

INSTITUTE OF SOCIAL STUDIES

Working Paper Series No. 190

THE CO-ORDINATION OF THE OBJECTIVES OF EU'S DEVELOPMENT POLICY

Sandro Sideri and Jos Hilhorst

March 1995

WORKING PAPERS

Comments are welcome and should be addressed to the author:
c/o Publications Office - Institute of Social Studies - P.O. Box 29776
2502LT The Hague - The Netherlands

TABLE OF CONTENTS

1.	Introduction	1
2.	Levels of co-ordination and agents to be co-ordinated	2
3.	Co-ordination and development	5
4.	Convergence of the objectives of development co-operation	6
5.	Some problems of co-ordination	8
6.	Role of foreign aid	12
7.	Instruments of co-ordination in the EU	16
8.	EU aid programme	18
9.	Final Remarks	18

REFERENCES	20
------------	----

SCOPE AND CONDITIONS FOR CO-ORDINATION

1. Introduction

The call for co-ordination that is increasingly heard, is based on the theoretical literature on policy co-ordination which underlines the externalities to be obtained by it when policies chosen optimally from the country's viewpoint result in less than optimal outcomes in a global context [Horne and Masson, 1988: 260]. However, although the theoretical case in favour of policy co-ordination may be strong, serious obstacles have rendered difficult any agreement on or implementation of substantive co-ordination in the field of development co-operation both within and between donor countries. One must also remember that co-ordination has not been easily agreed upon in other areas either, and where it has been established has not always been very successful¹.

The purpose of co-ordination -- the state of which at present is "lamentable" -- is to "mitigate the 'systemic effects' arising from a multiplicity of donors" [Cassen *et al.*, 1986: 229] and to increase aid effectiveness. Its area of application is rather wide. Co-ordination can take place within donor countries, with respect to their development assistance policy and other policies and measures which may impinge on the former; as well as among donor countries. The need for co-ordination also arises during the phase of implementing development assistance policies (either co-ordinate or not in the sense given to the term above) with respect to a variety of governmental and non-governmental actors operating in each receiving country. Clearly, improved co-ordination could lead to the streamlining of procedures, hence substantially reducing the administrative burden on recipient governments. This would most benefit those less developed countries (LDCs) "of slender administrative means" [Cassen *et al.*, 1986: 231] which are usually also the poorest. Since these include most of the ACP countries of the Lomé Convention, better Community co-ordination should prove a great help to them.

For the members of the European Union² (EU) the need for co-ordination is the result of a number of causes. (a) There has been an increase of experience with the multiplicity of development policies employed both at the national and the Community level. (b) The interdependence between these development policies and many other policies pursued by both member countries and EU has been more clearly perceived. (c) Most importantly, probably, has been the growing perception that development assistance funds cannot be expected to expand any further because of donor countries' financial difficulties; growing public resistance to aid; re-assessment of the contribution of aid to development; and growing financial commitments to Eastern European countries³. As a result, EU policies towards the

¹ The conclusion that emerges from empirical studies "is clearly that gains from coordination are small" [Horne and Masson, 1988: 285].

In its broadest sense, international co-operation can take many different forms, including the exchange of information among countries, policy co-ordination and the adoption of rules governing the operation in question. The exchange of information represents the simplest form of co-operation and the one that imposes the least constraint on national policy making. It can, however, be useful "for identifying problems of unsustainable domestic policies and incompatibility of national objectives and policies in an international forum", i.e. "unsustainable in the future... and incompatible from a global perspective". In some circumstances co-operation must move to a further stage, namely the adjustment of policy goals in each country to make them internationally consistent and compatible. At this stage the problem is, however, the lack of clarity which often exists with respect to determining the appropriate policy to adopt. Finally, the cost of co-ordination tends to rise with the number of participants [Horne and Masson, 1988: 261-5, 275, 284].

² European Union refers also to the earlier European Community (EC).

³ There is an attempt under way to include the aid provided to former socialist countries under ODA. This will make it more difficult to detect aid diversion because as long as any reduction in aid to LDCs is balanced by increased aid to the East the total ODA figures will not be affected. Furthermore, Western European firms are encouraged to move production to Eastern and Central Europe where according to G. Rexrodt, Germany's economics minister, they should be producing 20 per cent of their output by the end of the decade [IHT, 1993].

Third World are changing rapidly⁴. At the same time, fragmentation of European aid cannot but undermine the bargaining position of the EU in its negotiations with LDCs and, more importantly, with international agencies.

2. Levels of co-ordination and agents to be co-ordinate

The co-ordination of bilateral assistance entails various levels and different agents within each level. The following classification is meant to address the objectives served by whatever type of co-ordination rather than the typology of the latter.

- (i) Within each donor country co-ordination may take place
 - (a) with other ministries and governmental agencies, NGOs, and the private sector. This need is well illustrated by the notion of 'country concepts' adopted in Germany and based on a 1990 study by the Scientific Advisory Board on behalf of the Ministry for Economic Co-operation. The objective is to enhance the effectiveness of German assistance by overcoming "the tendency whereby organizations involved in German development aid have worked on solutions in isolation from one another" [Sand and Mohs, 1992: 4];
 - (b) with multilateral assistance agencies; and
 - (c) with other agents relevant for its implementation.
- (ii) Co-ordination is also possible among donor countries, namely through meetings
 - (a) among their government aid agencies with respect to both bilateral and multilateral aid policies⁵; and
 - (b) among these agencies and the commercial actors (see the Helsinki Arrangement below).
- (iii) Then there is the co-ordination with receiving countries, namely with
 - (a) governments, which might have to be either strengthened or built anew; and
 - (b) other actors relevant for the implementation of development assistance.

Although the need of co-ordination with recipient countries is widely recognised, the difficult problem is to agree on the criteria for deciding whether or not to deal with a certain government, and an even harder one is to agree what to do when no government exists. Furthermore, to improve co-ordination with receiving countries and international aid agencies it is necessary on the basis of the experience so far obtained to clarify the role of the EU Delegate and the relationship with the UNDP Resident Representative.

⁴ And not only the EC development policies. "Important shifts in the orientation of the aid effort have occurred in the 1980s" and "a number of donors have already begun to reformulate their thinking about aid in broader strategic terms", including The Netherlands with the 1990 *A World of Difference*, followed in Autumn 1993 by *Humanitarian Aid Between Conflicts and Development*. On the reformulation of bilateral development co-operation, the need to "grapple with macroeconomic, structural, and adjustment issues" and to bring "traditional project and technical assistance approaches... into line with the new system-oriented objectives" has made a great impact, hence the shift of large donors from project to sector and programme support [OECD, 1992: 48-9].

⁵ Whereas "until fairly recently, the country distribution of bilateral aid has been largely driven by the commercial interests of donor countries... multilateral EC aid seems to have been distributed since the start on the basis of criteria substantially different from those guiding bilateral aid" [Grilli and Riess, 1992: 214].

(iv) Co-ordination can also take place either

(a) at the regional level, i.e. at the EU level and mostly in relation to EU's own development aid programme (see section 8 below); or

(b) at the global level, i.e. between individual donors or groups of donors, such as the EU, and international agencies, in other words the co-ordination of ODA and non-concessional flows;

Finally, there is the much neglected aspect of co-ordination with the relevant agents, and again particularly with the NGOs, at different stages of each project or programme, such as preparation, monitoring, and evaluation.

With respect to EU countries, co-ordination requires also the creation of an overall framework which establishes what is done by whom, i.e. the respective competences and responsibilities of the Community and member states in the field of development assistance. The framework rests on two different but interconnected principles, subsidiarity and complementarity. The subsidiarity principle regulates the relationship between the Community and the member states by establishing that the first can act "only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States and can therefore... be better achieved by the Community" [Maastricht, art. 3B]. The subsidiarity principle also represents a protection of national policies against the danger of an undesirable expansion of the supranational ones. A danger which is not very real in this field since "there is no subsidiarity in EC aid policy" [Lords, 1993a: 55]. Therefore, as long as there are no rules of subsidiarity, no clear guidelines can be established for the role of Community aid via-à-vis the bilateral aid of the member countries, which are certainly not disposed to give it up (Greenaway and Morrissey in [Lords, 1993a: 46]).

Having established how to define competence between the Community and the member states, the Maastricht Treaty establishes that they also share this competence in the field of development co-operation, hence the role of complementarity [Maastricht, art. 130U] [Council, 1992: para. 19]⁶. Since such complementarity is judged "a fiction at present" [Lords, 1993: 16] to create it will require an agreement on criteria for the distribution of projects and programmes between EU and the members states. This is also necessary to avoid the current competition for scarcer resources⁷.

