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THE LOME CONVENTION: PRACTICAL ASPECTS

PAST EXPERIENCE AND FUTURE PROSPECTS

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I. INTRODUCTION

An artisan among the academics

In the Federal Republic, unfortunately, there is no general coming and going between active and contemplative life - between the theorists, I mean, and those in the field. This is as true in the field of development policy as anywhere else. Even the individuals who may move from institutes to ministries do not usually go as far as to become involved in the practical implementation of cooperation activities.

This meeting is therefore particularly to be welcomed as an attempt to bring those on the theoretical and practical sides together for a critical review. I think both sides will have to make a certain effort if our discussion is not to become a "dialogue des sourds".

In contrast to the situation in Germany where the ministries are clearly separated from the agencies which implement aid operations, the Directorate-General for Development at the Commission of the European Communities is a single administrative unit dealing with the whole spectrum of development cooperation from the formulation of principles and objectives to the implementation of projects.

I am therefore most happy to represent the practical side at this gathering, especially as pronouncements on development theory, while they often provide me with food for thought, sometimes baffle and occasionally amaze me by a certain lack of concern for the realities of life. That makes it all the more important for us to have this exchange of views. I should like to start by saying a few words about the basis on which the Lomé Convention has been built and the judgement theorists have passed on it.

II. A CONCEPTUAL APPROACH TO THE LOME POLICY

1. The theoretical foundations of the Convention

I have given an account elsewhere (1) of the gradual forging of the Lome policy from a set of historical facts, political constraints and differing interests. I will not go over that ground in detail again, but simply state the consequence, which is that there has been no theoretical or conceptual framework underpinning the geographical distribution of our cooperation activities (the emphasis clearly reflects the pre-independence ties of various countries to particular Member States) or the instruments used to give it effect (which for their part reflect the general powers which have been transferred to the Community level in fields such as trade policy, agriculture, and so on). I think the same holds true for the ACP side as well as the Community. The arsenal of instruments, which are now numerous - more numerous than those of other major development agencies - has probably been accumulated in response to the following factors:

- a group of countries as large as the ACP States and Community Members together, with their wide range of economic and political outlook and experience and considerable differences of interest, naturally generates a great variety of ideas;
- the institutionalized, contractual form of cooperation is propitious to the discussion and diffusion of ideas;
- since the early 1970s, the Commission has been eager to make development policy into a major field of Community activity, among other things because it sees this as a way of welding the Community itself more closely together;
- once an item has got itself into the catalogue of development aims and instruments, it tends to stick, irrespective of either practical experience or changing international conditions.

(1) Dieter Frisch, "Die entwicklungspolitische Konzeption der Gemeinschaft", in DIW special edition No. 140, 1984, p. 13 et seq.

This raises - and partly answers - the question of why the Lome agreements from I to III have become steadily wider in scope.

The Convention has to take into consideration the particular interest of over 60 ACP States plus the Community and its Member States. Obviously, the diversity of interests is even greater on the ACP side than the Community side - one has only to think of the differences in ACP countries' economic systems, resource wealth and geopolitical situation. Even if only one country, or a small group of countries, regards a particular type of cooperation objective, instrument or procedure as in its interest, then that point will be incorporated in the demands of the ACP group as a whole, provided of course that the other members of the group do not regard it as disadvantageous from their point of view, and has a good prospect of ending up in the eventual Convention; acting as a group of the ACP States are in a much stronger negotiating position vis-à-vis the Community.

It would be unrealistic to assume that the ACP as a whole are putting a single set of standard "developing country demands" to the Community. Of course there is a common core of claims to which the vast majority of them subscribe, and then a number of more marginal areas in which a comparatively small number of countries see an interest. The core includes classic financial and technical cooperation, for instance, while specific trade provisions will probably come more within the marginal area. Sometimes, indeed, the inclusion in the text of some specific provision may be attributable to the determination of a single, exceptional member of the ACP negotiating team; that is the case with the new "cultural cooperation" section of Lome III.

And clearly, access to the Community market for ACP manufactured products, for instance, is in practice significant for only a handful of countries. In the case of Sysmin, indeed, it was assumed for quite a while that only two ACP States would benefit from the provisions.

On the Community side too the range of objectives, instruments and procedures set out in the Convention is naturally the result of compromise between Member States, taking into account e.g.:

- the fact that some countries are traditionally dirigiste and others more market-oriented;
- differences in the degree of willingness to face competition, or the strength of protectionist tendencies, whether in industry or agriculture;
- each Member State's expectation, based on experience, of the benefits of aid to the national economy, in the form of contracts;
- traditional ideas about "spheres of influence" and the safeguarding of historical ties with particular groups of ACP countries.

When we consider also that international "fashions" in development policy will find an echo in the Convention, it is hardly surprising that the texts get steadily longer and more comprehensive.

A Convention generated by these means reveals no very clear priorities at first sight. Lome II reads a bit like a catalogue of objectives, all of which are priorities, and resources, all of which have to be deployed. It takes extremely careful reading, or indeed interpretation, to spot the nuances and ordering of priorities or preferences for one instrument or the other.

While the Lome Convention has this casuistic aspect, there has been a clear trend on the Community side since the beginning of the 1980s to take a broader view and establish firm priorities. The major milestone in this direction was the Pisani Memorandum published in the autumn of 1982, which provided much of the basis for the Community's position in the Lome III negotiations. The Memorandum first took a critical look at

the results of twenty years of development policy (in the light of the Community's own experience as well as that of other donors), and concluded that the aim must be to set clearer priorities, make more selective use of an appropriate set of instruments, and devise more efficient methods of cooperation. This approach has largely been followed in Lome III.

