by a series of factors ranging from the historical context to strategic economic choices by each country. An appropriate EU response to this development failure has to come at the regional level. For, despite many development constraints such as the diversity in levels of economic development and the lack of infrastructure, the EU has been and can be instrumental in fostering regional cooperation. The existence of institutions like the Indian Ocean Commission depends partly on EU support. New challenges in the future lie in the reshaping of the traditional partnership into a more global economic alliance where regionalisation, differentiation and decentralisation (opening-up to the regional private sector) will be key features of a renewed EU-Indian Ocean cooperation. This

reformulation of EU cooperation should be based on the elaboration by the countries of the region of a common position on what needs to be preserved in the "acquis of Lomé."

Chirwa, G.B. Position Paper on Stabilization of Export Earnings in ACP States: The Experience of Malawi. Tea Association of Malawi Ltd.

In the light of the difficulties faced by the Malawi tea and coffee industry, such as the reduction in prices and erosion of preferences in the EU market, this paper describes the benefits that have been derived from the STABEX provisions of the Lomé Convention. Considering the importance in terms of income and employment of the sector, STABEX is said to be one of the most essential relief schemes made available by EU-ACP cooperation to Malawi. The industry has received compensation funds which have in turn been used for investment in the construction of buildings and supported a research facility to improve manufacturing processes for tea. However, it criticises the slow, bureaucratic process and lack of transparency which have delayed the disbursements of funds and have caused flows to end up outside the affected sector in some cases. The author suggests that towards the year 2000 administering of STABEX funds should be done by independent financial institutions in the ACP countries, such as Development or Central Banks in order to improve effectiveness.

Gonzales, A. Caribbean - EU Relations in a Post-Lomé World. Port of Spain, Trinidad and Tobago: University of the West Indies.

The global evolution of ACP-EU cooperation which led to positive evolutions such as the widening of trade provisions, the extension of compensation systems and the diversification of financing systems has to be balanced by the decline in the global volume of aid. From being an almost entirely economic instrument, Lomé has evolved to become a more comprehensive tool for cooperation. But this diversification was not followed by an appropriate increase of financial resources. In the Caribbean economic context, less importance is attached to aid but strong interest is placed in industrial cooperation and trade development. This explains why in a renewed approach of its cooperation with the EU most Caribbean countries feel that the region should leave the non-reciprocal arrangements to enter into a FTA process which can better stimulate their competitiveness. This depends largely on the progress of regional integration and will require a gradual approach. The poorest countries will still need a preferential treatment. The introduction of reciprocity has to be progressive and to be preceded by a mobilisation of the regional private sector. The transition process has started and the support of the EU needed to restructure the economies (reducing dependency on sugar/banana trade).

Grynberg, R. The Pacific ACP States and the End of the Lomé Convention. Suva, Fiji: University of the South Pacific.

The historic evolution of the EU-Pacific relationship shows a growth of the importance of EU support to the economic development of Pacific ACP countries. The EU is the second largest donor to the region. Nevertheless the year 2000 seems to be the appropriate moment for the end of this privileged cooperation. Indeed the EU is signalling its intention to divest from an area where the process of implementation of Lomé is very slow, and where historical links are not so strong. But an impact assessment of Lomé for these countries clearly shows that the loss of trade preferences will be a major disaster for local economies. The impact of Lomé has been substantial and has affected every aspect of the economic life of the countries and has managed to reduce problems pertaining to isolation and distance. Trade provisions though creating some distortions (and potentially dangerous industrial specialisations) have nevertheless brought a modest prosperity. There-

fore, the abandoning of the region by the EU together with major cuts on other aid sources can cause a disaster to these economies.

Jembere, K. Gains of Two Decades from European Community Cooperation: Experiences from the Ethiopian Chamber of Commerce. Addis Ababa: Ethiopian Chamber of Commerce.