Various alternative divisions of responsibility, or tasks, have been proposed. One is that the Community, given its legal competence in trade matters, should deal with all areas of aid closest to trade. Another is that the EU should be responsible for aid to areas of particular political sensitivity, to regional economic development, and if so, to be effective, the funds required have to reach a large critical mass. A third possibility is that EU should concentrate on inter-alia co-ordination, policy dialogue, structural adjustment (with or without its own structural adjustment programmes), disaster relief and early warning systems. It could take a strategic role, rather than acting simply as a '13th donor'. Alternatively, the Commission, or some EU institution, could facilitate agreement on common targets, co-ordinate bilateral aid policies, harmonise procedures, establish common rules and guarantee parliamentary control of aid policies at all levels [Lords, 1993: 10-11, 154 and 159-60]. There are those, however, who doubt the effectiveness of Community aid, given its "lack of analytical capacities,

⁶ In another interpretation subsidiarity applies mainly to areas for which the Community has legal competence, whereas complementarity rules in those areas where the Community shares competence with the member states.

⁷ One cannot, however, exclude that some co-ordination might spontaneously result from the need to cope with pressing problems, without any formal agreement on the criteria to be employed.

internal inconsistencies in competences, and slow implementation" (Langhammer in [Lords, 1993: 159]).

It has also been suggested that "once the objectives and outlines in a specific area of development policy have been agreed upon", operational co-ordination⁸ at the field or ground level appears easier. This is particularly true if the EU Delegation is given the leading role, and hence it should be here that the overall process of co-ordination starts [NAR, 1993: 7]. Yet, not only "the role of the recipient country is crucial" for field co-ordination to work [Cassen *et al.*, 1986: 227], but experience shows that the problem of donor co-ordination is "serious and is likely to prove much more intractable than is commonly realized"⁹ [Whittington and Calhoun, 1988: 295]. Furthermore, the setting of common targets is a most demanding task that requires a continuous process of dialogue between member states and the Community; binding commitment; and, possibly, a judiciary check of compliance (Langhammer in [Lords, 1993: 159]). More importantly, it requires a common understanding of development strategy and policy, because "differences may be real, where technical approaches rest on differing assessments of problems and responses" [Cassen *et al.*, 1986, 231]. Moreover, if development co-operation is seen as part of foreign policy -- as even the Dutch government admits in the recently released A World in Conflict [DGIS, 1993a] -- the difficulties surrounding the creation of a common foreign policy -- the discord on the Balkans and the scramble to get (or to cling to) a permanent seat on the UN Security Council being only the most glaring recent examples of how hollow the claim to a common EU policy is -- are bound to further complicate the co-ordination of the aid policies of member states.

At any rate, the specific areas suggested by the Council of May 1993 for enhancing co-ordination are those of health, food security, and education and training, areas that the Dutch NAR considers "broad, and by definition rather vague", hence its proposal to replace them by some "more specific... new areas of action". The alternatives that were put forwards are energy policy in Sub-Saharan Africa, the support for economic integration, and the tackling of certain environmental problems, the advantages of which are their being relatively new, transcending national borders, and their being presently free of donor interests [NAR, 1993: 8]. The Commission itself had proposed five priority areas for the co-ordination of development policies between the EU and its member states: the three which were adopted by the Council plus the campaign against poverty, and external financing and debt issues [Commission, 1993a]. In its meeting of December 3, 1993, the Council clarified the position of the EU with regard to poverty alleviation. It is now clear that this is a basic objective and that projects and programmes in the three sectors have to contribute towards attaining this objective [Commission, 1993b].

Meanwhile, the article opening the section on 'Development cooperation' of the Maastricht Treaty, namely art. 130U, emphasises that "aid from the EC, implicitly including bilateral aid from Member States, should be development-oriented". Presently, the attainment of this objective is made difficult by members states using their bilateral aid in a competitive manner, notably through tying as well as imposing their self-interests on EU aid policy; and by the absence of "principles to avoid aid diversion and ensure aid creation to meet demand". Given this situation, the achievement of development-oriented aid could be made easier by

⁸ In EC jargon 'operational co-ordination' refers to what here has been called 'vertical co-ordination' and includes mainly sectoral and country co-ordination [Council, 1992: 23(a) and (b)].

⁹ Of the various reasons offered for the donors' reluctance to undertake meaningful aid co-ordination most relevant seem two interrelated considerations. Firstly, "co-ordination can be costly in administrative time and expense" [Cassen *et al.*, 1986: 230] [World Bank, 1984: 43], and secondly it is rarely rewarded in terms of professional evaluation and promotion since "donor bureaucracies are not structured to promote aid co-ordination... [and] there are few incentives to individuals within donor bureaucracies to work with other donors" [Whittington and Calhoun, 1988: 303].

transferring to the EU greater control over the aid allocations by members states (Greenaway and Morrissey in [Lords, 1993a: 55-6]).

Yet, such an arrangement requires even more an adequate co-ordination of development co-operation's objectives. Not only sharing objectives is difficult to achieve, but once put into motion the process of selecting acceptable objectives most surely would entail a revision of some of the notions which presently underline development policies both at the national and at the Community level -- a point to which section 6 is dedicated. That the member states converge over the objectives of development policy is necessary even in case one would dare to consider another radical approach to co-ordination, namely the proposal to concentrate financial resources at the EU level and having the member states compete for obtaining them as implementing agencies.

Therefore, it seems that although co-ordination has been originally introduced as a simple measure for enhancing the available resources and providing more flexibility to member countries experiencing economic difficulties, it entails very complex issues and many different possibilities, unless it is meant to go no further than a mere exchange of information and the establishment of common data bases.

3. Co-ordination and development

The potential impact of co-ordination on development assistance cannot be assessed without some preliminary considerations relative to its evolution. The original concept of filling the gap between available capital and investment potential has gradually turned into an activity that involves income distribution (hence giving a higher priority to poverty reduction over mere income growth), human rights, democracy, the greater participation of women and distribution of food. Such goals are clearly either difficult to implement from the outside, i.e. by external actors, or imply such major involvement that accusations of neo-colonialism become unavoidable. Even when it is acceptable, due to the expected positive long-term effects, such involvement is considered too expensive and dangerous by the donor countries. Moreover, given the present trend toward a freezing or reduction of aid budgets in developed countries¹⁰, the financing of this type of involvement tends necessarily to reduce the funds available for more traditional assistance. But if "this shift in emphasis makes the design of aid programmes more complex", it also "increases the need for coordination of donor activities" [Chenery, 1987: 400].

In fact, the 1980s have not been a very favourable decade for foreign aid. Firstly, the importance of its contribution to development has been questioned both at the micro- or project-level and at the macro-economic level¹¹, and since its worst

¹⁰ For an assessment of expected changes in donor countries' contributions, see ICVA et al. [1993: viii-ix], while for EU's aid to Sub-Saharan Africa, see [Riddell, 1992: 66-77].

¹¹ "...there appears to be no statistically significant correlation in any post-war period, either positive or negative, between inflows of development aid and the growth rate of GNP in developing countries when other causal influences on growth are taken into account" [Mosley, 1987: 139]. The author also offers an exhaustive explanation of the more positive views held by some international agencies and others who maintain that "in the broadest sense...most aid does indeed 'work'", although "there is a substantial fraction of aid which does not work" and "inter-country statistical analyses do not show anything conclusive -- positive or negative -- about the impact of aid on growth" [Cassen et al., 1986: 11 and 33]. For Riddell the nine thousand case studies of official aid carried out by donors since 1970 are not sufficient to reach any firm conclusion, except that, firstly, "there is nothing automatic about the link between aid and development", and, secondly, "aid is by no means the necessary or even the crucial ingredient for development" [Riddell, 1987: 185 and 267]. Moreover, African analysts have argued "that from a macro-economic point of view the aid they have received has had little to no impact" [Riddell, 1992: 63].

As for the alleviation of poverty, the help that "the poor and destitute get from aid is largely adventitious rather than the consequence of rational action to that end by the donors". Hence, the conclusion that "stripped to its bare essentials, then, the case for development aid is that it increases growth rates in some developing countries, improves the living standards of some poor people... That is all. It is beyond doubt that some advocates of aid, with their hearts very much in the right place, have claimed more for aid than it was actually delivering" [Mosley, 1987: 181 and 234]. See also [Riddell, 1987] and the "Introduction" and "Part 3" of the volume edited by Jepma, which also includes a contribution by Cassen [Jepma, 1988a].

performance has been registered in Africa¹², it is difficult to avoid the conclusion that aid works least where development is most needed. Secondly, the end of the Cold War has stripped it of the political justification which presided over its original conception. Finally, the economic difficulties of the traditional donor countries in the last few years have further contributed to the erosion of the popularity of international co-operation, although its main problem remains the weakening of its rationale. Even the moral justification for aid¹³, as indirectly measured by the proliferation of NGOs and their activities in favour of the Third World and by widespread public backing, has started to be affected by the changing international climate and the growing difficulties faced by donor countries¹⁴.

