

TENTH BRADFORD DEVELOPMENT LECTURE
THE EUROPEAN UNION'S PARTNERSHIP
WITH THE DEVELOPING WORLD

Ladies and Gentlemen,

First of all let me thank Bradford University and the Development and Project Planning Centre for their kind invitation. It is an honour to speak at an institution whose expertise in development programmes the European Commission knows well and relies on frequently.

Some of you may wonder what the Head of the Private Office of Mr. Kinnock, who is responsible for reforming the European Commission, knows about development policy. There are two reasons for my presence here: it is only a few months since I concluded my activities as Director General for Development Co-operation with the conclusions of the negotiations of an EU-South Africa Agreement and the new Cotonou Partnership Agreement between the European Union and the ACP countries. And in my new position I will have to spend a great deal of time on this subject since reform of our external assistance is one of the main priorities of the overall reform the Commission has embarked upon.

I hope that you will forgive me if much of my speech focuses on the European side of things, simply because the European Union has recently embarked upon a radical process of rethinking both its development policy and its aid delivery in order to live up to our partnership with the developing world.

Considering the host of development issues and activities the Community has been involved during the one and a half years, the timing of this lecture could not be better: the Rio Summit of Heads of State and Governments in 1999 imparted new impetus to the relationship between the EU, Latin America and the Caribbean; in January of this year, the EU adopted a new and modernised regulation on technical assistance to the Commonwealth of Independent States; the first ever EU-Africa Summit took place in Cairo in May; the Cotonou Agreement was signed in June; the Commission's Communication of the European Community's Development Policy of May 2000 is a radical overhaul of our development policy; we made a package of proposals to reinvigorate the relationship with our Mediterranean Partners in September; we issued a strategy to combat HIV/AIDS, malaria and tuberculosis in the same

month; the third EU-ASEM Summit took place in Seoul in October; we in the Commission will also remember this year as the one in which we pledged an additional €1 billion to debt relief for the Heavily Indebted Poor Countries. Last but not least, at the beginning of the year we started a root and branch reform of the Commission's system of aid implementation. In other words, the Community's development agenda has rarely been as full as this year.

Eight years ago one of my predecessors as Director General spoke to you about the European Community's Development Policy. He focused for the most part on the Commission. One of the things I want to talk to you about today is how the Commission and the Union's Member States can work together in the pursuit of poverty reduction. This is of particular importance because our partnership with the developing world is actually a partnership of the 15 Member States, plus the Commission, plus the European Parliament on one side and developing countries on the other side. But allow me to start with a few remarks on what the Commission's view of the partnership approach is.

The Partnership Approach: Political Dialogue, Trade and Development Co-operation

Looking at the impact of donor efforts during the last forty years, the picture is bleak. We are all aware of the many factors that illustrate this. In a number of developing countries, life expectancy is diminishing. The income and consumption gap between the North and the South has been growing steadily. 1.5 billion people live on less than 1 EURO per day. AIDS, malaria and tuberculosis kill 5 million people a year world-wide. What's worse, many countries – among them a great number of the poorest in the world – have not even managed to keep the peace, the welfare levels and the infrastructure they used to have. In many places, the question is not one of poverty eradication but one of stopping continued and rapid further impoverishment of those who are already among the very poor.

My years in development work have taught me above all that whenever serious and committed people talk about poverty eradication, they do so with a great deal of humility. Quite a few others who are less committed but nevertheless want to be part of the noble task do not put their money where their mouth is: on average Members of the OECD Development Assistance Committee spent 0.23% of GNP on development aid in 1998 although they have committed themselves to a target of 0.7%. I know very well that throwing money at poverty is

not the solution. Nevertheless, I doubt that the industrialised world has made the effort that is required.

