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European Development Cooperation to 2010

What scenario for the future?

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This series of Briefing Papers will identify the main issues in the debate about European Development Cooperation to 2010.

The EDC 2010 project has identified two main drivers of change with respect to European development cooperation. The first is the degree of commitment to Europe, the second the commitment to poverty reduction. The interaction of these two gives four possible European futures: at one extreme, a strong commitment both to coherent European action and to poverty reduction; at the other, a weak commitment to both Europe and poverty reduction; and, in between, two intermediate positions.

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Aid disbursement and effectiveness

The internal architecture of European Development Cooperation

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The picture in brief

European development cooperation has undergone significant change since the late 1990s. The change process is still underway, with many of its main benefits still to be achieved. Yet a new wave of change is on the horizon: a complex timetable of decisions can be seen stretching through the rest of the decade. These decisions are at the constitutional level, concern financial and/or trade arrangements, or deal with the internal organisation of the Commission. There are also external challenges: EU policy has to address key challenges to development cooperation: globalisation, population growth, increasing urbanisation, and technical change.

Issues and options

Two main drivers of change can be identified: (a) the extent of commitment to Europe; and (b) the extent of commitment to poverty reduction. The interaction of these two gives four alternative scenarios for the future of development cooperation. They can be labelled as progression, regression, compression and secession (see Figure 1 p.4).

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

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

In the **Compression Scenario**:

- Movement towards a common foreign and security policy remains slow.
- There is little enthusiasm for increasing the share of aid channelled through Europe.
- But what aid there is becomes more strongly poverty-focused and better-administered.
- Meanwhile, trade negotiations continue, with a pro-poor focus. However, policy coherence remains far away.

In the **Regression Scenario**:

- A consensus around greater europeanisation is found, including a stronger commitment to CFSP.
- But national and foreign policy interests mean aid flows in large part to 'nearby' and middle-income countries.
- Regional agreements are strengthened, mostly based on foreign and security concerns.
- The aid programme remains diversified, with Member States disagreeing about allocation.
- Trade negotiations falter. There is little support for radical opening up of markets.

In the **Secession Scenario**:

- Lip service is paid to Europe, but, in practice, no progress is made.
- The Financial Perspectives do not increase aid through the EC.
- Member States increasingly challenge the decisions and orientations of the Commission.
- Member States discuss re-nationalising EU aid.
- Trade talks falter, while bilateral agreements begin to acquire more prominence.

The future timetable

In the past three years, the main developments with respect to development cooperation have been the signature and ratification of the Cotonou Partnership Agreement, the approval of the new European development policy, and the restructuring of the Commission in 1999/2000. The last two of these, in particular, responded to criticisms made in a series of evaluations in the late 1990s, mainly about the lack of a poverty focus and about poor organisation.

Definite progress has been made. The new policy statement commits the Commission to poverty reduction and to the Millennium Development Goals (MDGs). The new organisational structure has created a cross-cutting implementation unit dealing with aid to all regions. Deconcentration has taken place, involving greater authority for Delegations in the field. Country Strategy Papers have been prepared for over 120 countries. A single annual report on EU development cooperation is now available (Box 1).

What are the issues?

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

- The role of development vis-à-vis foreign policy objectives;
- Enlargement and its implications;

- The future of the EU-ACP relationship;
- The architecture of EU development cooperation .

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

The development landscape to 2010

First, Iraq has given added urgency to a long-standing debate about multilateralism and the role of the UN.

Second, and independently of the political landscape, the world is changing. There are both trends and shocks to take into account. Key drivers include population growth, urbanisation, technical change, and further economic globalisation. Key shocks include HIV/AIDS, environmental disaster, terrorism and war.

The third issue is whether these changes will force a change in development thinking. The discourse today is

