Folder Title:	President Barber Conable - Liaison Files - European Economic Community [EEC] - Correspondence - Volume 1
Folder ID:	1104061
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EUROPEAN ECONOMIC COMMUNITY (EEC)

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"Held"

The World Bank/IFC/MIGA
O F F I C E   M E M O R A N D U M

DATE: 21-Dec-1990 11:39am

TO: See Distribution Below

FROM: Olivier Lafourcade, EXTEU (OLIVIER LAFOURCADE AT A1 AT PAR

EXT.: 3010

SUBJECT: Conference in Rome

At your and Sven Sandstrom's request, I attended the Euro - LatinAmerican Ministerial Conference yesterday in Rome. This conference was organized at the initiative of the Italian Ministry of Foreign Affairs and was chaired by Mr. Gianni de Michelis, the Italian Minister of Foreign Affairs. It was attended on one side by high level officials of the twelve EEC countries and a delegation of the EEC Commission headed by Mr. Abel Matutes, the Commissioner in charge of the Commission's relationships with Latin America; and on the other side, representatives of the 11 "Group of Rio" countries (these are: Argentina, Bolivia, Brazil, Chili, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela). A number of country delegations from the EEC were headed by the respective Ministers of Foreign Affairs (e.g. Italy, France, Belgium, Portugal, Greece, Spain, Ireland). All Latin American delegations were headed by their Ministers of Foreign Affairs. In addition, a number of observers were present: IMF (Andrew Beith, my counterpart in Paris), IDB (Enrique Iglesias showed up at lunch time), the EIB, OECD (Mr. Taniguchi, Deputy Secretary General), even the Caricom Secretariat from Georgetown, Guyana... (but no-one from Central America, since the relationships between the EEC and the Central American countries are covered in the context of the San Jose agreement).

The meeting was designed to formalize, or rather to initiate an institutional process of cooperation between the EEC and the countries forming the Group of Rio. From all I could gather from my informal discussions with various participants, it was clearly designed as a political and media gesture by the Italian Government (Mr. de Michelis alone?) just before Italy was to release the 6 months rotating presidency of the European Community (Luxembourg is taking over for the next six months as of January 1, 1991). It appears that the idea of the conference came rather late, since staff of the various countries started working on the proposed draft declaration less than six weeks ago. The state of preparation for the conference was also less than fully complete, and it was obvious that the idea of inviting observers, such as the Bank and the IMF, came very late in the game.

Be it as it may, the Italians organized a grand show in the massive Mussolinesque LatinAmerican Institute in the EUR part of Rome. It was full of colorful uniforms, mounted carabinieri, lots of speeding limousines with their escorts of sirening motorcycle guards making more of a mess of the Rome traffic than usual (if that is possible) and, at every turn of the conference, hordes of paparazzi stepping over each other to take the best possible angle shot of Mr. de Michelis's formidable profile. As head of a delegation of one, I was hosted in the pretentious Majestic Hotel on via Veneto where other heads of delegations were also hosted, all of us at the expense of the Italian Government (single room is at 500,000 lire or $450 per night). As IMF's Andrew Beith remarked: "Guess where Italy's fiscal deficit comes from!"

On a more serious note, I am not sure that I can put anything very serious in what turned out to be a non-event. All heads of delegations spoke, often at length, to praise Italy's initiative for the meeting. Everybody is clearly in favor of increased cooperation and more sustained political dialogue. Most speakers deplored the lack of progress on the Uruguay Round negotiations, everyone of course reaffirming his/her own commitment to trade liberalization. In a gathering of Foreign Ministers, it was to be expected that the discussion would be more political in tone than economic or technical. Several speakers spoke about the welcome changes in Latin America and the need to pursue the dual approach of pluralist democracy with opening of the economies. There was repeated reference made to the search for "social market economies". Specific subjects touched upon included, as could be expected: (a) debt -- several Latin American delegations argued that the official part of their debt should be treated under a "political" arrangement, while some EEC delegates argued strongly that the solution to the debt problem is inseparable from adjustment in domestic policies; (b) drugs -- narcotrafico and terrorismo, giving way to "narcoterrorismo", the solution for which, according to several delegates (Colombia in particular, of course) is not to be found in military repression, but rather in reduction in consumption in developed countries; (c) environment -- with a strong plea by the Latin Americans (Brazilians in particular) that environment concern should not obscure the legitimate rights of people for development, and a friendly reminder that global environmental problems are largely due to industrialized countries; (d) Eastern Europe -- with the general comment that events in that part of the world should not obscure the very positive recent developments in Latin America, both on a political and economic standpoint.