Political Dialogue, Good Governance and Human Rights

Besides a lack of funding, our approach to development in the immediate post-war period was rather paternalistic. Our relationship with them has been dominated by a demand for raw materials, privileged access for our economic operators and a desire to ensure political stability in often turbulent conditions. With the benefit of hindsight, it is difficult to believe that one could have thought this kind of policy would lead to sustainable development. It was also naïve in the sense that up to the first oil-crisis the North did not seem to believe that it really needed the South, except for geopolitical reasons.

Although the notion of a partnership between Europe and developing countries existed earlier, it was the end of the Cold War that allowed this partnership to develop more fully. The EU partnership approach is based on two convictions: first, in an interdependent world it would not only be indecent but also unwise to neglect the effect underdevelopment has on all of us. Wars in which we must eventually intervene, natural catastrophes triggered by unsustainable use of the environment, drug trafficking from the South to the North, refugees that knock on Europe's doors are only a few examples of the inexorable effect poverty has on those who could theoretically choose to neglect it.

Second, the EU believes that development can only be achieved if both the donor and the recipient have a sufficiently high level of self-respect and respect for each other. In the immediate post-colonial period this was often absent. The industrialised world no longer asks for political stability at any price in return for external assistance. We ask for political stability based on good governance and respect for human rights. Therefore, every development or trade agreement the Community concludes these days has a human rights clause.

One of the most encouraging aspects of the negotiations of the Cotonou Agreement was their frankness. We told our partners from Africa, the Caribbean and the Pacific that corruption is a major obstacle to development in many of their countries. And they accepted that corruption should, alongside systematic abuse of human rights and the absence of the rule of law, be one of the factors that could ultimately lead to a suspension of development aid and trade

privileges. It is characteristic of the partnership approach that such a suspension would come only if an intensified political dialogue does not lead to a solution. We also emphasised that we do not only mean corruption concerning “our” donor money, but corruption involving any government or donor funds in their budget.

At the same time, we have learned to listen to our partners in the South. I believe this is the first time the Community is changing much of its approach to aid implementation not only because of criticism within Europe, but also because of the feedback from partners in the South. That many of our political consultations with developing countries reflect their concern for the fate of emigrants now living in Europe is also a sign that the political relationship has become more balanced.

The major agreements that the European Community and developing countries entered into in 2000 – the Cotonou Agreement and the EC-South Africa Trade, Development and Co-operation Agreement – but also the agreements with the Mediterranean countries and Mercosur reflect this partnership approach in that one of their key elements is a political dialogue at all levels.

Trade and Aid

These agreements also reflect the Community's conviction that aid alone is not enough. It must be combined with political and trade relations. For South Africa, this means more than €100 million a year in aid and a Free Trade Area with the EU which is being progressively established between the partners covering some \$16 billion of trade today with the EU. For the ACP it means €13.5 billion over five years and a long period of preparation, negotiation and transition to enter into WTO compatible trade agreements with the European Community. For our Mediterranean neighbours and for the Members of Mercosur it also means continued development co-operation and more liberalised trade among themselves and with the Community in the future. For least developed countries it means continued aid and a simultaneous improvement of their trade access to the European market in the framework of the Generalised System of Preferences. In September, the Commission proposed to the Council that the Community should go beyond previous undertakings and grant all products of LLDC origin duty-free access without quantitative restrictions. Because of the need for LDC's to develop the capacities to exploit the potential, the economic significance of this proposal is more for the medium to long term. However, it sets an important example for others, in particular the United States and Japan.

In short, as the largest trading partner of the developing world, the Community can combine trade with aid and ensure that the two are mutually reinforcing. We do not believe that trade alone will be enough. Our experience with developing countries' preferential access to the Community market clearly illustrates that the problem is not only one of access but lies also in the lack of a supply response (production capacities, infrastructure, human skills, standards and regulations). We must help accelerate that response by building capacity, by supporting the creation of an environment conducive to foreign direct investment and through institution building as well as technical assistance to developing countries in the World Trade Organisation.