In the circumstances described, attempts to identify special theoretical principles underlying the Lome Convention really have little point. Lome undoubtedly does contain many elements which fit the theory of international economic integration, but it contains others which reflect the doctrine of self-reliance. In the negotiations the ACP called both for self-reliance (in particular, for "collective self-reliance" and intra-ACP cooperation) and for more access to the Community market, a greater flow of private investment from the Community, and increased trade promotion. On the whole, I think Lome III does reflect somewhat more clearly the idea that development is a self-sustained, self-reliant process rather than something which must be founded on international economic integration. The reality will always fall somewhere in between the two.

The Convention contains traces of many concepts which have been fashionable over the years: industrialization (both import substitution and export-led strategies), trade not aid, commodity price stabilization, infrastructure gap, désenclavement, basic needs, technology transfer, growth centres, human capital strategies and so on. This is inevitable; all the international texts and statements of the developing countries' demands set out the full range of these claims.

Incidentally, the idea of "uncoupling" derived from the dependence theory and so prominent in academic discussion in Germany has never been raised by the ACP either at this time or previously, and as far as I know it has played no part in more pragmatic discussions at a broader international level. It seems to be characteristic of the theorist's approach.

2. Criticism of the results of the Lome Conventions

a. The Conventions in the international development cooperation context

I have tried to show that the Lome Conventions cannot be judged in the abstract against the yardstick of a particular theory or narrowly-conceived idea of development. They must be judged on their results. Even this, however, can lead to methodological problems and wrong approaches. One such wrong approach is the attempt to look at Lome in isolation, perhaps measuring it against some abstract concept such as "degree of success in reducing dependence", without placing it in the broader international context of development cooperation as a whole.

Cooperation within the Lome framework is of course an important part of the international scene, not only in the geographical context where it directly applies, but as an exemplar (e.g. Stabex). In terms of financial and technical cooperation alone we are one of the handful of major donors, and for some countries we are indeed the largest single source of aid, yet we are not necessarily among the international opinion formers, nor are we such a preponderant force in development cooperation that we can dominate the scene. The World Bank, the UN agencies, the Community Member States themselves and other bilateral donors all have a considerable influence both in the formulation of ideas and theories and on the operational side. The major development agencies have a wide range of contact and liaison facilities, both institutionalized and informal, and draw largely on the same intellectual sources and practical experience. In addition, most of these agencies to a great extent reflect western ideas, and whatever the diversity of the western nations, that means there is a common fund of political tenets which are taken for granted. In this area no-one can really go it alone. Despite Lome's several claims to pioneering status, it is still only one part, if a notable part, of the overall scene.

In judging the success of Lome, therefore, in the first place the criteria used should not basically be different from those against which other major development agencies are assessed. And secondly, the shortcomings, problems, or even deterioration of the situation found in ACP States should not be put down solely to the objectives, methods or practices of the development agencies, still less the Lome Convention alone.

b. The Lome Convention in the light of worldwide development trends and experience

Lome, like all other forms of development cooperation, needs to be scrutinized for signs of the seminal - and continuing - influence of international trends and experience in the development field and the special interests of the partners. The last factor has already been discussed (II, 1). As regards development policy trends, consider the following, in chronological order:

- the belief in a more or less automatic development process based on a notion of development derived from economic growth, with the accent on high investment ratio, particularly, in infrastructure;
- reliance on the effects of earnings from traditional or new export sectors (trade not aid);
- industrialization (import substitution and/or export oriented);
- emphasis on socio-economic and distributive criteria, including the basic needs strategy;
- improving the terms of trade by means of commodity agreements, stabilization of export earnings etc.;

- "interdependence" between industrialized and developing countries and the "new world economic order": industrialization of the developing countries in accordance with a structural policy on the international scale, non-reciprocal access to the markets of the industrialized countries, a coordinated attempt to improve developing countries' export earnings, and stronger backing for the flow of private investment from industrialized to developing countries;
- emphasis on basic conditions and the framework within which development takes place, policy regarding the economic order, consistency of development measures, and policy dialogue.

As for the fruits of international experience:

- development is something more complex and difficult to attain than growth;
- using aid money to build up infrastructure does not automatically lead to growth, still less to development;
- despite the availability of cheap labour and materials, the drive for industrialization, particularly in black Africa, can scarcely be counted a success;
- even where economic growth has taken place, a large proportion of the population has failed to benefit and still lives in absolute poverty;
- the rapidly growing urban populations and "élites" benefit disproportionately from development aid;
- many developing countries - a large number of ACP States in particular - have become less and less able to feed themselves and increasingly dependent on food imports. Energy dependence has also increased.

In fact, to appreciate all the influences which are at work here, the Lome Conventions have to be seen in the context not only of purely development-related trends, interests etc. but also of other political and economic considerations such as the oil shocks and the fear of commodity shortages after 1973, the recession and the crumbling of the developing countries' united front in the early 1980s. Looking at the three Lome Conventions in the light of the historic circumstances in which they were negotiated we can see, for instance, why in Lome I the Community showed little interest in firm guidelines, and placed considerable reliance on the ACP States' own responsibility, while in Lome III it has tried to be more selective and wants a purposeful dialogue with the ACP.

c. Special features of the Conventions

Now that we have tried to place Lome in the overall international development context, it is time to look at the features which make the system special. The principal ones are these:

- freely negotiated, clear, contractual cooperation rules which ensure stability and predictability;
- a collective pact between a large group of developing countries and an important group of industrial nations;
- a particularly well-stocked arsenal of "instruments", which as well as the classic, comprehensive development aid ("financial and technical cooperation") includes trade provisions, a system for the stabilization of export earnings, mining, energy and industrial cooperation, private investment, promotion, fisheries cooperation, and cultural cooperation;
- joint institutions to guide and supervise cooperation, with both governments and parliamentarians involved;

- a long-term framework for cooperation (though technically each Convention has a lifetime of only five years);
- political neutrality, i.e. stability of cooperation irrespective of an ACP State's political or ideological colour.

d. Judging the success of Lome against the work of other donors:
methodological problems

How can we gauge the effectiveness of an individual development agency? Even macroeconomic analyses of the effect of total development aid to a given country are inconclusive. Attempts to assess the performance of a single donor organization at this level are useless, since no one agency has such a decisive influence in any country that it can be measured in isolation. Comparisons at the micro-economic level are more fruitful; many agencies have their own evaluation procedures and some publish their findings. Unfortunately, these procedures are not fully comparable. The DAC is currently trying to achieve greater transparency. As far as I know, there have hitherto been no comparative evaluations of different donors' projects using a single set of procedures. Attempts to assess the performance of an aid agency on the basis of the length of time taken to implement individual projects are bound to be superficial, since projects are generally too diverse, and their effects are not taken into account.

I will be talking in a moment about the results of our own evaluation. Broadly speaking, we can say with certitude that at least the Community's Lome policy is no worse than that of the other major organizations. Over the years they have all made mistakes and taken wrong turnings; all of them are currently undergoing a crise de conscience, particularly with regard to black Africa, i.e. the majority of the ACP countries.

e. Implementation of the Conventions as the crucial success factor

All the major development agencies are currently undergoing a period of self-criticism. The Community itself and the ACP States (to say nothing of the professional gloom-merchants) may be less than wholly content with the results of their cooperation, but this has to be seen in the wider context, which also means, that the unsatisfactory performance is due less to the Convention itself, than to the contracting parties - however the blame is apportioned - who in giving it effect have failed to fulfil expectations. The endless list of fields of cooperation and the associated instruments has added to the frustration, since people tend to feel every possibility has to be exploited, whereas of course in practice a given country is only going to use a few cooperation facilities.

While for the most part only one body (the Commission) (1), is involved in implementation on the Community side, carefully "observed" of course by the Member States, the ACP group is made up of more than 60 countries. Accordingly, it is comparatively easy to monitor and criticise the Community's implementation practice, whereas on the ACP side the performance varies widely and is hence more difficult to assess. Nevertheless, there are certain problems which can be called typical.

In each of the three Lome Conventions the list of objectives includes a number of items which come from the catalogue of demands put forward by the developing countries at the various international conferences in the 1970s. But initially these parts of the Conventions are simply declaratory; they have to be given practical effect, and that depends on the operations the ACP countries propose to the Commission for financing at the programming and project identification stage.

(1) The European Investment Bank and the jointly-administered Centre for Industrial Development also have a role to play.

In this connection it is worth stressing that under the Convention the right to initiate action lies entirely with the ACP, and the Commission, unlike the bilateral aid agencies, for instance, cannot fund even the smallest study unless the ACP States have requested it.

In Lome II, for example, one of the objectives set out under the heading of "Agricultural Cooperation" is food security, something the Commission has long considered of particular importance. But the programming chapter of the section dealing with financial and technical cooperations says that development objectives and priorities are set by the ACP States themselves. So if an ACP country's indicative programme ignores agricultural cooperation, or goes for export crops rather than food security, it is very difficult for the Commission to do anything about it. Critics can always say that Lome has done nothing to improve food security in the country in question; but who should the criticism be addressed to?

f. General implementation problems: the Commission

The Commission has done its best on the Community's behalf to implement the spirit and letter of the Conventions correctly and consistently. There have been difficulties caused by the Commission's limited administrative resources, particularly in dealing with the many innovatory features of the Conventions. Such "non-traditional" facilities as Stabex, Sysmin or industrial cooperation have called on the Commission's part for great adaptability, sometimes difficult changes in outlook, and the rapid development of new implementation techniques. All this imposed a considerable workload on the staff of the Directorate-General for Development, which has not been increased even remotely in line with the range and volume of the work to be done. The Commission has not always been able, therefore, to play as dynamic a part as it would have liked in the execution of the Convention,

particularly the more innovatory parts. And undoubtedly the administrative obstacles which prevented the innovations and subtleties of the Convention being exploited to the full will have been even greater on the ACP side. This has perhaps meant a general tendency to stick with the familiar to use the new instruments only hesitantly, or partially, and to prefer the more conventional type of large-scale projects, which are technically, administratively and economically easier to prepare, assess and execute than for instance, mini-projects in the informal sector which would have a broader impact. A sizeable administration like the Directorate-General for Development, with 500 staff in Brussels and another 300 in the Delegations in developing countries, tends towards immobility. Nevertheless, the "machinery" on the Community side has on the whole displayed considerable adaptability in the implementation of the Lome Conventions.

g. General implementation problems: the ACP States

Looking at the implementation of the Conventions by the ACP States, it has to be said that the objectives were probably over-optimistic. These are examples of the sort of problems which have been encountered:

- Articulation of the interests of the population: the Lome Conventions are inter-governmental agreements, or agreements between a number of countries and the European Community. The Community's partner in cooperation activities is therefore the government of each ACP State. How that government is legitimized and how it represents the interests of its different classes - whether, for instance, it favours the urban elite than the rural population or vice versa - or communities is something the Community can do little about. But the impression has been gained that in implementing the Conventions

many ACP States have got the balance wrong, so that the rural masses have often failed to benefit adequately from cooperation under Lome.