On a more specific note, there were repeated requests from Latin American delegations for allowing the European Investment Bank to provide investment resources for Latin America. To this day, the EIB has been mainly involved in financing intra-EEC investments, with a small proportion of its lending going to ACP countries under the Lome agreement. EIB's involvement in Eastern Europe is only very recent, and generally justified by the EEC as being "European" in nature. Eventual lending to Latin America is much more controversial. From the European side, there were numerous declarations of encouragement to the Latin American partners in their efforts towards economic integration, an area where the EEC does feel it has considerable experience which can be relevant to Latin America. Another point of discussion was the area of cooperation in the field of science and technology, where Latin American countries ask for and expect increased cooperation from their European counterparts. The latter seem less enthusiastic about the prospects for massive transfers of scientific and technological know-how.

The final draft of the joint declaration was signed yesterday. The document is a rather vague, non-commital one, couched in excessively careful diplomatic terms (it is being sent to you by fax, along with the list of participants). On all the points listed above, no firm commitment is being made. On some subjects, the wording is so circonvoluted as to make the text virtually unintelligible. As an example, here is the piece on debt:

" The parties affirm that the quality they are seeking in their relations should have a positive impact in all sectors of direct cooperation between them, and that, in this context, it is necessary to give adequate attention, in all the appropriate fora, to the heavy burden of foreign debt service for the political economic and social development of Latin American countries and for the defence of stability and consolidation of democracy. An approach consistent with this important link must take into account, among other considerations, the interrelation which exists between debt, commerce, development and investment, and commit mutual efforts for effective and concrete measures towards a reduction of the external debt burden"

The drafters of this paragraph must have had a great time, probably assisted with a bit of Campari soda...

The draft makes no reference to the EIB question raised above, and only cursorily addresses the issue of science and technology. Perhaps the most significant outcome of the meeting, as expressed in the resolution, is the decision of the same parties to meet again on April 26-27, 1991 in Luxembourg, at the invitation of the Government of Luxembourg in its capacity of President of the EEC until June 30, 1991.

As a footnote, of course there were a number of positive sides to the meeting, not least of which are the opportunities to meet with people whom we would otherwise not be able to see. Among these, I spent some time with the Director of Cabinet of Mr. de Michelis, also with the Director of the Department of Economic studies of the Ministry of Foreign Affairs, Mr. Vanni d'Archirafi. These are potentially useful contacts for our general external relations work program. I also met briefly with Mrs. Susanna Agnelli, sister of Fiat President G. Agnelli. She is a very well known and powerful political figure in Italy, especially well connected to the NGO community, and a strong proponent of increased assistance to development. She was quite receptive to my suggestion that we could meet again during one of my future visits to Italy. Lastly, I was in Rome with Andrew Beith (my counterpart for the IMF in Paris) and Jorge Elena (my counterpart from IDB in Paris). We all three seem to get along well, and that does contribute (I hope) to giving the impression that interinstitutional cooperation is indeed working well in Paris.

In summary, I had a great time in Rome, if only a bit hectic because of the timing of the conference. In retrospect, certainly no regret that no senior manager from the Bank could make it to the conference. I know he had no choice, but I find remarkable that Enrique Iglesias flew yesterday morning from Washington to arrive at the conference at lunch time, to leave again this morning to be back in Washington this afternoon...