Hence, effective donor co-ordination may help to enhance development assistance when budget deficits and fiscal austerity make it difficult to channel more public resources into foreign aid. Furthermore, the private sector must get involved. Ways, means and procedures to do so must be designed together with the necessary co-ordination with the public intervention at the national as well as the Community level. Yet, it must be recognised -- as does Mr. P. Pooley, DG-VIII Acting Director-General -- that until now "compromise rather than co-ordination was the keynote of Council activities" [Lords, 1993: 33-34].

Meanwhile the position of LDCs has also evolved. Whereas their diversification and differentiation have grown, so much so that several of them have become industrialised and are ready to enter OECD, poverty and deprivation have also increased, hence most of the African continent is worse off than it was twenty years ago. Nor has their capacity improved to absorb foreign assistance, and particularly technical assistance. Since the latter is essential to the promotion of self-reliance in recipient countries, their capability to make use of it must be strengthened. Donor co-ordination may effectively contribute to the crucial task of strengthening receiving countries' capability¹⁵.

Furthermore, most of the former socialist countries are now requesting international assistance and their number and size are greater than those of the LDCs that have overcome the need for aid.

4. Convergence of the objectives of development co-operation

Clearly, the possibility of co-ordinating donor countries' assistance policies is largely a function of the convergence of their objectives: the more diverse these objectives, the more difficult the co-ordination.

Aside from general objectives such as the development and consolidation of democracy and the respect of human rights, the specific objectives for the EU's own development co-operation include the pursuit in the Third World of sustainable economic and social development; the eradication of poverty and integration into the world economy [Maastricht, art. 139U (1)].

¹² Widely recognized is the fact that aid has been "far more effective in Asia than in Africa, both in macro and in rate-of-return terms" [Mosley, 1997: 234-5]. It is in "Africa, where it [aid] works relatively less well" and it is particularly Sub-Saharan Africa where there "has been the most intractable environment for development generally, and therefore for aid" [Cassen et al., 1986: 295 and 14]. At the micro-level, for crop/area development projects "the overall success rate is 62 per cent, but far worse in Africa, with over half the projects in east Africa deemed a failure". For livestock projects the World Bank states that they "have continued to perform less than well, fully 52 per cent being 'unsatisfactory'" [Riddell, 1987: 236].

¹³ Exhaustively dissected in Riddell [1987: Part I].

¹⁴ Opinion surveys have shown that in the 12 major donor countries support for development assistance has ranged between 70 and 85 per cent. However, more recently, declining support for current volumes of aid has been recorded in the four Nordic countries where the moral element has always been assumed to be strongest. Opinion surveys also revealed the high degree of ignorance about relationships with LDCs and levels of aid which prevailed in the main donor countries [ICVA et al., 1993: xiii].

¹⁵ On the topic of capacity building in Africa, see the study recently issued by ECDPM [Bossuyt et al., 1992] and [Berg, 1993].

As for co-ordination between the Commission and the member countries the 1992 Council Declaration recommends the sectoral level where co-ordination should be further expanded and explains that it should take "on a more systematic basis" [Council, 1992: para. 23 (a)]. The Declaration also "recognises the linkage between development co-operation policy and other Community policies" [Council, 1992: para. 27].

Important obstacles to co-ordination are diverging tied aid and conditionality. Not only tied aid -- also referred to as 'value for money' -- reduces the value of aid by raising the cost of obtaining goods and services, but different types and levels of aid tying create trade distortions and unhealthy competition among donors¹⁶. Aside from this formal tying, the commercialisation of aid is boosted by the type of project supported -- large-scale economic infrastructure generating more commercial gains for donor countries than aid to human resources development -- while mixed credits further donors' exports.

Then there is conditionality -- the explicit link between the provision of financial assistance and a given policy or behaviour on the part of the recipient government -- which characterizes various bilateral development programmes and the content of which has gradually expanded¹⁷ to include conditions beyond individual projects and programmes, focusing increasingly on macro economic problems, environmental issues and 'good governance', the latter variously defined to include democracy, open and accountable government, and respect for human rights (Council Resolution of 28 November 1991). This so-called political conditionality -- i.e. the linking of development aid to demands concerning democracy and human rights in recipient countries -- often has to compete, however, with the other and more mundane goals of donor governments, which tend to prevail over their better intentions. Moreover, given the difficulty of arriving at a uniform and widely accepted definition of 'good governance'¹⁸, the implementation of political conditionality has taken place in an inconsistent and often contradictory manner, causing resentment in the LDCs, because it impinges on their sovereignty¹⁹, while revealing incoherence and inconsistency among the donor countries²⁰.

Equally complex, and not less resented, is the implementation of environmental conditionality.

Clearly, both the multiplication of demands attached to aid and their differences must be reduced not only if co-ordination is to be enhanced [NAR, 1993: 8-9], but also if aid effectiveness is to be maintained [Hewitt and Killick, 1993]. In other

¹⁶ "Tying is increasingly justified as defensive or retaliatory with regard to other donors" (Jepma, 1991: 52). Out of the twenty DAC donors, only five report more than half of their bilateral aid as untied, with Australia having more than 90 per cent of its bilateral aid sourced in its market. Several donor countries have declared that they intend to increase the level of commercialisation of their bilateral aid programmes [ICVA, et al., 1993: x].

¹⁷ "Evidence from the NGOs and ODI [the London based Overseas Development Institute] suggested that political conditionality in EC aid was increasing" (Lords, 1993: 11). It is because of political conditionality that the EU has suspended aid to Haiti, Sudan, Zaïre and Zambia and has been instrumental in the donors' decision to suspend aid to Kenya and Malawi. Although the Vienna Conference on Human Rights has affirmed the principle of universality of human rights, the making of aid conditional to their being respected is strongly resented by receiving countries, also because of the lack of uniformity in the application of this conditionality.

¹⁸ Good governance is largely agreed to involve the following elements: democracy, i.e. freedom of expression, political pluralism, broad participation in the development process, and respect for human rights and the rule of law; sound economic policies, i.e. restructuring towards a market economy, large participation of the private initiative, integration in the world market and avoidance of excessive military expenditure; and anti-corruption campaigns and greater financial accountability.

¹⁹ The right of the international community to intervene in the domestic affairs of single states is based on an agreement on basic human rights which, from LDCs' point of view, is less than universally accepted. Furthermore, the parameters of such intervention are defined by the donor contrives which also carry out, or closely control, its implementation.

Although linking development aid and human rights was first established by the US in 1975, followed by The Netherlands in 1979, its implementation was complicated by the Cold War logic. The end of the Cold War is making political conditionality the cornerstone of the donors' relationship with the recipient countries and of the 'new international order'. Yet, neither authoritarianism nor the democracy presently growing in many LDCs will "necessarily help in promoting a strong, developmental state" (Sprengen, 1993: 30).

An interesting aspect of political conditionality is that its use may also force the donor countries to consider 'moralising their own foreign policy' (Uvin, 1993).

²⁰ When The Netherlands and Canada interrupted aid to Indonesia because of human rights violations in East Timor, other donors were happy to take their place in that country.

words, the consistency and feasibility of the objective is of paramount importance. Besides, if co-ordination may help to make conditionality more effective -- which from the view point of recipient countries represents a danger, as also argued under 5. below -- it may also provide an opportunity for a substantial untying of aid.

The process of convergence is, however, made more difficult by the accepted notion, at the country level as well as at the Community level, that "development policy is and must continue to be an integral part of... external relations policy" [Council, 1992: para. 16]. Since the latter objective has not yet been reached, and may still elude the EU for some time, as will also be delayed the convergence of development policies²¹, which implies a shift to EU central management of most development co-operation.

This is exactly the objective of the Commission (see its 'Development Cooperation Policy in the run-up to 2000'). The implication -- for some the risk -- is that designing a global EU development policy for all LDCs may create another occasion for a fundamental rethinking of the basic framework and principles of the Lomé Convention, starting at its planned mid-term review²². Whereas the symptoms of Lomé's malfunctioning are more evident, the challenges and priorities created by the emerging post-Cold War order are rendering it increasingly outmoded. At the same time, the suggestion that the Community should now pursue a global development policy is highly questionable not only because of the incredible diversity that characterises the Third World, but also on the basis of the argument developed under section 6 below.