Box 1: The timetable of future decisions

Date	Issue	Impact on European Development Cooperation to 2010
2003	The IGC on the European Constitution started in 2003 – and failed in December. It will probably resume its work in 2004.	The institutional balance and the "mission" of the EU are under debate. The new Constitutional treaty - or its still possible ultimate failure – will determine the outline of EU policy for the next decades. If it is decided upon, ratification will take at least into 2006 (if all referenda pass). Arrangements for the next Commission are likely to be transitional. Some provisions, such as Commission setup will come into force earliest in 2009.
2004 May	Ten new Member States join the European Union.	Financially, the aid programmes are small. However, the ten new members will help form development policy.
June	European Parliament Elections	The EP is likely to gain further influence in EU decision-making. The scope of the EP's Development Committee may change.
November	The new 25-member Commission will be in office	How will the portfolios be shaped? The Commission's internal organisation will have an impact on the standing of development policy.
	Negotiations start on the new Financial Perspectives .	Agreement on the Financial Perspective from 2007. The matter might be complicated by horse-trading with regard to the Constitutional provision. A communication in favour of EDF budgetisation has already been published – the decision will be made at the constitutional level at the IGC.
	Mid-term review of Country Strategy Papers (CSP) and the 9th EDF allocations	Depending on the performance assessment, an additional 1 bn Euro will be allocated to ACP states.
	Cotonou trade provisions	An alternative has to be presented to those states that do not wish to enter into Economic Partnership Agreements (EPA) with the EU.
2005	Start of the negotiations on the 10th EDF	A communication of the Commission outlines a time-horizon until January 2007/2008 for budgetisation and a transitional period for implementation until 2008–2011.
2006	End of the Sugar protocol	The sugar protocol's impact on developing countries is under debate. In 2006, it will need either a new WTO waiver – or to be made compatible with WTO rules.
2008	Economic Partnership Agreements (EPA) with ACP countries are to be concluded.	Negotiations on WTO compatible (i.e. reciprocal) economic partnership agreements have recently started with ECOWAS and CEMAC.

characterised by a commitment to the Millennium Development Goals, a consensus strategy on how to reduce poverty, the widespread use of Poverty Reduction Strategies, and a raft of new implementation modalities, including budget support and results-based management. Will the development landscape shift towards security-related issues, away from poverty reduction? Does the experience of Afghanistan and Iraq suggest that the emphasis will shift towards humanitarian aid/rehabilitation work and the enforcement of democratisation, with less focus on pro-poor policies and on partnership and cooperation?

The EU as an international actor

At the core of the relation between foreign and development policy is the normative question of what role the EU should play in the world.

Despite disagreements about Iraq and other tensions, for example regarding Zimbabwe, the EU remains engaged with the rest of the world, collectively as well as individually. However, the relationship between foreign policy and development remains in play. Many NGOs, in particular, have expressed concern about the possible subordination of development to the exigencies of foreign policy. A particular debate has concerned the likely 'merger' of the posts of High Representative and External Affairs Commissioner into a new 'double-hatted' post of EU Foreign Minister, reporting to both the Council and the Commission, and with oversight of development issues.

Second, the debate continues about whether or not European foreign policy and development cooperation should privilege the 'Wider Europe', especially in Eastern Europe and the Mediterranean, or whether they should concentrate on poverty reduction in the poorest countries. Critics point to the high share of development cooperation which is spent on the 'ring of friends'.

Third, worries about disproportionate favouring of the ring of friends are reinforced by the prospect of taking into account the priorities of the 10 accession countries that will join the Union in 2004. These countries currently have very small aid programmes (typically substantially less than 0.1% of GDP) and also have natural interests in their own immediate regions.

The EU as a trade partner

The EU has long regarded the granting of preferences to its former colonies as a show-piece in development policy.

Historically, the EU has pursued differentiated strategies with different partners or groups of partners, seeking reciprocal free trade agreements in many cases, but offering unilateral concessions in others, for example through the (controversial) 'Everything But Arms' initiative, which offers tariff free access to European markets for all Least Developed Countries. From a developing country perspective, the three key challenges are whether or not bilateral preferences will be eroded as a result of multilateral negotiations in the Doha round; whether or not the successful completion of those negotiations would significantly improve trading conditions for the poorer countries; and whether or not to sign FTAs with the EU, US or other developed countries.

Gradual liberalisation on a world scale inevitably erodes the value of prior concessions. Special and differential

treatment for developing countries, and derogation or waivers from global rules, can delay full integration, but not for ever.

There is a growing trend towards the bilateral (i.e. discriminatory) opening up of developing country economies through Free Trade Agreements (for instance, in EPAs and other EU FTAs; the FTAA in the Americas; or the US with individual LDCs). The EU has declared that so-called Economic Partnership Agreements (EPAs) will have to fit into the WTO framework; they will thus be reciprocal rather than granting non-reciprocal preferences to the EPA partners.