Besdt regards. Merry Christmas and Happy New Year to all at the office, and to your family more specifically.

Olivier.

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The World Bank
Washington, D.C. 20433
U.S.A.

Office of the President

FACSIMILE TRANSMITTAL FORM

TO: WORLD BANK EUROPEAN OFFICE

ATTN: MR. OLIVIER LAFOURCADE

FACSIMILE NUMBER: 011-33-1-47-23-74-36

FROM: MR. SVEN SANDSTROM

NUMBER OF PAGES (INCLUDING COVER): 5

DATE: DECEMBER 14, 1990

COMMENTS

ATTACHED IS ALL THE INFORMATION WE HAVE RECEIVED ON THE EC MEETING IN ROME ON DECEMBER 20.

Note: If transmission is incomplete or illegible, please call (202) 458-1146

The World Bank
Washington, D.C. 20433
U.S.A.

Office of the President

FACSIMILE TRANSMITTAL FORM

TO: MR. ALEX SHAKOW

ATTN:

FACSIMILE
NUMBER: 60574

FROM: MR. SVEN SANDSTROM

NUMBER OF PAGES (INCLUDING COVER): 5

DATE: DECEMBER 14, 1990

COMMENTS

ATTACHED IS ALL THE INFORMATION WE HAVE RECEIVED
ON THE EC MEETING IN ROME ON DECEMBER 20.

Note: If transmission is incomplete or illegible,
please call (202) 458-1146

BANCO INTERAMERICANO DE DESARROLLO
BANCO INTERAMERICANO DE DESENVOLVIMENTO
INTER-AMERICAN DEVELOPMENT BANK
BANQUE INTERAMERICAINE DE DEVELOPPEMENT

WASHINGTON, D.C. 20577

DOCUMENT TRANSMISSION FORM (LEAD PAGE)

DATE:	NUMBER OF PAGES:	IDB FAX ACCESS NUMBER		
December 12, 1990	3 (inc.cover)	(202) 623-3614		

To: JENNIFER
(name of company)

Office of Mr. Conable - Wash. D.C.
(city & country)

202.477.1305
(fax—access numbers)

Attn:

cc:

From: Gabriela Sotela - Office of Mr. Iglesias - (202) 623-1101
(names) (unit) (phone)

Subject:

As per our conversation,

Regards,

G

Transmission authorized by:

(name)

(unit & stop)

(phone)

SF-313A (12/88)

PARTENZA

MINISTERO DEGLI AFFARI ESTERI

19.30 HRS: RECEPTION AT INVITATION OF MINISTER DE MICHELIS AT VILLA MADAMA.

INTERPRETATION WILL BE PROVIDED FROM AND INTO THE FOLLOWING LANGUAGES: ITALIAN, ENGLISH, SPANISH, AND FRENCH., AS WELL AS FROM PORTUGUESE AND FROM GERMAN INTO THE FOUR LANGUAGES MENTIONED ABOVE.

ALL DELEGATION WILL HAVE AN INDIVIDUAL OFFICE AT THEIR DISPOSAL.

THE LATIN-AMERICAN FOREIGN MINISTERS WILL BE THE GUESTS OF THE ITALIAN GOVERNMENT AT THE MAJESTIC HOTEL, VIA VENETO 50.

EUROPEAN FOREIGN MINISTERS, THE PRESIDENT OF THE COMMISSION AND THE GENERAL SECRETARY OF THE COUNCIL WILL BE ACCOMMODATED AT THE GRAND HOTEL, VIA V.E. ORLANDO 3.

THROUGHOUT THEIR STAY IN ITALY A CAR WILL BE PROVIDED FOR EACH OF THE LATTER.