- Preserving the balance between man and the environment (including the capacity for food production): all that has been learned about desertification control - preserving tree cover, preventing over-grazing and erosion, or dealing with the consequences of periodic droughts - will be useless so long as individual projects carried out under the Lome Convention are not accompanied by radical changes in the ways of large groups of the population. The educative and organizational effort this requires, on a scale which can only be undertaken by the ACP governments themselves, has not always been sufficiently taken into consideration.

- Industrialization based on internationally-available technology: in this field a number of ACP States, whether from ambition or a lack of realism, or prompted by the example (or interests) of industrialized partners, have clearly overestimated their capacity. In the light of experience many of the ACP would now surely give industrialization a lower priority; the technical and management problems have proved so intractable that they have overshadowed the advantages, such as raw material resources and cheap manpower. The ACP have made mistakes in particular in their efforts to industrialize by means of state enterprises.

- Creating appropriate institutions: ACP States have sometimes proposed projects which by ordinary criteria had been properly prepared technically and economically, but left wholly out of account the institutional aspects. The importance of providing an institutional framework for cooperation activities may often be overlooked because methods of project appraisal taken over from the industrialized countries take the existence of the institutional

environment for granted, or again because institutional decisions frequently involve sensitive political factors. The success of any development effort depends on answers to institutional questions which can only come from the developing countries themselves, whether we are talking about a single project or the whole functioning of society. If development means change, it means, to a large extent, institutional reform. The Community can help in the task of institution building, but it cannot take the ACP States' decisions for them.

The ACP-EEC Council of Ministers' May 1983 resolution on financial and technical cooperation contains several indications of the ACP institutional shortcomings which stand in the way of consistent and effective implementation of the Convention. It calls for instance for more Community aid with the identification and preparation of projects, the establishment of the necessary administrative, technical and financial structures, and the strengthening of the ACP countries' maintenance capacity. Everyone working in the development field can recognize the problem and list the sort of general requirements just mentioned. They amount more or less to a definition of underdevelopment. But attempts to act on the diagnosis run into a host of political, social and cultural constraints, since any practical measures threaten often firmly-entrenched habits, privileges and vested interests.

- Raising the level of skills: despite a considerable expansion in their education and training facilities, the ACP States are still not producing at a fast enough rate the know-how and skills needed for development. The shortfall is most marked on the technical side, and in organization and management. Clearly, governments have failed to give a firm enough lead or provide sufficient incentives. Expatriate technical assistance is still needed much too often, and for too long, if development projects are to become viable.

- Setting individual projects within a consistent sectoral policy framework: all too often in the past the ACP States have wanted the Commission to confine its attention purely to the effects of an individual project proposed, particularly, in terms of the demand for the goods or services to be produced and the feasibility and economic viability of the operation itself. And the Commission and other donors have until now more or less accepted this project-oriented approach, even when the appraisal criteria called for analysis of the sector as a whole. It took too long for us to realize that not only was the "framework" of a particular sector - its general organization, institutions, capabilities, staff, skills and budget - crucial to the success of individual projects, but improvements at that level could do more for development than an approach concentrated on single operations.

h. New directions in Lome III

The negotiations which have just finished provided a good opportunity for frank discussion of the shortcomings of cooperation to date, diagnosis of the causes (e.g. why trade should be unsatisfactory despite free access to the market), and where possible, proposals for changes and reforms.

This is not the place for a detailed analysis of the new Convention. Instead, I propose to look more carefully at the innovations in two selected fields, financial and technical cooperation and Stabex.

II. Experience in the implementation of the Financial and Technical Cooperation and Stabex chapters of the Lome Conventions

1. Financial and Technical Cooperation (FTC)

a. The importance of FTC

This, the classic form of "aid", continues to play a central part in cooperation under Lome; other more original forms of cooperation may get more attention from the theorists, but FTC is the Convention's bread and butter. It was also one of the toughest areas of the recent negotiations, and accounts for almost half the text of the new Convention.

The central importance of FTC probably stems from the fact that for the ACP States it represents the most direct and surest means of resource transfer. In contrast to other types of cooperation, such as Stabex, under which the transfer is relatively unpredictable and/or unevenly distributed among the ACP, FTC resources are apportioned according to objective criteria and their transfer can be counted on. Every ACP State therefore has a keen interest in the amount of funds to be made available under the Convention and the conditions on which they are offered - i.e., the objectives, instruments and procedures of FTC.

What I have just said also indicates how crucial the whole resource transfer aspect is for the ACP countries. From their point of view, the main thing is to get as much money as possible with the fewest possible strings attached. For any individual ACP State, the various types of cooperation taken together offer different benefits or drawbacks. Thus the transfer of resource in the form of preferential access to the Community market is not conditional, but it only benefits some ACP States. Stabex, again, transfers resources

on terms which are actually very liberal, but the benefits are not evenly distributed or measurable in advance. That leaves the basic FTC, which the ACP would naturally like to see available on even more liberal conditions while the Community, by contrast, is keen to increase the effectiveness of this type of aid in terms of development, and wants greater selectivity, clearer priorities, more thorough programming and a fuller policy dialogue.

b. Sectoral impact of FTC

It is in deciding the sectoral breakdown of the FTC resources allocated to each ACP State for the lifetime of the Convention that programming is so important. Basically, the programming exercise is carried out at the start of each new Convention for its five-year lifetime, though programmes can always be adjusted later if necessary. From Lome I to Lome III continuous efforts have been made to improve programming, with the aim of a) targeting the available money as closely as possible on each country's own development priorities, and b) fostering "transparency", i.e. making it clear how and where the money is to be spent. The programming exercise should also - and this is important - oblige both donor and recipient to discuss development issues thoroughly, eliminating many of the arbitrary factors or vested interests and enhancing the objectivity and effectiveness of the aid. A properly conducted programming exercise should enable the development agency to concentrate not so much on the individual project as on the sectoral or overall economic picture, and generally force both sides to face up to any unpleasant truths about the effectiveness of their activities. This means, of course, that programming is often not very popular with the project-oriented professionals on either the ACP or the donor side.