Regional Integration

One important, and I dare say unique, aspect of our trade relationship with developing countries is that it is built on their own regional integration. Be it in Latin America, the Mediterranean or Africa, we encourage them to integrate their economies more closely. We do so not only because this model was successful in Europe and is one we know well; but also because it is an important way to stimulate economic development and competitiveness, as well as to prevent conflicts and increase mutual understanding. This is particularly true in Africa, but also of great importance in the Mediterranean area. We do it also because, realistically speaking, Mozambique or Zambia alone will not have the voice in the World Trade Organisation that SADC will have once it has become a really integrated trade area. Finally, while globalisation is certainly upon us, it is a misnomer because large parts of the globe do not actively participate in, let alone influence, the process. We believe that regional integration is a mechanism of managing change successfully, but also of influencing with combined strength the direction change is taking. It is probably the only possibility for many developing countries to reduce their economic marginalization and integrate themselves into the world economy.

Reforming EC Development Co-operation – The Policy

While the role of political dialogue and of trade aspects in our development policy has rapidly assumed a greater significance, development co-operation in the traditional sense has also changed. The statement on the Community's development policy of May this year is, we believe, an honest and critical assessment of the impact our development co-operation has had and of the way it was managed. It also acknowledges that the Community's development policy must be more strongly oriented towards a new global context, in which poverty eradication, the social dimension of development, environmental sustainability, human rights, gender equality and donor co-ordination are at the centre of attention. And it advocates more modern instruments of development co-operation, instruments that combine ownership of programmes by developing countries with capacity building and donor co-ordination. This new approach is already reflected in the Cotonou Agreement.

Before I turn to the nature and scope of activities envisaged by our new policy, let me briefly address the issues of complementarity and coherence, which are at the basis of this policy.

Complementarity and Coherence

While I can rightly speak of the European Union, when it comes to Partnership Agreements that are negotiated by the Commission and Member States, the same is not true for the EU's developed co-operation. Here, the Commission has to position itself clearly vis-à-vis our Member States and other international donors. After all, why should Member States send money to Brussels instead of putting it into their bilateral co-operation programmes, in particular if they believe that the Commission manages the funds inefficiently?

There are several responses to this question. For one, a co-operation agreement with the European Community is far more interesting and beneficial to developing countries than a number of bilateral agreements. The EU, acting together, provides trade privileges without which, as I mentioned earlier, development efforts would be seriously hampered. As to development cooperation, the presence of most EU Member States in developing countries is patchy. So it is not an accident that the Commission has 123 Delegations and Offices abroad. In many countries only one or two Member States have any significant bilateral development efforts so it is often the EU's representations who can speak and act with strength on behalf of Europe.

Secondly, the EU has the advantage of neutrality both from the legacies of history and from short-term commercial interests.

Thirdly, the EU, through the Commission, can have an effective dialogue with the World Bank and International Monetary Fund on macro economic trends and policies in developing countries. It makes sense to act as the EU in this field.

Fourthly, we have a strong and active programme of humanitarian assistance (ECHO) which can intervene effectively alongside the international agencies, and can be well coordinated with longer-term development efforts.

Member States ask us to act where they cannot act. Sometimes they ask us to act where they themselves do not want to act. Finally, only the European Union is in a unique position to ensure policy coherence, that is, make sure that we do not take with one hand what we have given with the other. The Commission has committed itself to see to it that the effects of Community policies like the common agricultural policy or the fisheries policy is analysed and, if inevitable, minimised. And in a pore positive way, we negotiate Agreements which

bring together elements which contribute to making a success of development: trade development cooperation and political dialogue.