PLEASE PROVIDE THE FOLLOWING INFORMATION, IF POSSIBLE BEFORE 10 DECEMBER:

1. NAME AND EXACT TITLE OF HEAD OF DELEGATION.
2. NAMES AND POSITIONS OF DELEGATES.
3. NAMES AND POSITIONS OF SUPPORTING STAFF.
4. NAMES OF SECURITY MEN AND SERIAL NUMBERS OF ARMS CARRIED.
5. ANY OTHER HOTEL BOOKINGS REQUIRED.
6. BLOOD GROUPS OF MINISTERS AND ANY SPECIFIC MEDICAL REQUIREMENTS AND SPECIAL DIETS NEEDED.
7. WILL THE MINISTERS BE ACCOMPANIED BY THEIR WIVES/HUSBANDS? (A SEPARATE PROGRAMME WILL BE ORGANIZED FOR THEM.)
8. ARRIVAL/DEPARTURE TIME OF HEADS OF DELEGATION AND ANY USEFUL INFORMATION ABOUT THEIR MEANS OF TRANSPORT.

CPE/PRES/ROM

END OF TEXT

12/12/90 12:37 ☎202 623 3614 IDB PRE 002
12-DIC-1990 16:34 SEG TEC ON.MINISTRO 039 6 399778 P.02

MINISTERO DEGLI AFFARI ESTERI
D. G. A. P.

[illegible] ALLE ORE 14,00 DEL [illegible]
ALLA SEGRETERIA D.G.A.P.

URGENZA

TELEGRAMMA «COREU» N. 1024

Cifrato da	Spedito il	Alle ore
[illegible]	23-11-90	14.30

Mittente
Visione
POL XII
POL I

(vedere note sul retro)

FM ROM COREU

1 TO ALL COREU PRIORITE

2

3 ☐ INFO UN MISSIONS NEW YORK/GENEVA

4 CPE/ROM

5 ☐ SANS CLASSIFICATION
☒ DIFFUSION RESTREINTE
☐ CONFIDENTIEL
☐ SECRET

6 ☐ INFO EC EMBASSIES

7 OBJET EURO-LATIN-AMERICAN MINISTERIAL MEETING, ROME EUR, IILA, 20 DECEMBER 1990.

REF.: CPE/

THE PRESIDENCY INFORMS PARTNERS THAT THE MEETING REFERRED TO ABOVE WILL TAKE PLACE AT THE ITALO-LATIN-AMERICAN INSTITUTE (IILA) PIAZZA G. MARCONI 26, ROME EUR (TEL. 06/5909 FAX 5914923) ON 20 DECEMBER 1990.

THE PROGRAMME IS AS FOLLOWS:

19 DECEMBER:

MINISTERS AND DELEGATIONS ARRIVE

INFORMAL WORKING MEETING, IF NECESSARY

20 DECEMBER:

10.00 HRS: WORKING SESSION BEGINS

13.30 HRS: WORKING LUNCH

14.30 HRS: WORKING SESSION RESUMES

17.30 HRS: WORKING SESSION ENDS AND IS FOLLOWED BY A PRESS CONFERENCE IN THE IILA AUDITORIUM

DECEMBER 7, 1990

D R A F T

Dear Mr. President,

The Government of Italy, on behalf of the European Community, have the honor to invite you to the meeting which will be held in Rome on December the 20th, 1990 with the participation of representatives of EC's member States and 11 Latin American Countries (Argentina, Bolivia, Brasil, Chile, Columbia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela). The aim of the meetings is to draft a "Declaration" of political and economical cooperation among the partecipating countries.

As far as the perspective of economic partnership is concerned, important issues such as international debt, environmental and sectoral cooperation will be examined during the meeting.

The participation of the multilateral organizations to the meeting (the IMF Managing Director and the IDB President have been invited as well) is considered crucial for the establishment of a credible and solid ground of economic collaboration among the countries concerned.

I thank you in advance for the kind attention you will give to this invitation and I take this opportunity to wish you a very happy holiday season.