The following problems have arisen in connection with programming:

- The prospect of the resource transfer means ACP States have to make difficult political decisions about allocations to various

interest groups - ministries, different ethnic groups or regions, etc. Sometimes ACP governments have tended, because of a lack of clear priorities or decisiveness, to scatter the money around too widely and give everyone "a slice of the cake". Lome III calls explicitly for the focusing of resources on specific areas.

- Many of those working in the development field are still thinking in terms of the old project-oriented approach. The projects have often been worked out in advance by the time programming takes place (perhaps simply because they have been pushed by a particularly dynamic consultant or contracting firm or ACP politician), without proper consideration having been given to the project environment. In this situation programming can become an exercise in evasion tactics; the participants have a particular project in mind, but the rules of the game forbid its being mentioned directly. Instead, special areas and forms of cooperation are discussed in the abstract, though one side at least is aware that they really refer to the unnamed project. Lome III calls for a genuine dialogue about sectoral emphases and "thematic" priorities (e.g. food security) before going on at a later stage to look at actual operations.
- Competition between donors in the development field is a fact of life. Partly it is due to the enthusiasm of particular development agencies, but self-interest is also involved (contracts, the securing of political influence, etc.). It also has to do with the fact that in the short term at least, the limited capacity of poorer ACP States to absorb aid - especially conventional project aid - can make it difficult to spend the funds allocated in a way which will really advance development. In these circumstances, a number of donors may want to concentrate on the same essential areas, and compete with each other to finance the few sensible projects. This is the opposite of the consistently coordinated assistance which is advocated.

c. Effectiveness of individual projects

Once the programming has produced the list of individual operations known in the Lome Conventions as the "indicative programme", these have to be appraised according to certain criteria. This is a field which has been gone into thoroughly by all the major development agencies. In principle their project appraisal criteria, including those of the Commission, are very similar. Again, experience and international fashions have produced changes over the years; for instance, cost-benefit analysis became popular in Germany in the late 1960s, reaching the Commission a little later, and in the 1970s we learned to take account of the distributive and environmental effects. But however theoretically inadequate the usual criteria are shown to be, if they are sensibly applied they can give a good indication of the likely success of the project. This is another field in which the problem is not so much the unsuitability of the rules as the inadequacy of the way in which they are applied. In the Lome Convention the appraisal criteria set down are binding, although very generally formulated.

And once again, the reasons for inadequate application of the criteria, setting aside failures of common sense, have to do with vested interests. Scrutiny of a project using all the relevant criteria might reveal unfortunate shortcomings which would delay or prevent its financing. The ACP country is often keen that the Commission should not apply a particular criterion, the explanation (if provided at all) being that this would be a waste of time and money. That may be true in individual cases, but in general it is essential that projects be thoroughly planned and appraised having regard to all the appropriate criteria, since this can prevent serious errors which would affect implementation and operations at a later stage. It is important, therefore, to lay down project appraisal rules binding on both sides. Apart from the actual Convention itself, the ACP States

and the Community have laid down jointly accepted "basic principles" derived from ex-post evaluation in various fields. These incorporate recommendations concerning both policy for the sector as a whole and the preparation of individual projects. Here are some examples of the sort of lessons learned from evaluation:

Comparative assessments of hundreds of projects of all kinds from over 20 ACP States showed that in the vast majority of cases the technical objectives were attained, usually at reasonable cost. But the situation was different with respect to the development aims: only about a third of the projects had been completely successful, another third had run into problems which, however, could probably be solved; but the remaining third were in serious difficulties.

Even granted that there were inevitable methodological imperfections in the evaluation process, it does suggest that:

- at least at micro level, fundamental aid pessimism is not justified,
- improvement of appraisal criteria and of their implementation can increase the development impact of operations.

The evaluation exercise also indicates the sectors in which development objectives are most and least often achieved - training and transport score best, health and agriculture worst. This is surely due not to any difference in the competence of officials dealing with the various fields on either side, but with conditions in the sectors concerned in the ACP States.

Overall, the evaluation findings, which have been incorporated in "basic principles" for the health sector, water supplies, agriculture, education and training, roads, and livestock farming, have led to greater emphasis being laid, at the project preparation and appraisal stages, on the long-term development impact and viability of the scheme. By "long-term development impact" we mean a lasting improvement in the ability of populations and institutions to shape their own future. (This is of course a more demanding test than, for instance, the adequacy of the internal rate of return called for in a cost-benefit analysis. Nevertheless, an adequate internal rate of return will usually be a precondition for long-term development impact.)

A project's "viability" is above all its integration in the environment, in institutional and organisational terms, and its ability to cover its operating costs.

d. Importance of procedures

The success of FTC depends to a considerable extent on day-to-day operating procedures, which of course are only outlined in the actual Convention, but are laid down in detail partly in texts agreed with the Member States and the ACP and partly in internal Commission administrative rules and practice.