This paper strongly advocates that the Ethiopian private sector be integrated in development strategy formulation and be given the chance to work directly with the donors. The paper starts from an assessment of 20 years of EU-Ethiopian cooperation, with 1991 (change of regime in Ethiopia) as a turning point: before that date, centrally planned economic strategies contributed to marginalise the private sector, and EDF funds, negotiated solely between the government and the EU, emphasised the wrong priorities. The EU has been instrumental, especially after 1991, in providing funds for private sector promotion (Trade fairs/institutional development for the Chamber of Commerce). With regard to the future orientation of EU-ACP cooperation, the Ugandan Chamber of Commerce, which made a few comments to M. Jembere's paper, agreed with its Ethiopian counterpart that the priorities should be to stimulate entrepreneurship through the creation of an enabling environment, and through the integration of the business community representatives (Chambers of Commerce/ Trade associations...) in the dialogue with EU donors.

Joseph, M.B. Post Lomé IV Arrangements Must Mirror the Sacred Principles and Instruments of Lomé: A Perspective from the Banana Sectors of the Windward Islands. St Lucia: St. Lucia Banana Growers Association.

This paper stresses the importance of the Banana Protocol for the Windward Islands, which are largely dependent on banana exports for their export earnings, GDP and employment. The Protocol is under heavy attack. The paper raises four main challenges to the Banana Protocol: (i) the Single European Market creation of a New Banana Regime (NBR); (ii) the negative GATT panel decision initiated by Latin American producers; (iii) German complaints on the higher cost of the NBR to consumers; and (iv) US action against the EU. To tackle those challenges and to take account of the current debate on the future of Lomé, which is likely to be more in line with the WTO and general process of trade liberalisation, the paper suggests a regional approach to ACP assistance. For the Windward islands and other small islands in the Caribbean, instruments that assist in promoting a viable small business sector are needed.

Ikiara, G.K. European Union - ACP Relationship: The Case of Eastern Africa. Nairobi, Kenya: University of Nairobi.

A quick overview of the past of EU-Eastern Africa relations indicates that Europe has had a large impact on these economies. This, by being their main trade partner and their major source of investment. The trade provisions were instrumental in developing the exports of certain countries. But due to many development constraints such as the slow pace of reforms, the lack of investment security and the highly different economic structures and potentials of the countries, few of them were able to exploit the preferential treatment. The evolution of the impact of EU cooperation shows contrasted results: It has apparently failed to make significant impact on the development of the trade sector, yet, it has considerably accelerated the process of economic and political reforms. A renewed cooperation should be based on common interests and some form of cooperation should be maintained and increased in key areas such as infrastructure development in the regional context, support for the reforms aiming at improving investment climate and increasing foreign investment. If certain schemes need to be maintained (STABEX, SYSMIN) further gains should be obtained by an increased support of the EU to the liberalisation of these economies.

Kabuga, C. Use of STABEX Funds: A Case Study from Uganda. Kampala, Uganda Co-operative Alliance Ltd.

The paper describes the benefits that the Ugandan cotton industry reaped from STABEX funds and explains how the author's organisation manages the flows. He suggests several possible modifications and improvements of the facility, including (i) longer term commitments to reliable local institutions that benefit from STABEX; (ii) decentralisation of decisions on the (diversified) utilisation of STABEX funds to the field (EU delegation and NAO); and (iii) the possibility for reliable producers and exporters to obtain performance/export guarantees from STABEX funds.

Kabuga, C. The Future EU-ACP Relations beyond Lomé IV. Kampala, Uganda Co-operative Alliance Ltd.

In spite of describing the Lomé Convention as the "best cooperation agreement between North and South", Mr. Kabuga draws attention on its limits. Indeed, in most ACP countries, the impact of the Convention was limited by the lack of information on it and difficulty of access to funds by non-state actors and generally by the government monopoly over the design and implementation of development programmes. With regards to the future of Lomé IV, the main challenge will be to overcome traditional administrative bottlenecks, to implement decentralised cooperation in an effort to better contribute to the social development of ACP countries, and to focus European cooperation on private sector development and investment promotion, with a priority for countries where economic reforms are under way.

Mawuli, A. The Lomé Convention: A Mini-global Alliance Perceived from Papua New Guinea. Boroko, Papua New Guinea: National Research Institute.