Sincerely,

Cesare Caranza

The World Bank
Washington, D.C. 20433
U.S.A.

Office of the President

FACSIMILE TRANSMITTAL FORM

TO: MR. SHAKOW

ATTN:

FACSIMILE NUMBER: 60574

FROM: MR. SANDSTROM

NUMBER OF PAGES (INCLUDING COVER): 4

DATE: DECEMBER 13, 1990

COMMENTS

Note: If transmission is incomplete or illegible, please call (202) 458-1146

THE WORLD BANK

ROUTING SLIP	Date 12-13-90
OFFICE OF THE PRESIDENT	

Name	Room No.
Alex Shakow	

	To Handle		Note and File
	Appropriate Disposition		Prepare Reply
	Approval		Per Our Conversation
	Information		Recommendation

Remarks

Let's discuss the attached.
Neither Shahid Hussain,
nor Olivier Lafourcade
can go.

From
Sven Sandstrom X 81138

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
ROUTING AND ACTION TRANSMITTAL SHEET

TO: MR. M. QURESHI (E-1241)	DATE: 12/10/90

SUBJECT:

DOCUMENT FROM: C. CARANZA
TO: BBC
DATED: 12/07/90

REFERENCE NO.: EXC901207006

TOPIC: RE: MTG. TO BE HELD IN ROME ON DEC. 20 WITH PARTICIPATION OF REPRESENTATIVES OF EC'S MEMBER STATES AND 11 LATIN AMERICAN CO

ACTION INSTRUCTIONS: | DUE DATE: |

______	HANDLE	
__XXX__	REVIEW AND RECOMMEND	12/10/90
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REMARKS: ATTN: MR. HUSAIN TO REVIEW & RECOMMEND. THIS IS AN EARLY DRAFT OF LTR. OF INV. MR. CARANZA WILL FOLLOW-UP WITH CALL TO BBC DURING THE WEEK OF DEC. 10. (SVEN)

EXPEDITE

ECC

Dec. 14
3:00 pm

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

TO:	DATE:
Mr. B. Conable (E-1227)	12/14/90

SUBJECT:

Document From: A. Shakow
To: bbc
Dated: 12/13/90

Reference No.: EXC901214001

Topic: BRIEFING: Mtg. with Mr. Andreas van Agt, Head of Delegation, Commission of the European Communities to the US, 12/14 @ 3:00

ACTION INSTRUCTIONS: | DUE DATE:

_______ HANDLE
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_______ AS WE DISCUSSED
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Remarks: cc: Messrs. Sandstrom, Khanna

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: December 13, 1990

TO: Mr. Barber B. Conable
through Mr. Wilfried Thalwitz, PRESV

FROM: Alexander Shakow, EXTDR

EXTENSION: 31828

SUBJECT: Briefing For Your Meeting With Mr. Andreas van Agt, Head of Delegation, Commission of the European Communities to the United States

1. Mr. van Agt will meet with you from 3:00-3:30 p.m. on Friday, December 14. (His CV is attached). On this courtesy call he will be accompanied by Mr. Jurgen Koppen. Messrs. Stern, Sandstrom, and Shakow will join you for the meeting.

2. The Bank has close working relationships with the EC on Africa in particular, but we are being drawn closer together through our common interest in Eastern Europe, the USSR, and an expanding EC aid role. As the EC becomes a more cohesive economic and political unit it will be even more important for the Bank to keep in close touch with the EC on a wide range of subjects. You might indicate to Mr. van Agt that our Paris office will be more active in the future in doing so, in addition to continuing our close links to his office here.

3. Among the more interesting developments which may arise in discussion are:

- SPA-2 EC contribution: The EC has just announced a grant contribution of US$ 1.4 billion over the next three years to SPA-2 for cofinancing and coordinated financing of adjustment operations. The EC will be the single largest contributor to SPA-2.