These procedures are subject to continuous improvement and adaptation in the interests of efficiency. When innovations such as those in the Lome III FTC provisions are introduced, changes have to be made in procedures as well, in good time to allow the new provisions to be applied and the Convention to be exploited to the full from the outset.

There are special procedures for all stages of FTC: programming, preparation (including appraisal and adoption of the financing decision), implementation and operations. Here are a few examples

of the significance of procedures at the various stages.

Programming :

- Under Lome III it is intended to focus aid more effectively on key sectors and get both sides to agree on binding sectoral development programmes. Accordingly, Commission staff and Delegations in ACP countries will need detailed advice and instructions on the selection of key sectors and the proper formula for a programme in which the Community and the individual ACP State commit themselves to reciprocally-linked measures.

Preparation and appraisal :

- The vital circuit of feedback between ex-post evaluation, as reflected in the "basic principles", and project preparation needs to be institutionalized, i.e. made compulsory for all concerned. A process of concurrent evaluation needs to be introduced for the new sectoral programmes.
- For the purposes of project preparation, particularly more specialist aspects, the ACP countries have to be able to get the necessary experts rapidly. We have to organize the financing decision, find a suitable expert and conclude a contract with him all within a very short space of time. This means working out a register with information on the experts and devising both a procedure for internal decision-making and reasonably standardized contract clauses.

Implementation :

- When an ACP country suffers from a severe shortage of foreign exchange, a start-up fund needs to be made available to the officials or contractors responsible for implementing a project.

- To prevent the often protracted tug-of-war over the issue of contracts following an invitation to tender, award criteria need to be improved and a time-limit set for the decision.
- To avoid cost overruns, which lead to delays while additional financing is approved, more projects need to be put out to tender before the financing decision is taken, so that the real costs are known and taken into account in that decision.

Operation :

- The people who are to operate a project must be selected during the planning stage and involved from the beginning. Projects should normally include training for the staff, either under the main contract or separately.
- For more complex projects, partnerships could be set up with European bodies along the lines of inter-university cooperation. Suitable standard forms of agreement need to be devised.

e. The impact on development of FTC resource transfers

Experience with the practical implementation of FTC prompts the question of how far development problems can be solved by the transfer of resources, or to what extent resource transfer can be expected to have an effect on the development process. Where the transfer of resources is not bound up with conditions of application, e.g. in the case of preferential market access, its effect on development is of course just as good or as bad as the development policy of the recipient country - the donor has no say. Where the transfer of resources is subject to certain conditions, as in the case of FTC, the situation is somewhat different, since the conditions attached

to the transfer can sometimes induce the recipient country to take development decisions which would not otherwise have been taken. Logically, then, the conditions attached to FTC have no point unless they bring about a desired form of behaviour, and from the donor's point of view the important effects are those which go beyond the simple resource transfer. Therefore it is not enough that a project shows an adequate internal economic rate of return, i.e. that it produces a lasting increase in the recipient country's resources. As noted at 1 c), this theoretical conclusion is confirmed by experience.

Accordingly, from the donor's point of view resource transfer should perhaps no longer be considered as the main aspect of FTC. It should be regarded as an accessory, with the emphasis being placed on obstacles to development which are deeper-rooted and more intractable than a simple lack of capital. We must concentrate on the factors which have been identified as barriers to a really effective transfer of resources (see II. 2,9 and III 1 c), and that means concentrating on institution building and the development of human resources. The range of FTC instruments under the Lome Convention offer considerable scope for dealing with these issues and linking them to the transfer of resources.

f. A Look ahead to Lome III

- "Thematic" campaigns

These campaigns are one of the new instruments in Lome III; they provide for long-term integrated development action in the following specific fields:

- . desertification and drought control
- . eradication of major human and animal epidemic diseases
- . sanitation and health care
- . energy conservation.

The first of these points in particular is vital to secure the conditions which will enable countries to feed themselves in the long term.

We hope that by providing in the Convention for such "thematic" campaigns we can shift the emphasis from short-term projects to an assault on the fundamental long-term problems affecting the mass of people in most of the ACP countries. For instance, in future every agricultural project in the areas concerned should include a drought and desertification control component.

- Relating operations to overall sectoral policy: sectoral development programmes

As explained at II. 2 g, the sectoral relevance of FTC is to be strengthened. This means, among other things, taking greater account of the sectoral framework within which individual operations are carried out; this includes measures undertaken or planned by the ACP country itself in pursuit of objectives in that field (1). We also intend to focus FTC more sharply on a limited number

(1) Examples of this approach are the food strategies currently being tried out by four African states. The first stage is joint definition of all the things that need to be done to achieve the goal of food security. These include decisions which can only be taken by the developing country (pricing policy, distribution system, agricultural credit arrangements, etc.), as well as support measures to be undertaken by the "donor". The purpose of the policy dialogue is to see that all the relevant factors are properly integrated. This calls for great flexibility and adaptability on the part of the donor organization, which in turn probably requires the establishment of a permanent structure in the country concerned for the ongoing dialogue on development, in which the government and major donors should participate in the interest of effective coordination

of sectors or objectives. Lomé III now provides explicitly for sectoral development and import programmes designed to maintain and exploit more fully the productive capacity of sectors undergoing structural difficulties. This will make it possible to finance the supply of raw materials, spare parts, fertilizers, plant health products, and requisites for the health and education services. It is also planned to rehabilitate a number of projects and programmes, and it will be possible in certain circumstances to finance maintenance costs.

These new types of measure, many of which are also set out in the World Bank's Joint Action Programme for sub-Saharan Africa, will undoubtedly make it possible to cope more effectively than heretofore with the development situation as it actually exists in the majority of ACP countries.