If we are so sure of our added value, why then the criticism of Community aid? In the past, there has at times been a tendency to regard the Commission as the 16th Member State. It is not. The European taxpayer cannot afford a 16th development co-operation programme that copies the other fifteen. Instead, we must ensure that our actions are complementary with those of Member States. However, in many situations our Member States have asked us to become active, knowing well that the ratio between available personnel and available funds in the Commission is no longer within reason. For instance, where the United Kingdom has more than 6 staff for every €10 million of development aid, the European Commission had to do with less than 3. In the Directorate General for Development, which I was responsible for, a staff of about 500, secretaries included, brought to decision financing proposals worth more than €3.5 billion in 1999. In other words, per person commitments of €7 million were made. We did this at a time when we were negotiating two major development co-operation agreements and developed a reform of our general co-operation policy.

Up to now, the Commission has rarely refused a new task. Indeed, it has tried to do everything everywhere at all times. Romano Prodi's Commission is the first one that has made clear that either we get the personnel needed to perform the tasks we are given or we will have to start reducing our activities.

Nature and Scope of EC Development Co-operation Policy

Our new development policy is based on these two strands of thought: first, our policy must take full account of the current needs of developing countries. Second, the policy must reflect the particular roles that the Commission on the one hand and EU Member States on the other can usefully play.

Concerning the first aspect, our overall goal is poverty eradication. However, we must cater to the different levels of development of our partners. For countries with significant supply capacities, the opening of European markets will be more important than external aid. For others, trade concessions would be meaningless were they not combined with aid. Yet others need a policy that ensures that the link between relief, rehabilitation and development is strong enough to ensure that they do not get stuck in a relief situation. The way we allocate EC funds must also reflect this differentiation: clearly, our money should go where it is most needed in the fight against poverty.

As a matter of principle, wherever possible, the European Commission will put its aid increasingly into sector-wide programmes. In the long run, they are the only way to ensure policy ownership by the beneficiary country, good donor co-ordination and a realistic link between sectoral policies and the overall macroeconomic and budgetary context. I believe that in this area the Commission has made an important contribution through its efforts to change the nature and scope of structural adjustment. Not only have others, including the Bretton Woods Institutions, accepted our view that the social dimension of adjustment is as important as the purely macroeconomic aspects; but they have also agreed to focus more on the output of policies rather than the input. Only asking how much money a certain country spends on health and education is not sufficient. We have to give more attention on the effect this spending has, that is, whether it really increases access by the poor to health care and education. Similarly, we have to ask whether economic adjustment is environmentally sustainable.

Most importantly, I believe that donors have for too long closed their eyes to the effect that structural adjustment programmes have on income distribution – which plays the key role in sustainable poverty reduction. Much of the hesitation came from the fact that adjustment often diminishes tariff barriers to trade. However, tariff revenues were the traditional way of raising government funds. Thus, while we often demanded what was effectively a reduction of government revenue in exchange for donor funds, we rarely offered sustainable solutions for raising revenue. Ironically, for technical reasons we often encouraged the introduction of a flat-rate value-added tax instead of looking at other, more equitable ways of taxation. In addition, who says income distribution cannot shy away from addressing corruption. I believe that on both fronts our partnership has advanced. This change of attitude and approach is illustrated in the move away from Structural Adjustment Strategies to Poverty Eradication Strategies.

It is for essentially three reasons – the need for a modern development policy, the need for complementarity between EU action and action of EU Member States and the need for an effective use of scarce human resources – that we have decided to re-focus our development co-operation in areas where we have added value and in which our interventions are mutually reinforcing. These areas are:

- Trade and trade-related issues such as standards, regulations, because it is an exclusive Community competence;
- Regional integration and co-operation for the reasons mentioned earlier;
- Support to macroeconomic policies because they relate to trade and regional co-operation, but also because they demand critical mass and, if used correctly, are a major instrument to improve social service delivery;
- Transport, because of the critical mass needed, because of its relationship with regional integration and our strong experience in this area. The EU has been traditionally the major grant donor in this area.
- Food security and sustainable rural development because they are an essential element in any poverty reduction strategy;
- Institutional capacity-building, good governance and the rule of law, because they underpin our understanding of the requirements for sustainable development.