The reluctance of the EU to increase its funding for the Lomé Convention, in spite of the accession of 3 new Member States to the EU and the contrast between a generous preferential access to EU markets and a poor trade performance of ACP countries call for a thorough re-examination of the Lomé Convention. Papua New Guinea has been a signatory to the Convention since 1978 and has benefited mainly from STABEX funds and programmed assistance for human resource development and rural projects. A major loophole has been the absence of support for and consultation of non-state actors. A few signs of change are, however, perceived, in the new EU funded Island Region Environmental and Community Development Programme which aims to promote biodiversity and to raise awareness among the local population on the dangers of logging the rain forest. The future of EU-ACP cooperation lies in this kind of mini-global alliance based on common interests and shared responsibilities and undertaking programmes of action at a global and regional level.

Mbog, P.D. Contribution of the European Union to the Restructuring of the Cacao Sector in Cameroon. Yaoundé, Cameroon: Syndicat National des Producteurs de Cacao.

The paper starts with a comprehensive analysis of the cocoa situation in Cameroon. The challenges that this sector has to face are numerous: trade liberalisation, drastic cuts in subsidies and the devaluation of the CFA (French zone franc) which has increased prices of fertilisers and other inputs in the cocoa production. The contribution of the EU to this sector, particularly through the STABEX instrument has been considerable but needs re-definition in order to adapt the sector to the new market conditions. Whilst the solutions must be found by the producers and exporters, a more focused utilisation of STABEX and other funds concentrating on the improvement of the

quality and competitiveness of the cocoa produced and on the modernisation of the sector would benefit both producers in Cameroon and European consumers.

Mbogoro, D.K. Tanzania and the Trade Relations with the EU under the Lomé Convention. Dar es Salaam, Tanzania: University of Dar es Salaam.

This paper clearly spells out most of the trade development provisions and preferential arrangements in the Lomé Convention, including the Protocols on beef and veal, rum, bananas and sugar, and cooperation in the fields of services and commodities (i.e. STABEX). The paper concludes that these trade provisions are the best that could be offered to Tanzania and that it benefits most from preferential access, STABEX and non-reciprocity. The limited development of an industrial base in Tanzania is described as the main restriction for exploitation of the provisions but also non-tariff barriers in the form of quality standards and rules of origin are perceived to constrain exports. The paper calls for more EU investment to assist in the development of an industrial base, and assistance aimed at solving the bottlenecks to foreign investment.

Nakalonga, A.N.M. Future EU-ACP Relations beyond Lomé IV Convention. Lusaka: Economics Association of Zambia.

The EU has funded a wide range of sectors in Zambia from Balance of payment support to Tourism or Export Development. However, the capacity to utilise such funds was relatively low and there is little hope that Southern African countries can exploit the creation of a European single market. That is why the EU is paying much more attention to the development potential of South Africa where the capacity to utilise development funds seems to be higher. But the EU should also focus on increasing capacity of the other countries to exploit the funds. The impact of the innovations brought by Lomé still needs to be studied. In future, the EU should be instrumental in improving access to funds through new channels (NGO's and civil society) and it should also join other donors in capacity-building through training programs for a better utilisation of Lomé funds and for negotiation with the EU. Finally, it should avoid focusing too much on South Africa but also develop programs of "poverty alleviation" serving the most vulnerable groups which generally don't benefit from EU cooperation.

Nkoyok, J. The Future of Cooperation between the EU and ACP Countries: A Non Governmental Perspective. Douala, Cameroon: Confédération des ONG d'Afrique Centrale.

This assessment of EU-ACP cooperation to date is rather a mixed one, considering the poor development record of many ACP countries. In order to reverse this situation, cooperation should be based on a true partnership and be led away from a relation based on EU assistance and the replication by African countries of a European model of society. Ms Nkoyok calls for cooperation centred on the human being, on the protection of his/her environment and tackling the crucial issue of debt in two respects: first the cancellation of the existing debt; second, the prevention of unsustainable debt by refusing to give credits to governments who mismanage public funds.

Otieno-Odek, J. Europe and Sub-Saharan Africa Beyond Lomé IV Convention. Nairobi, Kenya: University of Nairobi.