- Development Aid: The EC is also developing a common development aid strategy, not absorbing bilateral aid but working in close concert with member states. Mr. van Agt may wish to comment on how far he expects this to go.

- Debt: Commissioner Manuel Marin has just proposed cancellation of ACP debt of $2 billion to EC.

- Human Rights: Governance is now of concern to the EC. Some human rights conditionality exists in Lome IV; only the program to Sudan has been suspended, but concerns about countries such as Ethiopia, Somalia and Zaire have been voiced. The EC is debating how to operationalize governance, human rights and political pluralism issues, although this has not yet assumed a high profile.

- Trade issues. What next on the Uruguay Round?

- The move toward economic and political union, Europe '92 and the Rome Summit (Dec. 14-15, 1990). The EC is wrestling with enormous problems, but they are moving ahead swiftly. Mr. van Agt's assessment would be interesting.

- Eastern Europe and the USSR: We are coordinating fully with the EC on Eastern Europe. Membership prospects of the USSR in the IMF and Bank would, no doubt, be of interest to the Ambassador.

4. GEF: You may want to have Mr. Stern bring Mr. van Agt up to date on the GEF. The EC itself has not been asked to contribute, as its members are contributing individually. We are, of course, working closely with the EC in the Environment Program for the Mediterranean, and as a result of the Houston Summit we will be working together on a Brazilian Rainforest pilot program.

Attachment

cc: Messrs. Stern (FINSV), Sandstrom (EXC)

DELEGATION OF THE COMMISSION OF THE EUROPEAN COMMUNITIES

BIOGRAPHICAL NOTE OF MR ANDREAS VAN AGT, HEAD OF DELEGATION, COMMISSION OF THE EUROPEAN COMMUNITIES TO THE UNITED STATES

Mr Andreas Antonius Maria van Agt became Head of the Delegation of the Commission of the European Communities to the United States in January 1990. He was formerly Head of the Commission Delegation in Tokyo, a post he assumed in May 1987.

Born in Geldrop, Holland, on February 2, 1931, Mr van Agt earned a Law Degree from the Catholic University of Nijmegen in 1955. After practising as a Barrister for several years, he joined the Dutch National Government's Civil Service and engaged in legislative work for various ministries. He returned to university in 1968, and was appointed Professor of Criminal Law in the Faculty of Law of his alma mater.

Mr van Agt was a founder and leader of the Dutch Christian Democratic Party (CDA). Between 1977 and 1982, he was Prime Minister of the Netherlands under various coalition cabinets. Before that, he served as Deputy Prime Minister (1973-1977) and as Minister of Justice (1971-1977). He also acted as Minister of Foreign Affairs in an interim cabinet (1982).

After leaving the Dutch national political stage, he was the Queen's Commissioner (Governor) of one of the provinces in the Netherlands.

Mr van Agt is married to Eugenie Krekelberg. They have three children.

January 1990

2100 M Street NW 7th Floor Washington DC 20037 / telephone (202) 862-9500 / telex 64215 EURCOM UW

European Community NEWS

Embargo: February 5, 1990
No. 3/90
February 2, 1990

VAN AGT PRESENTS CREDENTIALS TO PRESIDENT BUSH

Mr. Andreas van Agt, Head of the E.C. Commission's Delegation to the United States, will present his letter of credentials to President George Bush on February 5, 1990.

A biography of Ambassador van Agt follows:

Mr. Andreas Antonius Maria van Agt assumed his current position in January 1990. He was formerly Head of the Commission's Delegation in Tokyo from May 1987.

Born in Geldrop, the Netherlands, on February 2, 1931, van Agt earned a law degree from the Catholic University of Nijmegen in 1955. After practising as a barrister for several years, he joined the Dutch National Government's Civil Service and engaged in legislative work for various ministries. He returned to university in 1968, and was appointed Professor of Criminal Law in the Faculty of his alma mater.

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After leaving the Dutch national political stage, he was the Queen's Commissioner (Governor) of one of the provinces in the Netherlands.