When we say we will focus on these areas, we actually mean that we want to concentrate our very limited personnel resources on these activities. In other areas, we will gladly accept leadership by Member States or other donors and co-finance their activities.

Beyond this refocusing of aid, we have also enlarged the number of our interlocutors in developing countries. One of the key characteristics of the partnership approach is that we must enlarge our relationship from one that is exclusively centred on central government to one that also engages regional and local authorities as well as civil society. Our policy recognises that a vibrant civil society is a precondition for making development sustainable. It is also a tool that must be used to implement aid efficiently, in particular at local level. Beyond that, NGOs remain a critical voice that we as policy makers take into greater account than many of them would believe.

Development Co-operation – Reforming Aid Delivery

So much for our policies and our intentions. Our aim is to have our development co-operation fully aligned with this policy within four to five years. I believe that the Community now has a coherent and modern policy framework. That the process of establishing it was not easy and encountered quite some resistance speaks for its quality.

Changing the systems and procedures with which we implement this framework will largely determine our credibility as a donor and as partners of developing countries. A partnership between developed and developing countries also depends on timely, effective and sensible delivery of development aid. It is in this area that our partners have often found reason for despair. On my travels in developing countries my interlocutors always confirmed that they value their relationship with us very highly. However, when I asked them who were the most efficient donors in the country, the Commission rarely figured on the list.

Therefore, we have embarked on a very ambitious administrative reform programme. We have reunited the project cycle in one administrative unit. By the beginning of next year the new Community development office – *EuropeAid* or the office for European Cooperation – will have been created. At the same time we will deconcentrate the design and implementation of programmes from Brussels to our Delegations – and with it the personnel needed to do so. This will bring decision-making to the lowest possible level. We will extend the practice of decentralisation of programme design and implementation to partner countries wherever this is feasible. We have already reduced our tender procedures from some 48 to 8. For all our partners in the developing world, a process of multi-annual programming will not only take into account their political importance for the European Union and their levels of poverty. We will also look at their efforts to improve good governance, respect for the rule of law and human rights. The size of future financial allocations to individual countries and regions will depend not only on need and capacity absorption but also on financial performance in terms of the efficiency with which they use European taxpayers money.

The process of multi-annual programming will be screened by a quality support group that reports to the Commissioners responsible for the external aspects of Community policy. As to financial management, the Commission is totally revamping the corresponding procedures and systems. We are getting rid of centralised ex-ante financial controls. A radical reduction of red tape and the creation of an independent internal audit service and advisory service on

financial will reinforce an efficient and service-oriented culture based on individual responsibility and accountability. All this, and there are many activities I could add, will make the delivery of Community development co-operation more effective.

These efforts, both in terms of policy formulation and implementation, have not gone unnoticed with our Member States. I am glad that the Council of EU Development ministers has strongly endorsed the Commission's development policy reforms. The Foreign Ministers have, in addition, taken the initiative to actually discuss complementarity and to start to work on concrete improvements to give the Union the international weight it deserves as the most important partner of developing countries. The Nice European Council will also examine proposals by Javier Solana, the EU's High Representative, and Chris Patten, our external relations Commissioner, for further measures to prevent and resolve conflict situations – unfortunately a highly frequent phenomenon in developing countries.

In conclusion, this year has been one in which we fought on all fronts – externally and internally – to strengthen the European Union's partnership with the developing world. We have listened to our partners in the South and have taken their criticism seriously. We have also listened to our Member States and are in the process of overhauling our whole development co-operation apparatus.

I believe that both the Union's Member States and the Commission have made progress in defining the roles they should usefully play in this partnership with the developing world. At the very least, these efforts are a sign that this partnership and its primary purpose – combating poverty - remain high on the European agenda. However, I dare say that these efforts' significance goes beyond that as they point to a renaissance of an efficient and effective Community development co-operation.