5. Some problems of co-ordination

Although the stated aim of co-ordination is to increase aid effectiveness, this may not necessarily be the result. Co-ordination will reduce or eliminate the problems created by differences in either procedures or objectives -- see section 4 above -- only if a harmonisation of aid policies, or some aspects of them, is achieved. Harmonisation, however, may occur either around the lower or the higher level of the measures harmonised. Hence, it may also contribute to raise the extent to which development co-operation is tied²³ and conditioned. This aspect is considered in the following three cases.

1. In recent years The Netherlands has made increasingly extensive use of conditionality, mostly in relation to poverty alleviation. This trend has been even stronger at the level of project-assistance, which now has to pass three tests: poverty alleviation, the 'autonomy' of women, and environmental impact. Furthermore, the choice of countries for which The Netherlands is going to co-operate with World Bank-IMF adjustment programmes is influenced by the Dutch government's perception of these countries' record on poverty [Hewitt and Killick, 1992: 17-6]. If these standards were to be accepted by the other members of the EU, the consequences would certainly be noticeable, although the impact on poverty alleviation would remain questionable. However, since by concentrating aid to the poorest, and smallest countries, donors can expect very little net trade creation, even if their aid remains tied [Morrissey, 1992: 10], the chances for such

²¹ The Acting Director-General of DG-VIII, Mr. P. Pooley, admitted that "there was not a common policy and indeed there was no short-term prospect of achieving one" [Lords, 1993: 33].

²² However, the Commission's Vice-President Marin has expressed the intention to use the mid-term review to try to "adapt the Convention to the changing times and mentalities" and "to re-examine a number of internal mechanisms of the Convention" (Memo to the Heads of delegations in the ACP countries and the Heads of Unit of DG-VIII, October 23 1992, and Letter to the President and the Members of the European Parliament Development Committee, March 17 1993).

²³ According to the Commission estimates, in 1991 58 per cent of member states' bilateral aid to LDCs remained tied to procurement within either the donor country or a restrictive number of countries [Lords, 1993a: Minutes... 3].

harmonisation are not going to be high, and consequently there will be resistance to co-ordination.

The use of conditionality by the EU has been limited so far, but EU's growing support for World Bank-IMF adjustment programmes has forced it to accept the latter's conditionality. Furthermore, it must be stressed that the co-ordination of conditionality requires extra resources, since the effectiveness of the conditions imposed is also a function of the donors knowing better than the recipient country what is good for it. Hence the need for more and better information and larger staff, particularly in the case of projects. At the same time, the more intrusive conditionality becomes, the larger the risk that its implementation will be resisted [Hewitt and Killick, 1992: 41-42].

Meanwhile "optimal mechanisms for achieving conditionality co-ordination have yet to be evolved". So far neither the Consultative Groups nor the EU Delegates based in aid receiving countries have really been able, albeit for different reasons, to perform this function [Hewitt and Killick, 1992: 41].

2. One attempt at co-ordinating donors' interventions in the Third World and reducing conditionality differences is the Helsinki Arrangement reached on November 1991 concerning mixed credit. This is "a form of aid in which the donor offers a subsidy to one of its companies seeking a contract in an LDC" and is similar also to low-concessional aid [Morrissey, 1992: 17-18].

Mixed credits are a subsidy, in grant form, of up to 35 per cent of the value of a contract -- 50 per cent in case the contract concerns the poorest LDCs -- with the remainder of this value financed by a commercial loan and occasionally even by bilateral aid. Mixed credits are granted only to countries with export guarantee cover and although they are counted as ODA, the projects they finance generally do not have to respect the same standards applied to those under aid programmes.

So far most of the large investment projects mounted in the Third World with the support of developed countries represent complex financial operations with mixed credit tied to donor domestic supplies. This indirect financing of domestic exports has been closely related to the economic conditions prevailing in donor economies, rather than to LDCs' developmental needs. Moreover, mixed credits cannot be considered to increase welfare, but they do raise firms' potential profits and hence encourage rent-seeking. Besides they tend to go to the relatively richer LDCs and are dominated by large-scale, capital-intensive projects [Morrissey, 1992: 20].

As such, these operations have always met the resentment of the more liberal oriented countries and agencies which have tried for a long time to put an end to this practice which negatively affects international competition. Formally, the discussion of this problem has taken place within the OECD framework, where the abolition of subsidies to export credit has been championed by the USA, with the support of Canada, Australia, UK and The Netherlands, against the staunch resistance of the other European countries and Japan.

After lengthy discussions, which even reached the G-7 level, an agreement was concluded at Helsinki in October 1991, with the approval of the EU Commission.

Since the agreement only came into force at the beginning of 1992 and is being implemented gradually, uncertainties remain with respect to its operation and to its eventual impact on the financial flows directed to the Third World. Following are the main worries concerning the Arrangement.

Firstly, although the stated aim of the Arrangement is to avoid the use of

BOX 1

The main features of the Helsinki 'Arrangement on Guidelines for Officially Supported Export Credits', or 'Helsinki Package', are

- (i) elimination of mixed credits and tied aid for commercial operations with the more advanced LDCs and the Eastern European countries, and the promise to consider by 1993 their abolition in all other cases. Except in the case of least developed countries, mixed credits and tied aid should only be used for projects unable to attract commercial financing. The 'commercial viability' of a project is considered absent when (a) the internal rate of return is negative; and (b) commercial loans are not available;
- (ii) abolition of tied development credits to LDCs having a per capita income above 2,465 dollars;
- (iii) creation of a Consultation Group, open to all parties to the Arrangement, for mutually appraising the commercial viability of all financing projects above SDR 50 million. Once considered commercially viable, the concessionary financing of the project is no longer admissible, unless the over-riding non-trade related national interest is communicated to the OECD Secretary General. But then any other country can match the offer. Once the proposal has been found 'commercially viable' no party can provide aid credit; and, finally,
- (iv) keeping outside the Arrangement all extremely favourable loans, namely those with a concessionality level of 80 per cent or more, or those with a concessionality level lower than 35 per cent, as they are not considered as ODA.

development co-operation for commercial purposes, particularly to avoid unfair competition, the fact that the Consultation Group has been established outside the existing Working Party on Financial Aspects of Development Assistance (Working Party) of the DAC may signal a further commercialisation of development co-operation. This apprehension may be cleared once the criteria for the appraisal of tied aid financing of large projects have been fully established and their application is regularised.

Secondly, it is feared that the Arrangement may encourage donors to resort more to loans with very favourable concessional levels, but mainly directed to the richest LDCs which, in principle, need them less. The same result can, however, also obtain for those loans falling between 80 and 35 per cent concessionality, since the difference must be provided by the receiving countries and only the more advanced among them are able to do so.

Thirdly, what are not yet clear are the possible effects of the Helsinki Arrangement on the balance of payments of the LDCs concerned. Whereas in principle all parties are against aid credits which cause trade distortions -- incidentally the balance of payments effect would be highest if all tied aid were abolished -- in practice no country is willing to forgo the promotion of exports. Hence, the mutual control generated by the Arrangement may also contribute to maintaining the practice of tied aid.

Finally, there exists the risk that by curtailing the possibility of subsidising domestic exports, assistance funds may be reduced too. However, very preliminary statistics available to the Consultation Group -- and till now the Consultation Group has reviewed only a few hundred cases -- seem to indicate that so far there are no signs of such an adverse effect. However, an evaluation of the Arrangement is being prepared by the OECD Secretariat.

The Consultation Group is engaged in the process of clarifying some of the basic principles contained in the Helsinki package, such as 'commercial viability', 'appropriate prices determined on market principles', 'substantial support', and 'break-even' and 'risk-based' premia. The clarification of the latter is very important because the policies for setting premia can cause trade distortions. Also not yet well defined is the 'developmental relevance' of the proposals (even though such a relevance is easily assumed in practically all cases) given the difficulty of proving the existence of any developmental effect. As for commercial viability, it is difficult to agree on what constitutes a project, what set of prices to use, the length of the period to consider, and, of course, the interest rate assumed.

In order to facilitate the implementation of the Helsinki Arrangement, the Working Party -- which is busy finding possible policy options for progressively reducing the use of tied aid -- and the 'Trade Committee' are working in close co-operation with the Consultation Group, particularly for what concerns the methodology to be used and the comparability of the material presented by countries in respect of the proposals under the Group's consideration. Agreement has already been reached that for tied aid financing of large projects mutual appraisal should take place some time between the completion of the feasibility study and the prior notification of the intention to make a tied aid credit commitment, and normally before detailed design work is done. Furthermore, where clarification is sought about possible trade motivation for a tied aid credit. Aid Quality Assessment is to be provided. To facilitate the exchange of views and information in preparation for discussions of development quality the DAC Secretariat has set up a network of Contact Points in all capitals. The network's function is to ascertain whether or not there are objections to large projects, while disseminating information about the smaller ones.