- Integration of financial and technical cooperation and training

These two fields are to be more closely integrated. Technical assistance staff, for instance, will systematically provide training for their local counterparts, and Community-financed training and scholarship programmes will be linked on a regular basis to the sectors or operations being supported by financial cooperation.

- Improved coordination between the Commission and Member States or other bilateral aid

Those provisions in the new Convention which, as we have seen, are designed to improve the effectiveness of FTC need to be

backed up by better coordination between donors to avoid duplication of effort and instead allow them, by focusing on critical areas, to achieve a significant impact. The intensification of dialogue with the ACP States which the Community and many other donors desire must not strain the administrative capacity of either side, so here again it is sensible to pool efforts as much as possible.

- Decentralization

While a conventional project can be run, with the help of contractors and consultants, from a desk in Brussels, the emphasis on the sectoral framework, the new types of FTC and the intensification of dialogue all call for a much stronger presence in the field. Consequently, the Commission Delegations in ACP countries will have a greater part to play.

2. STABEX

a) Position of the Stabex system as an instrument of development cooperation

The export earnings stabilization system - Stabex for short - set up under the Lome Conventions is distinct from financial and technical cooperation inasmuch as it is a brand-new instrument of the European Community's development cooperation activities.

Under Stabex, the amounts of funds committed and the entitlement to such commitments do not depend on detailed studies for projects, much less on indicative programmes embracing such projects. Instead they are based on statistically proven export trends, in accordance with objective "trigger" criteria and rules for calculating the amounts involved, and give rise in practice to transfers of funds without any further obligation. Stabex thus represents a revolutionary departure from traditional ways of granting aid as part of development policy. The importance of the innovation can be gauged from the fact that under both the fourth and fifth European Development Funds (Lome I and II) Stabex was allocated 12% of the overall amount available.

The idea owes its origin to discussions by economists dating back many years concerning the instability of commodity markets and the consequences of this instability for developing countries which export commodities. The system as worked out represents a compromise between the macroeconomic (stabilization of foreign exchange earnings) and microeconomic (insurance of producers' incomes) approaches: it compensates medium-term losses of export earnings at national level in terms of foreign exchange (ECU), but is geared to specific products as regards the trend of production and producers' incomes and is aimed essentially at improving the situation of the production sectors concerned. This predominantly micro-economic aim shows that Stabex, in contrast to all theoretical models dealing with stabilization - and as a consequence of the political circumstances attending its origins - contains a substantial and progressive grant element geared to the needs of the recipient countries.

This also marks a fundamental difference between Stabex and the International Monetary Fund's compensatory financing facility, which was set up a few years before the Lome Conventions to provide stabilization loans on fairly tough terms and purely for balance of payment purposes.

b) Expectations and reality

Given the objective nature of the system's trigger mechanism, Stabex could be expected to provide a substantially non-politicized form of financial aid which would be fairly predictable from the standpoint of the countries concerned and would also be available soon after the relevant losses were incurred.

It was hoped that the stabilization of export earnings would make an appreciable contribution to safeguarding development plans which hinged on the availability of foreign exchange and would also remove the cause of fluctuations in export earnings. All in all, Stabex was expected to produce perceptible results in terms of development.

Although teething troubles were to be expected as a result of the untried nature of the new instrument, in fact the arrangements for transfers under the system operated speedily from the start.⁽¹⁾ Unfortunately, the expectations with regard to the predictability of operations and the development effects were only partially realized. This is explained below with the help of examples.

c) Constraints on predictability

The basic simplicity of the system - payment of compensation where export earnings fell below the average for the preceding four years - lulled people into underestimating the statistical difficulties involved in applying it, notwithstanding the fact that in the initial stages the mass of necessary statistics was coped with satisfactorily.

(1) The time elapsing between the lodging of a request for transfer and the payment of the transfer has been less than five months in 50% of cases and less than 10 months in a further 40% of cases.

Thus contradictions were not infrequently found between the ACP export figures and the corresponding Community import statistics, and these could only be resolved by time-consuming inquiries in the exporting and importing countries. This also means that both the time elapsing before payment and the amount of the transfer can vary significantly from what the recipient countries expected on the basis of the original data.

In addition, in two of the nine application years the predictability of operations was severely constrained by the limits of the amounts of funds allocated. Up to and including 1979 transfer entitlements were met in fully, and the same has been true since 1982, but for 1980 and 1981 coverage by the allocation unexpectedly fell short of what was needed by 53% and 25% respectively. (1) The ACP-CEE Council of Ministers had to be consulted on the corresponding reductions in transfer amounts, which resulted in a further unforeseen delay in payment.

Lastly, over a period of time difficulties in applying the system arose from the fact that the relevant text was unclear or silent on the subject of issues whose importance could not be foreseen when the system was set up. The most recent and significant example of this has been the rise in relation to the ECU of the US dollar and the dollar-linked ACP currencies. The most important thing to remember here is that the transfers from the European Development Fund have to be established in ECU but on the basis of export data which are normally expressed in terms of the currency of the ACP States concerned. In other words, the Convention does not specify the currency in which the earnings shortfall underlying the claims for transfers is to be calculated.

Since expectations regarding transfer amounts are normally based on national currency, whereas transfer commitments as a matter of general administrative practice are determined on the basis of the conversion into ECU at current rates of the earnings for the relevant period,

(1) For 1981 the coverage was raised to over 40% by the provision of additional EDF funds, though these were linked to projects.

this lack of precision in the text meant that transfers to ACP countries with currencies linked to the dollar were sharply lower than expected.