The author starts with some critical comments on the origins and impact of two decades of EU-ACP cooperation, which he feels was created as a mainly European initiative. The paper highlights, however, a number of motivations for sub-Saharan African countries to keep an interest in the EU-ACP cooperation. In terms of the coverage of the ACP group the paper discusses the possibility of re-grouping the ACP countries using criteria such as: (i) their reliance on EU funds; (ii) their export structure (minerals/agriculture), or (iii) geographical considerations. However, it concludes that the bargaining leverage of 70 countries is too valuable to be lost. As regards the trade provisions of the Lomé Convention, the paper argues that they may have shielded Kenyan exporters from market forces, do not facilitate dynamic responses by Kenyan producers and exporters and that more assistance would be required to relieve supply side constraints. It is nevertheless acknowledged that the provisions have been relatively well exploited by Kenyans, especially in exporting cut flowers, processed fruit and fish. The author welcomes the more political aspect introduced into the Convention at the Mid-term Review but questions the enforceability of issues such as good governance. Finally the author argues for new issues to be addressed, such as the (i) dumping of EU exports on ACP markets; (ii) re-export of ACP cultural artefacts held in Europe; (iii) labour migration; and (iv) compatibility with the WTO.

Sithanen, R. EU-ACP Relations Beyond Lomé IV: What Role for the Private Sector in the Domestic and the Regional Economy? A Pragmatic Approach. Mauritius.

Lomé should continue, but it should be deeply reformed in order to reflect a new paradigm of cooperation that enables other development partners to play a central role in the determination of development strategies in both domestic and regional context. In order to place the private sector at the centre of this new development process, donors can help in setting up the "appropriate enabling environment" conducive to the promotion and development and promotion of private sector initiatives. This will require clear commitments from both partners: the EU should commit itself to broaden and deepen its interface with the private sector and the ACPs will have to adopt reforms aimed at pulling out the State from the economic and commercial activities together with effort to create the appropriate regulatory framework. In this context the EU can assist by proposing instruments to help the transition (a list of these instruments is provided in Mr. Sithanen's paper) and strengthening existing instruments for promoting regional economic integration, especially by stimulating cross border investments and exchanges between the private sectors of the region. The creation of new development opportunities in ACP countries will be to the benefit of both ACP and EU private sectors.

Tobaiwa, D. ZNCC Position Paper on Current ACP-EU Relations and Beyond the Year 2000. Harare: Zimbabwe National Chambers of Commerce.

In the economic context of Zimbabwe and the international trade environment, this paper discusses the experiences of Zimbabwean exporters with Lomé trade provisions. In particular the paper includes case studies of three export sectors that have to some extent exploited the preferences to the EU market: Zimbabwean horticultural exports, tobacco exports and exports of textiles and clothing. In its evaluation of the impact of Lomé preferences the paper lists a number of factors which inhibit ACP countries from fully benefiting from the provisions, including lack of awareness of the provisions, their complicated procedures, rules of origin, shortage of private investment and human resources. Although the Chamber of Commerce values EU-ACP cooperation, it is concerned about the following trends as far as the future of the cooperation is concerned: (i) reduction in aid, (ii) continued protection against agricultural imports, (iii) stringent conditions for aid disbursement, (iv) performance related allocation of funds and (v) government orientation of the Lomé Convention.

Tuho, C.V. West Africa and the Future of the Relations between the ACP Countries and the European Union. Abidjan, Côte d'Ivoire: CIRES.

An analysis of limitations of the regional development potential shows that a series of social, economic and institutional factors have hampered the progress of regional integration. A more pragmatic approach of regional integration still needs to be developed. In this context, the experience of cooperation with the EU reveals that Lomé has had an impact on a variety of areas at the regional level through the Regional Indicative Plans. Support to structural adjustment has been developed in a national logic and didn't favour regional integration. A first conclusion is that the impact of EU cooperation on the process of regional integration has been rather negative. The regional private sector is now expected to have a greater contribution to the process of regional integration. Still, a renewed cooperation with the EU will be essential in the future. It will be based on a range of common interests both economic and social. In order to increase its impact on regional integration, the EU will have to focus its support on strategic sectors ranging from infrastructure development to the promotion of the private sector and the promotion of democracy. This renewed cooperation will require new institutions that still have to be determined.

Annex 4: Further Readings

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Annex 6:
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Mozambique
Botswana
Zambia
Mali
Côte d'Ivoire
Sénégal
Cameroun
Ethiopia
Kenya
Uganda
Tanzania

CARIBBEAN

Jamaica
Barbados
Saint Lucia
Trinidad and Tobago
Guyana

PACIFIC

Papua New Guinea
Fiji
Vanuatu