3. As for aid tying, the hope is that co-ordination may bring a shift from national tying to Community tying, i.e. allowing LDCs to buy from the cheapest Community source, thus perhaps increasing the value of that aid. Calculations based on the reasonable assumption of 15 per cent "as an approximate average of direct tying costs" show that for a selected number of LDCs receiving aid from eight EU donors these yearly costs add up to some 1 billion ecus. Considering that indirect costs are not insignificant, though difficult to quantify, the figure seems a rather conservative one [Jepma, 1992: 58-60] [Jepma, 1988: 803-4] ²⁴. Yet, although EU tying will help provide more and better standardised products and services, it still remains self-perpetuating [Morrissey, 1992: 9] and, equally, it tends to hamper regional integration among the receiving countries. There are, however, two other considerations. The first one is connected to the regulation of public procurement: if such a regulation means that "member states cannot tie aid contracts to domestic firms, the logical implication is that bilateral aid cannot be tied to firms, but EC aid can be tied to EC firms", with the further implications that tied aid becomes "the province of the EC" which "should be responsible for all project aid" and for contributions to multilateral agencies, with a clear improvement of projects' co-ordination. Secondly, "if only EC-wide tying were permitted, many states would reduce the amount of aid allocated for this purpose. Consequently, the use of tied aid in the EC would decline and other donors would be encouraged to untie". In this manner some guidelines for subsidiarity in EU policy seem to emerge (Greenaway and Morrissey in [Lords, 1993a: 55]). There remains, however, the problem of reducing the potential conflict between conditional lending, notably structural adjustment related loans, and tied bilateral aid [Morrissey and White, 1994: 15]; another difficult, though necessary, co-ordination task.

²⁴

According to this author "an average of 15 to 30 per cent still seems to be the best aggregate estimate of direct excess costs of tied aid". Yet, he cautiously adds that "since there is no clear link between the development impact of aid and its tying, one cannot, a priori, conclude that tied aid, whether or not procured on competitive terms, is necessarily worse for the recipient than untied aid" [Jepma, 1991: 15-6].

Finally, to assess whether co-ordination is both useful and feasible also requires that the role of foreign aid be tackled.

6. Role of foreign aid

Why then foreign aid? And what is more, is there any need to co-ordinate at the regional level policies which are increasingly marginalised in the national context? In any case, a suitable answer to the question of whether co-ordination is necessary at all cannot be discussed without first rethinking both the rationale for aid as well as its adequacy and quality. Considering the changes brought about foreign policy objectives by the end of the Cold War, it is impossible to expect that aid objectives are not equally affected [OECD, 1990].

Considering the changes indicated above under section 1, the development assistance given by the Community and its member states would seem best concentrated on the following objectives:

- (i) alleviation of poverty and provision of basic needs to the poorest parts of the Third World. This objective can be best achieved if the donor countries concerned do indeed co-operate closely. This would help avoid duplication of efforts and would eliminate suggestions that national interest guides what should be a humanitarian activity. Presently, however, less than 7 per cent, or about \$4 billion, of total bilateral aid is spent on human priority areas [UNDP, 1992: 7] and there is mounting "evidence from NGOs that the share of shrinking aid budgets devoted to poverty reduction is also declining" [ICVA *et al.*, 1993: ix and xi]. In general, development assistance "today lacks a clear focus on poverty" and "it is unlikely that ODA has in any significant way benefitted the poor via a trickle-down of economic growth" [Kaul, 1993: 17]. The achievement of this objective, to which the participation of NGOs may result very useful, requires also the elimination of the present high degree of discrimination between aid recipient countries or groups of countries, and hence the phasing out of the Lomé Convention and all the other discriminatory arrangements. Although Europe feels that it still holds some responsibility towards Africa, it finds that the Lomé Convention -- i.e. the size of its membership and the cumbersome machinery it has generated -- makes it increasingly difficult to focus on Sub-Saharan Africa where humanitarian aid is most needed.

The implementation of this different approach to poverty relief could begin with the indebtedness incurred by the countries receiving this type of aid simply being written off;

- (ii) supporting UN agencies involved in (i) and providing more resources for UN peace keeping operations²⁵ and for so-called 'humanitarian interventions', like that in Northern Iraq in favour of the Kurdish population. Since the number and extent of the latter can only rise, the need for more funds is to be expected. To increase the effectiveness of the resources devoted to this task, some co-ordination may be important, although the final end of such co-ordination would entail the creation of a permanent UN force, as now being discussed in some circles. Furthermore there exists the need to finance (a) the denuclearisation of Eastern Europe as well as avoiding further nuclear proliferation in other parts of the world; and (b) the various funds created to tackle global issues, such as the Global Environment Facility, the UN Population Fund, the UN Women's Fund, and

²⁵

One of the five objectives of Norwegian development assistance is the promotion of peace between nations and regions [Stokke, 1992: 91].

others.

Both these two objectives will not necessarily meet with the enthusiastic approval of the majority in all DCs, but within the EU they should certainly not be rejected outrightly. Increasingly more difficult would seem the task of securing the necessary popular support for programmes directed at promoting the development of certain parts of the world. A negative reaction would be due not only to the higher costs, longer terms, and doubtful past results, but mainly to the fact that the need for other countries to become developed has never been fully understood²⁶ and has recently even started to be feared. The passing of the Cold War has eliminated the Western public's main rationale for accepting development assistance. A broader concept of security, extending to poverty alleviation, environmental protection, solution of regional conflicts and control over international flows of arms, drugs and people mobility, must replace that of military security which dominated international relations until the fall of the Berlin Wall²⁷.

An objective which might be more understandable and acceptable to a part of the public in donor countries, particularly in the EU, is

- (iii) the reduction of the pressure on Europe and the US of new waves of illegal refugees and immigrants²⁸. France's Interior Minister Mr C. Pasqua sustains that "the immigration problem from the East or the South, can be resolved only by development in the countries of origin. Population will stay put only if we decide to carry out an ambitious development policy and if the world's seven richest countries devote 1 per cent of their GDP to it" [Le Monde, 1993: 13]. Although it is far from certain that migratory flows can be significantly influenced by economic development in the areas of origin, and although Pasqua's figure of 1 per cent has been considered both too small to seriously check the drive to emigrate and too optimistic given the economic problems that donor countries face, the slowing down of migration flows may prove to be an important objective capable of generating enough interest for development assistance and hence for more funds. At the same time the public at large must be reminded that given present population trends in the DCs, namely the fast aging of their populations, the eventual resumption of a steady economic growth may generate labour shortages that immigration might help solving²⁹. Therefore, Pasqua's goal of moving "toward zero immigration" is not only impractical -- and unacceptable to many -- but may even result uneconomic for many DCs, particularly the European ones. However, since most of the labour required will have to be skilled workers, the policies aimed at increasing human capital also enhance their exportability and make people more inclined to emigrate. Thus, the

²⁶ The scant information available on governments' expenditure on development education (i.e. the process of increasing understanding of the relationships between LDCs and DCs) shows that The Netherlands is by far the country that spends most, namely \$1.05 per head in 1991, against 2 cents of a dollar per head in the UK, for a total of \$16 million, more than ten fold the amount spent in 1990 [ICVA et al., 1993: xiv]. The low level of expenditure in the UK is due to the policy followed by Ms Thatcher, one of her first acts in 1979 being the stopping of all funding for development education centres [Lords, 1993a, 78].

²⁷ Such a broader concept of security cannot fail to influence the notion of sovereignty by justifying humanitarian interventions (see under 6. (ii) above) and by calling into question existing national borders, up to now "perceived as both artificial and sacrosanct", particularly in Africa [Deng, 1993: 32].

²⁸ It is estimated that as many as 100 million people, mostly from LDCs, are working (legally or illegally) in other countries and "are expected to increase further in the coming decades". The total value of their official remittances worldwide were worth some \$66 billion in 1989 [Russell and Teitelbaum, 1992: 1]. An estimated 17 million of these 100 million are refugees. As for Europe, it has received 15 million migrants between 1980 and 1992, mainly for permanent settlement [UNFPA, 1993: ii-iii and 7]. In Germany alone are living 1.6 million refugees, while the migrants are 6.7 million, one in 12 inhabitants. In The Netherlands more than 35 thousand people applied for refugee status in 1993.