Implementing rules were gradually worked out in order to overcome the difficulties described above and as a result the automaticity of the system was partially re-established, particularly with regard to the time within which payment could be expected. Against this, however, the predictability of transfer amounts will continue to be bedevilled by the possibility that the annual instalments of funds available under the system will fall short of transfer requirements.

d) Constraints on development effects

One of the most important lessons for a proper judgement of the Stabex system is that there are substantial structural obstacles hampering any attempt to follow up closely the use made of the transfers and hence the development effect.

As the transfers are free of interest, are frequently made purely in the form of grants and apply to loss of earnings established several months previously, and in addition are not tied to any particular sector, Stabex payments are normally absorbed straight into the national budget of the recipient country. For practical purposes, therefore, they make a passing contribution to meeting the most pressing national financing requirements of the moment. This makes it difficult for the observer to pin down the ultimate use made of the funds, particularly as the recipient governments do not attach sufficient importance to identifying the resources used when making the obligatory report on the application of the funds. Consequently, it is seldom possible to establish a causal connection between the reason for the transfer (i.e. the loss of earnings) and the intention as regards use of a transfer.

With regard to the aim of the system, namely to restore in some measure lost export earnings, the weakness of the link with the use made of the funds, which characterizes Stabex would appear to operate in accordance

with the system: theoretically, the funds could be directed to the sectors where the earnings losses occur. From the information so far available on application, in the vast majority cases the Stabex funds are directed to existing projects or existing institutions in the rural sector. In this way the sectors concerned by the export earnings losses frequently receive help directly or indirectly.

Of course there is also a tendency to use transfers for individual projects or to cover the deficits of agricultural marketing or processing organizations. Consequently there are rarely any discernible signs of a consistent development strategy tracing cause and effect in the fluctuations of producers' incomes in the relevant export sectors, nor of action to integrate the use of the transfers in such a strategy. Although the system has undoubtedly fulfilled its macro-economic function of stabilizing foreign exchange earnings (within the limits of the funds available), the attempts to coordinate the micro-economic development effects of Stabex transfers, on the other hand, have proved fruitless for the reasons outlined.

e. Outlook under Lome III

This latter problem was brought to the forefront by the Community in the negotiations. In particular, the Commission was resolved to increase the effectiveness of Stabex for development, and this meant above all linking the transfers more closely to specific products and sectors and shedding more light on the use made of the transfers. The ACP countries, on the other hand, wanted even greater liberalization and a shift of emphasis towards the purely macroeconomic aspect, namely the stabilization of foreign exchange earnings; to this end they advocated increasing the number of products on the list, extending coverage to include exports to countries outside the Community, lowering the thresholds and removing checks on the use made of transfers.

After lengthy and tough negotiations the Community's point of view was accepted. In future, the ACP countries will have to undertake - before the transfer is made - to make specific use of the funds for designated programmes or operations. It will be easier for the Commission, in following up the transfers, to make a satisfactory and detailed report on compliance with the undertaking, since sanctions are available whereby a transfer can be suspended (this possibility already existed on paper but in recent years was woefully ineffective).

Other improvements under the new Convention are:

- machinery to mitigate the impact of exchange rate fluctuations on transfer amounts;
- rules governing the scaling-down of transfers where claims are in excess of the funds available under the system (the rules would make it possible in many cases to resolve the problem without involving the ACP-EEC Council of Ministers).

These innovations could render the system more effective and predictable. Their success will depend a great deal, however, on the development of the relevant operational bodies in the Community and in the ACP countries, and on supervision by the officials responsible for Stabex in those countries.

IV. CONCLUSION

The Lome Convention represents only one aspect of the Community's development policy: the Mediterranean policy, the programme of cooperation with the "non-associated" developing countries (Asia and Latin America), the extensive food aid programme, the ever-closer cooperation with non-governmental organizations, the disaster

relief that has recently been much in the news, a trade policy shaped and implemented in the light of development policy (e.g. the Generalized System of Preferences scheme), participation in international commodity agreements - all these are other aspects of a constantly evolving overall policy (1).

Lome itself, even within its own geographical boundaries, should not be viewed exclusively from the standpoint of the instruments of the Convention: food aid in particular - linked ever more closely with "traditional" development aid, especially where food strategies are being established - and also Community financing involving non-governmental organizations are developing into separate instruments complementing the contractual machinery of the Lome Convention.

Lome is, however, the centrepiece of Community development policy. It acts as a model for the other aspects of Community policy and on top of this is frequently used as a point of reference in international discussions. It has been described as a model for a new world economic order based on relations between regional groupings.

Lome is, of course, far from perfect: the many new features of Lome III represent clear evidence that both sides realized the need for considerable improvement. It is precisely a source of encouragement, however, that under this form of cooperation based on partnership an objective appraisal of needs could be carried out and subsequently translated via the negotiations into reforms and innovations.

I should like to conclude by saying that in a European Community buffeted by the recession, at a time when the North-South Dialogue has ground almost completely to a halt, and the multilateral

(1) Community development aid amounts at present to nearly 2 000 million ECU a year. Of this barely a half goes to Lome, around one quarter for food aid (at world market prices) and a further quarter for other operations.

financing organizations (World Bank, IFAD and so on) are in difficulties as never before, it is heartening to observe that the Community's development policy can continue to evolve. If the Community's own citizens, who appear to associate it only with farm surpluses, budget problems and Brussels-based bureaucracy, could perceive the Community as positively as our partners in the developing countries do, a considerably more balanced image of the Community would emerge and progress towards union would undoubtedly have taken a sizeable step forward.