The EU as a political partner

Partnership has been a consistent theme of EU relations with the developing world since the Yaoundé Convention, and it has been a leader among the development community: in its broad definition of the scope of partnership (political as well as economic); in creating institutions to pursue partnership (for example, joint parliamentary assemblies); and in developing a (limited) form of reciprocity and mutual accountability (Box 2). The intention of the Regional Economic Partnership Agreements has been to develop a broad set of relationships of this kind with groups of developing countries.

Box 2: Reciprocal accountability? The Cotonou Agreement

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

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

The questions for the future are whether the ACP will thrive, or even survive, and whether genuine partnership can be maintained in other ways. It may seem extraordinary to question the survival of the ACP, so soon after the ratification of the twenty-year Cotonou Partnership Agreement in April 2003. There are threats, however, especially from the emergence of new groupings which cut across traditional ACP boundaries. For example, it is not difficult to imagine that NEPAD initiatives, in consultation with the newly-reformed African Union, could draw African interests away from dialogue with the EU through the ACP.

The EU as a donor

The European Union accounts for more than half of the world's Official Development Assistance (ODA). Three quarters of the overall EU ODA is provided by its Member States. The European Commission's share in EU aid has considerably increased and now stands at about a quarter. Among the top ten recipient countries of financial assistance from the EC are no Sub-Saharan countries and no Least Developed Country. In 2001, only two non-

European countries were among the top ten recipients of EU assistance: Tunisia and Morocco.

Improving development aid has been a major focus of EU reform efforts since 1999. EU actions are largely consistent with the current development agenda, and in some cases (e.g. the commitment to PRSPs) leading the way.

There is more to do to improve quality. In addition, there has been a debate about 'budgetisation' of EU aid. At present, about three quarters of external aid is financed from the budget and one quarter from the European Development Fund. Budgetisation would bring all monies within the full purview of the political process with the parliament: this might help improve the allocation to the poorest countries, but might not. Another big change would be that unlike the EDF, the EU Budget works on an annual principle with unused budgets lapsing at the end of each year. From an ACP point of view, therefore, budgetisation would involve another erosion in the traditional security of the EDF aid contract unless some 'ring-fencing' mechanism can be agreed.

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

Underlying the various debates about aid remains the critical question about the comparative advantage and 'unique selling point' of the EU, compared to Member States. There are some obvious advantages to multilateral aid, especially economies of scale, lower transactions costs, more efficient procurement and, sometimes, less political conditionality.

The EU's internal organisation

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

Scenarios for the future

The drivers of change for EU development policy could include:

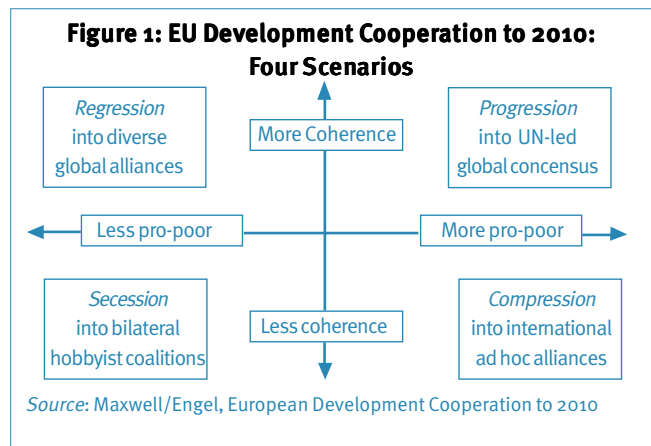
- the enthusiasm for coordinating development efforts

among EU Member States and the degree to which the EC is used as a framework for aid delivery;

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

In Figure 1, the two key drivers are:

1. coherence, coordination and complementarity (CCC): the extent to which the Convention on the future of Europe results in a greater commitment to European policy coherence, coordination and complementarity among Member States and Commission;
2. the degree of commitment to the Millennium Development Goals, and particularly to the over-arching goal of reducing poverty by half by 2015.



For the next years, the rotating EU Presidency will be held by Member States from the geographical North and West of the EU (currently Ireland, then The Netherlands; 2005: Luxemburg and the UK; 2006: Austria and Finland). These countries can be grouped under the heading of 'like-minded countries', i.e. the presidency will be held by countries sharing a common basis for their approaches to development policy. Will the like-minded countries deliver change?

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