Although immigration may generate several positive economic effects, the type presently experienced by the DCs does not. In fact various studies recently made in the US show that immigrants absorb much more public money for education, medical care, welfare and other social benefits than they contribute in taxes; besides which there is the cost caused by displaced domestic workers. For the US the estimated difference is \$669 billion for the next decade, namely \$952 billion in costs minus \$283 billion in taxes paid, assuming that the total number of legal and illegal immigrants does not rise above 11.1 million. On average each immigrant costs tax-payers more than \$60,000 during a decade. Curbing illegal immigration alone could save \$186 billion by 2002 [Huddle, 1993: 6].

²⁹ It is already being sustained in Germany that "in the first decade of the next century a controlled immigration of people, including Turks, would be conceivable in order to offset the decline in the potential labour force in Germany and the EC". The labour needed, however, will be prevalingly skilled workers [Hönekopp, 1993: 73].

contradiction implicit in a development assistance aiming at producing an exportable labour force, must be openly addressed. Therefore, while presently dealing with the problem of immigration represents one of the most cogent argument for foreign aid, it must be recognised that the introduction of this objective into development policy may also alter both its content and modalities.

Of about 8 million non-European residents in the EU at the beginning of the 1990s, more than half originated from Northern Africa and from the North-Eastern Mediterranean. On top of that, there is the phenomenon of immigration from Eastern Europe, but for various reasons the size of the flow and its eventual evolution cannot be easily evaluated.

The problem of migration has quickly found its way into both a recent Council Declaration [Council, 1992, para. 8] and one issued by the Tokyo G-7 summit in July 1993, funding for refugees (particularly by Sweden, Belgium and The Netherlands) as well as for emergencies -- including Somalia and Bosnia -- and global environment, is increasingly being financed from existing, often declining, aid budgets, the 'pollution' of which consequently rises [ICVA et al., 1993: ix and 35].

Immigration to Western Europe is mainly determined by push effects³⁰ -- hence the need to direct development co-operation to removing or lessening these effects. In fact, the German minister for economic co-operation has accepted that "German development policy and cooperation... gains the quality of a preventive refugee and migration policy" [Spranger, 1993: 13].

At the same time, the existence of secondary and informal labour markets in Europe, in Southern countries more than in Northern countries, favours the inflow but forces the immigrants to compete with domestic work forces. There is therefore a need for domestic and common policies to better regulate these markets, thus also avoiding the social tensions caused by such competition. Given the characteristics of the phenomenon, it seems advisable to complement any immigration policy with an effective development co-operation targeted at the countries from which the flows originate. Ample scope therefore exists for member states and the Community to tackle this challenge by co-ordinating both national immigration policies and the manner in which these complement development policies.

Even more effective would be for the Community to be given a leading role in the field of immigration, a role that could go beyond mere co-ordination and would invest the Community with a new mission. So far the EU passes muster with respect to at least two of the three criteria selected for rationally establishing a division of tasks between itself and the members states [Bossuyt et al., 1993: 60-2]. Starting with the criterion of comparative advantage, such a mission concerns cross border interventions, implies a large financial critical mass, and involves particularly sensitive areas, all of which the EU is clearly better equipped to deal with. As for the second criterion, namely institutional capacity to perform assigned tasks, a reorganisation of the EU bureaucracy is needed with an increase in expertise, and improved monitoring and evaluation capabilities. The third criterion, the strategic vision of the future of the EU, could not be better represented by the proposed change in EU development assistance. Moreover, to increase their effectiveness, the efforts directed towards the eradication of poverty could be geographically circumscribed and aimed largely at the countries of

³⁰ Also called the 'pressure to migrate', meaning 'excess labour supply in the presence of a negative per capita-income differential'. Entries into the labour force in the countries on the Southern shore of the Mediterranean are estimated at 25 million between 1990 and the year 2000; assuming that domestic absorption remains constant, this will leave a relative excess supply, i.e. a migration potential, of 1.5 million per year [Bruni and Venturini, 1992: 4-14].

the Mediterranean, basically the Maghreb and Mashrak regions, parts of West Africa³¹, and those areas along the Baltic-Balkan axis. A further rationale for such a policy is to be found in the need to import trained manpower that an ageing Europe will start feeling as from the beginning of next century. This need will be felt even more if Europe's rate of growth will start increasing again.

This implies, however, that agreement is reached among the member countries with respect to (a) a real common strategy be agreed among the member countries; (b) a decision be made to how much and what should be delegated to the Community; (c) which instruments should be used; and (d) how to involve NGOs and the private sector in a more structured way. Concerning (c) the problem arises of what to do with the Lomé Convention and the so-called 'Mediterranean Policy', none of which have shown much effect and both of which seem to have little relevance to the achievement of objective (ii).

There are two other acceptable objectives for development policy.

(iv) Assist those LDCs that export drugs to shift to other productions. To this effect the EU has already granted to four of the Andean Pact countries -- Bolivia, Colombia, Ecuador and Peru -- trade preferences similar to those of the Lomé Convention. The preferences refer to a range of industrial and agricultural products for a period of four years from the end of 1990 and are meant to help these countries to overcome the negative economic effects of moving away from drug trade. Clearly the scheme could be improved and extended to other LDCs engaged in the same type of exports.

(v) Protecting the environment³², an issue that has been the subject of a series of international conferences and treaties. It has also spawned a new institution, the World Bank managed Global Environmental Facility (GEF), to channel aid into projects meant to produce global benefits. While rejecting the suggestion that aid is always bad for the environment, it must be recognized that aid and structural adjustment have an environmental dimension to be taken care of. Yet, the protection of the environment in LDCs is "one of the few arguments for aid that sways western donors" and the money available for purely environmental schemes often exceeds the supply of projects [The Economist, 1993-94: 54]. Since the Maastricht Treaty has embraced sustainable economic development, assigning to this objective top priority [Maastricht, 130U (1)], the issue has become the assessment of the environmental consequences of any aid related activity, project or programme alike. Clearly, environmental interventions very much require to be part of an overall environmental policy, hence this type of aid strongly contributes to the strengthening of co-operation both at the level (ii) and (iii) described in section 2. The co-ordination with LDCs is crucial because donors and recipients tend to have different environmental priorities.

Although the humanitarian aspect of poverty alleviation makes it difficult for many to oppose it, merging it with the notion of reducing immigration pressure cannot but increase the support of public opinion. Since the pursuit of all five

³¹ Since development aid aimed at stimulating economic growth does not immediately reduce migration, this long-term strategy must be combined with measures for generating employment in the short run. This should not be attempted by solely decentralising productive activities to the countries of emigration -- a policy which in many cases has actually accelerated the propensity to emigrate -- but should promote intensive agricultural activities. The latter have two main effects: they contribute to the achievement of food self-sufficiency and export growth, while at the same time keeping the labour force in rural areas by improving their income. This policy "seems particularly appropriate to the Southeastern Mediterranean countries" and it "constitutes a path which is likely to be in harmony with the objectives of the countries on both the Northern and the Southern shores of the Mediterranean over both the shorter terms and longer terms, thus involving them in a joint effort" (Bruni and Venturini, 1992: 17-8).

³² "With... aid budgets under threat all over the world, one of the few arguments for aid that sways western donors is the need to protect the environment in developing countries" [The Economist, 1993-1994: 54].

objectives³³ indicated above -- namely to alleviate poverty, to reduce the risk of wars, to ease immigration and drug pressure at DCs' borders, and to improve the environment -- is in the donors' self-interest, the ambiguities that have marred development assistance since its inception should vanish and any opposition to its continued financing should decline. In this way it also becomes easier to distinguish between policies dictated by self-interest and those guided by disinterestedness or altruism. In actual fact, democracies cannot have a foreign policy based solely on self-interest: this would not only create too many enemies, but would also offend too many of their own people.

As to the question raised above -- point (c) above -- relative to the role of the Lomé Convention, it seems that by improving its framework, sharpening its instruments and making its coverage coincide with the area of actual immigration to Europe, the Convention could very well serve to guide EU policy toward the Third World according to the objectives elaborated above³⁴.

With respect to these objectives the task division between the EU and its member states, bearing in mind also the previously mentioned criteria [Bossuyt et al., 1993: 60-2] could be easily sorted out as follows:

(a) the EU would have primary responsibility for objectives (ii) to (v) as well as for (i) when poverty alleviation is connected to the reduction of immigration flows; whereas

(b) member states would retain primary responsibility for (i) except for the case indicated under (a), and can pursue any of the remaining objectives (ii-v) with close co-ordination by the EU.

7. Instruments of co-ordination in the EU

The need for more co-ordination has been reiterated more recently by the Development Council [Council, 1992: points 21-27]. However, and regardless of the objectives reformulated in 6. above, development co-operation policy cannot be considered in isolation from the various other policies (which directly or indirectly influence the development of the countries to which aid is provided) implemented by member states and by the Community itself. Hence the need for the so-called horizontal co-ordination -- or coherence, linkage, cohesion, consistency -- of the objectives of development co-operation in the policies that the Community, but also the member states, implement which are likely to affect LDCs³⁵ [Maastricht, art. 130V]. It is in fact rather common opinion that both EU's and members states' policies on trade and aid vis-à-vis LDCs are often inconsistent and incompatible.

This is different from the vertical co-ordination of development policies among the

³³ Convinced that "a basic restructuring of ODA is not only necessary. It has now become possible". A top UNDP officer presents a list of objectives for development assistance which are not very different than those elaborated in the text [Kaul, 1993: 19]. It is also interesting that the DAC Report's section on 'the role of development assistance and aid agencies' begins by highlighting their "important role in contributing to the solution of global problems such as environment, migration, and narcotics, and... to political, economic and social progress, and stability" [OECD, 1992: 48]. From which follows that the emphasis is on global progress and stability for them rather than specifically for LDCs'.

³⁴ 'EU Policy toward the Third World' seems more correct than current misnomers like 'development co-operation' or 'aid policy'. Once the idea that financial and technical transfers are effected in the interest of the DCs, expressions like aid, donor country, moral obligation, etc. become obsolete. Any moral commitment can be left entirely to the NGOs which can also better express it in a varied and differentiated manner; thanks are no longer to be expected for these transfers; and the dependence of the recipient countries may decline. It should also erase the concept of partnership -- stemming from "mutual dependency and solidarity" -- that formally constitutes the core of the present Lomé Convention. In reality this cruel myth hardly serves to hide the 'collective clientelism' which the Convention has created. As to the question of whether the new proposed Lomé serves the interests of Third World countries, it is high time that the answer be left to the latter, free to participate in or stay out of it.

³⁵ A now classic example of lack of horizontal co-ordination between EU development, agricultural and trade policies is that of the beef surpluses exported to West Africa. Since 1984 the EU has spent more than 400 million ecus in export subsidies, while West Africa's domestic production has been seriously undermined. Therefore, the considerable financial aid contributed by the EU's EDF to support beef production in the region has been wasted.

member countries and between the latter and the Community [Maastricht, art. 130X]. Here lies, however, the intrinsic difficulty in designing and implementing an overall EU economic policy that does not contradict but rather enhances Europe's foreign aid policy.

A very simple, but rather relevant, aspect of this difficulty is the divided responsibility for development policies in many donor countries³⁶ -- the Dutch presenting one of the best examples of decision-making procedure in this area -- and even within the Commission, where two Directorates General -- DG-I and DG-VIII -- are presently involved in development assistance. Being hierarchically organized, these Directorates "have a compartmentalized way of working" and do not easily co-operate even among themselves [NAR, 1993: 11]. Even less co-ordination of policy exists between DG-VIII and DG-VI (DG for agriculture) so that policy-makers in the EU are often unaware of the effects of the common agricultural policy (CAP) for other countries, particularly the poorest ones.

Since the problem of horizontal co-ordination, or coherence, exists both at the Community level and at the national level, it would be useful to create an office within the Community able to both adequately analyze the impact of common policies on LDCs and to propose needed changes when necessary [Faber, 1992: 11]. Alternatively, "the particular Council that is responsible for a certain area of common policy should be responsible for realizing the coherence of this policy within the framework of the common development policy" [NAR, 1993: 10]³⁷. At the same time, a similar body should exist in each country able to guarantee more coherence between the country's development policy and all its other policies.

One should not forget, however, that co-ordination has been on the agenda since at least 1984 when the principle of a voluntary à la carte co-ordination was adopted by the Council³⁸. Yet not much progress has taken place, except in the areas of democracy and human rights, and that of structural adjustment and management of counterpart funds, two areas in which "a more systematic, reciprocal form of co-ordination has emerged" [Commission, 1993].

Attempts and proposals for reducing waste and improving the coherence and consistency of foreign aid programmes have included abandoning the country-by-country approach for a regional one and even for targeting goals instead of nations. The Netherlands already utilises a regional policy, according to which aid money is allocated to a region rather than to each of the countries comprised in it. Hence development funds can be easily diverted from one country to another within the designated region. More radical would be to resort to targeting goals. Elaborated in a report -- prepared under the direction of the National Security Council -- to US cabinet-level officials and recently leaked to the press [Lippman, 1993: 1] it defines a number of national goals to each of which Congress would allocate funds. Within these broad objectives, managers would approve specific programmes and choose between competing groups -- not necessarily only government agencies, but also international ones and NGOs -- seeking to operate them. The purpose is to reduce political considerations in the choice of countries and projects, and to have a clear objective against which to measure the effectiveness of the programme targeted to the specific goal considered. Interestingly enough,

³⁶ The fragmentation of responsibility for the execution of national aid programmes is often considerable. Out of 20 members of DAC, only 8 have a Cabinet Minister responsible for aid, and even these show varying degrees of autonomy from other Ministers. The fragmentation is at its worst in Japan where four ministries are involved, scarcely less complex in France, still significant in Germany, and lower in the UK and the US. Moreover, it has been remarked that it seems "ironic that DAC members should resolve to address consistency between Ministries when the lack of consistency and transparency within Ministries is so striking" [ICVA, 1993: 48].

³⁷ Rather interesting in this respect is the proposal to enhance co-operation among the national councils or similar institutions that advise their respective governments on development assistance [NAR, 1992].

³⁸ The same year the World Bank announced that "aid administration is a particularly important area for institutional reform" [World Bank, 1984: 39].

the call to start allocating aid resources to "development challenges" rather than to countries also comes from a top UNDP officer who suggests that "global development today requires action on the national level (including sub-national and local) as well as global action [Kaul, 1993: 18-9].

Finally, if more co-ordination may improve the effectiveness of EU's aid policy, more co-ordination seems also instrumental for EU to achieve a greater weight vis-à-vis multilateral institutions like the IMF and the World Bank.

8. EU aid programme

The EU's development aid programme, which started in 1958 and since then has grown up piecemeal, includes long-term development assistance, of which Lomé is the most important item; emergency aid; and, more recently, aid to Eastern European countries. However, since the Lomé Convention is exempt [Maastricht, art. 130W(3)] from the improved procedure of co-operation which the European Parliament established in article 189C of the Maastricht Treaty, the resulting "compartmentalization of decision making may reduce the effectiveness of the coordinating capacity that is agreed in article 130V" [Faber, 1992: 8].

Since development assistance is an area the competence of which, as an exception to the normal rule, is shared by the EU and the member states, the Maastricht Treaty dedicated special attention to development co-operation (see new Title XVII). While not going so far as to establish a 'common policy' as such, implying an exclusive Community competence, for the first time it formally empowers the Community to conduct this activity and it specifies three objectives -- see 4. above -- to be pursued. Recognising, however, that "the achievement of these objectives remains, as far as bilateral programmes are concerned, the responsibility of each Member State", the Treaty underlines the resulting complementarity between these policies and Community aid, and hence the need for their co-ordination [Council, 1992, para. 18 and 19]. Since, according to the Council, effective policy co-ordination has already been achieved with respect to human rights, family planning and support for structural adjustment, the new priority areas for the co-ordination of development policies between the EU and its member states are health, food security, and education and training.

Until now EU development policy has been characterised by special relationships with many groups of LDCs to which a specific combination of aid and trade measures was provided, the latter mostly in the form of tariff preferences³⁹. Lately, however, the effectiveness of this instrument has been severely hampered by the lowering of MFN tariffs resulting from MTNs; the diffusion of NTBs; the proliferation of trade preferences, particularly those granted to Eastern European countries; and the completion of the Single Market [Sideri, 1992]. All together this means that "preferential treatment is only very partially determined by considerations of development cooperation" [Faber, 1992: 6].

9. Final Remarks

Although it is not clear whether a larger transfer of resources for development aid from member countries to the Community would raise their effectiveness by improved co-ordination, the transfer itself would be conditional to maintaining a minimal critical mass for bilateral programmes and to substantially reforming the EU aid

³⁹

"Moreover there is the striking fact that the countries which are most favoured by the Community's 'pyramid' of preferential trading arrangements, the 69 ACP states, seem not to have performed as strongly as many less-favoured states in other parts of the world" (Lords, 1993a: 14).

programme, changes being particularly needed to "the legislative framework, to policy, to management and to accountability" (IDS memorandum to House of Lords [Lords, 1993: 56]). What most LDCs really require is better access for their products to DCs' markets⁴⁰ and more resources for building up their administrative and technological capacity.

Foreign aid is still needed, but its objectives must include that of dealing with immigration problems, hence helping development aid to remain (a) politically feasible, in view of the increase in the fear for aliens that political groupings and other bodies are utilising to enhance their own aims; and (b) financially feasible, in view of the costs incurred in setting immigrants, whether they are political refugees or displaced persons or economic migrants, whether legal or illegal ones.

Development co-operation policies are needed to shape public as well as private intervention. National conditionality must be co-ordinate both at the regional level and, even more so, with many other policies which directly or indirectly affect the development of the recipient countries and reduce aid effectiveness. It is exactly this "fundamental shift in the outlook and actions" of the Western democracies that the report by the Trilateral Commission recommends. Since "most international migration today is an act of desperation, not choice", the shift must be "anchored in a new international imperative: the right of individuals to stay where they are" [Trilateral, 1992: 12].

So, unless foreign aid is radically overhauled it faces "death by a thousand cuts, leaving a continually shrinking foreign assistance program with no clear direction or impact". This assessment, although addressed to the US situation (see Lippman [1993: 1]) is no less valid for the Europe. Furthermore, the EU must also seriously reconsider its system of preferential arrangements with the Third World, and particularly the Lomé Convention, if it wants to regain enough support for its development policy.

As for co-ordination, not only are its "limits... on the donors' side... set by their political and commercial interests" [Cassen *et al.*, 1986: 237] but it cannot be properly discussed without considering the objectives of development assistance -- that is unless co-ordination is to take very limited forms. In other words, a proper analysis of co-operation can only take place within a much more comprehensive discussion relative to the role and limitations of foreign assistance in a rapidly changing world system.

⁴⁰

"Even the most modest estimates of the gains that developing countries would enjoy from industrial-country trade liberalization point to an amount at least equivalent to the approximately \$50 billion that industrial countries transfer to developing countries annually as official development assistance" [World bank, 1992: 44].

REFERENCES

- Berg, E.J. (1993), Rethinking Technical Cooperation. Reforms for Capacity Building in Africa, UNDP, New York
- Bossuyt, J., G. Laporte and G. Brigaldino (1992), New Avenues for Technical Cooperation in Africa. Improving the record in terms of capacity building, ECDPM occasional paper, European Centre for Development Policy Management, Maastricht.
- (1993), European Development Policy After the Treaty of Maastricht. The midterm review of Lomé and the complementarity debate, ECDPM occasional paper, European Centre for Development Policy Management, Maastricht.
- Bruni, M. and A. Venturini (1992), "Pressure to Migrate and Propensity to Emigrate: The Case of the Mediterranean Basin", Centro Studi Luca d'Agliano, Development Studies Working Papers No. 45, Torino.
- Cassen, R. et al. (1986), Does Aid Work?, Oxford, Clarendon Press.
- Chenery, H. (1987), "Foreign Aid", The New Pelgrave, A Dictionary of Economics, Macmillan, London.
- Deng, F.M. (1993), "Africa and the New World Dis-Order. Rethinking Colonial Borders", The Brookings Review, 11, 2, Spring.
- EC (1992), "Maastricht Treaty", EC, Brussels [Maastricht].
- The Economist (1993-94), "Aid and the environment", 25.12-07.01.
- EU, Commission (1993), The Commission Identifies Five Priority Areas for the Coordination of Development Cooperation Policies Between the EC and the Member States, 24 March 1993, COM(93) 123 [Commission, 1993a].
- (1993), Communication à la presse, 1714ème session du Conseil, Developpment, Bruxelles, 2.12.1993, 1064/93 (Presse 215) [Commission, 1993b].
- EU, Council Declaration, 18 November, 1992 [Council, 1992].
- Faber, G. (1992), "The Common Development Policy of the EC after 'Maastricht'", unpublished paper, December.
- Grilli, E. and M. Riess, "EC Aid to Associated Countries: Distribution and Determinants", Weltwirtschaftliches Archiv, 128, 2.
- Hewitt A. and T. Killick (1993), "Bilateral Aid and Conditionality: A First View", paper presented to the EADI General Conference, Berlin, September.
- Horne, J. and P.R. Masson (1988), "Scope and Limits of International Economic Cooperation and Policy Coordination", IMF Staff Papers, 35, 2, June.
- House of Lords (1993), EC Development Aid, Selected Committee on The European Communities, Session 1992-93, 21st Report, HMSO, London [Lords, 1993].
- (1993a), EC Aid And Trade Policy, Select Committee on the European Communities, Session 1992-93, 27th Report, HMSO, London [Lords, 1993a].
- Hönekopp, E. (1993), "The Effects of Turkish Accession to the EC on Population and labour Market", Intereconomics, 28, 2, March/April.
- Huddle, D. J. (1993), "Immigration: Stem the Flow, Savings Will Follow", International Herald Tribune, September 7.
- ICVA et al. (1993), The Reality of Aid. An independent review of international aid, London?, June.
- International Herald Tribune, (1993), 6 June [IHT, 1993].

- Jepma, C.J. (1992), "EC-Wide Untying", Stichting International Development Economics, University of Groningen, Groningen.
- Jepma, C.J. (1991), The Tying of Aid, OECD Development Centre Studies, Paris.
- (1988), "The Impact of Untying Aid of the European Community Countries", World Development, 16, 7.
- (ed.) (1988a), North-South Co-operation in Retrospect and Prospect, Routledge, London.
- Kaul, I. (1993), "A New Approach to Aid", Development and Cooperation, 3.
- Lippman, T.W. (1993), "U.S. Is Urged to Target Goals, No Nations, for Foreign Aid", International Herald Tribune, 20 September.
- Meissner, D. et al. (1992), International Migration Challenges in a New Era, Trilateral Commission [Trilateral, 1992].
- Le Monde (1993), "Un entretien avec Charles Pasqua", 2nd of June.
- Morrissey, O. (1992), "The Mixing of Aid and Trade Policies", CREDIT Research Paper No. 92/5, University of Nottingham.
- and H. White (1994), "Evaluating the Concessionality of Tied Aid", Working Papers No. 53, The Institute of Social Studies, The Hague.
- Mosley, P. (1987), Overseas Aid: Its Defence and Reform, Wheatsheaf Books, Brighton.
- National Advisory Council for Development Cooperation (1993), "Recommendation on Development Cooperation after the Treaty of Maastricht", The Hague, August [NAR, 1993].
- (1992), "Synthesizing Report of the Workshop 'Development Cooperation Policy: Towards a European Advisory Approach?', The Hague, February [NAR, 1992].
- OECD (1992), Development Co-operation. 1992 Report, OECD, Paris.
- (1990), Development Co-operation. 1990 Report, OECD, Paris.
- Riddell, R. (1987), Foreign Aid Reconsidered, ODI, The Johns Hopkins U.P., and James Currey, London and Baltimore.
- (1992), "European Aid to Sub-Saharan Africa: Performance in the 1980s and Future Prospects", The European Journal of Development Research, 4, 1, June.
- Russel S.S. and M.S.Teitelbaum (1992), "International Migration and International Trade", World Bank Discussion Papers No. 160, World bank, Washington D.C.
- Sand K. van de, and R. M. Mohs (1992), "Making German Aid More Credible", Development and Cooperation, 1.
- Sideri, S. (1992), "European Integration and the Third World", in S. Sideri and J. Sengupta (eds), The 1992 Single European Market and the Third World, Frank Cass, London.
- Sørensen, G. (1993), "Democracy, Authoritarianism and State Strength", The European Journal of Development Research, 5, 1, June.
- Spranger, C.-D. (1993), "Migration and German Development Policy", Development and Cooperation, 6.
- Stokke, O. (1992), "Norwegian Aid Policy: The Case of Research Funding", Forum for Development Studies, 1.
- Tweede Kamer (1990), A World of Difference (Een Wereld van Verschil), De Staats Uitgeverij (DSU), The Hague.
- (1993), Humanitarian Aid Between Conflicts and Development (Een Wereld in Geschil), Staats Uitgeverij (DSU), The Hague.

- UNDP (1992), Human Development Report 1993, Oxford U.P., New York.
- UNFPA (1992), State of World Population, UNFPA, New York.
- (1993), State of World population, UNFPA, New York.
- Uvin, P. (1993), "'Do as I Say, Not as I Do': The Limits of Political Conditionality", The European Journal of Development Research, 5, 1, June.
- Whittington D. and C. Calhoun (1988), "Who Really Wants Donor Co-ordination?", Development Policy Review, 6, 3, September.
- World Bank (1992), The World Bank Annual report, World Bank, Washington D.C.
- (1984), Toward Sustained Development in Sub-Saharan Africa: A Joint Program of Action, World Bank, Washington D.C.