Mr. van Agt is married to Mrs. Eugenie Krekelberg. They have three children.

Contact: Giancarlo Chevallard
(202) 862-9530

EC OFFICE OF PRESS AND PUBLIC AFFAIRS
Washington: 2100 M Street NW Seventh Floor Washington DC 20037 / telephone (202) 862-9500 / telex 64215 EURCOM-UW
New York: 3 Dag Hammarskjold Plaza 305 E 47th Street New York NY 10017 / telephone (212) 371-3804 / telex 661100 EURCOM-NYK

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

8 August 1990

File
EEC

logged out
CP 8/9

Mr. Henning Christophersen
Vice President of the
Commission of the European Communities
Rue de la Loi 200
B-1049 Brussels, Belgium

Dear Mr. Christophersen:

Thank you for your letter of July 17 to Mr. Conable regarding cooperation between the Commission and the Bank in connection with the studies of the Soviet economy.

As you may know, Messrs. Attali, Camdessus, Paye and Mr. Conable met with Mr. Lamy in New York on July 21. Mr. Lamy brought them up to date on the status of the Commission's work and they agreed that they would fully share information in the future.

I understand that the Commission's mission will complete its work in Moscow in early September, so the meeting now scheduled to take place in Washington in mid-September should be a good opportunity for us to be brought up to date on the Commission's work. We agree that the Annual Meetings also offer a good opportunity for further discussions, since Messrs. Attali and Paye will be in Washington as well as, of course, Messrs. Camdessus and Conable.

Sincerely yours,

DCRao

D. C. Rao
Acting Vice President,
Development Economics

HK

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 90/07/17 DUE DATE : 90/08/07
LOG NUMBER : 900801020 FROM : H. Christophersen
SUBJECT : Re main issues on the Soviet economy linking the Commission, EIB, IMF, OECD, WBank, now EBRD. Req. mtg during the 1990 Annual Mtgs.d
OFFICE ASSIGNED TO FOR ACTION : Mr. Thalwitz (D-1202)

ACTION:

	APPROVED
✓	PLEASE HANDLE
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	FOR THE FILES
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	PLEASE PREPARE RESPONSE FOR ______ SIGNATURE
	AS WE DISCUSSED
	RETURN TO ______

COMMENTS :cc: Messrs. Qureshi, Stern, Fischer, Holsen, AK, LM

pls. provide Mr. Conable a copy of resp. by c.o.b. 8/9/90.

JVolk (schedule)

EXPEDITE

HENNING CHRISTOPHERSEN
VICE PRESIDENT OF THE COMMISSION
OF THE EUROPEAN COMMUNITIES

Brussels, 17 July 1990

636

Dear Mr. Barber B. Conable Jr.

The European Council at its meeting in Dublin on 25 and 26 June requested the Commission, in consultation as appropriate with the international financial institutions, to analyze the possibility and desirability of extending short-term credits and longer-term support for structural reform in the Soviet Union. These proposals will be based mainly on an economic report by the Commission services. Also, the Houston G-7 summit of 9-11 July has asked the IMF, the World Bank, the OECD and the EBRD to undertake a detailed study of the Soviet economy, in close consultation with the Commission.

It is clear that in dealing with the Soviet Union our approach will be different from the one used in our work on Eastern Europe. It rather needs to be along the lines of how the Soviet Union can be integrated into the world economy. The Soviet Union and the West would have to work closely together. In this way discussions on internal reforms in the Soviet Union and on how possible assistance can be provided most effectively could go hand in hand.

We would plan to use the same network for the purposes of our consultations as is already in place for Eastern Europe, linking the Commission with the EIB, the IMF, the OECD and the World Bank, to which will be added the EBRD.

We have drawn up provisional plans which include a mission to Moscow in late August and the preparation of our economic report by the end of September. In the work of our respective organisations on the USSR we should like to exchange information and data resources. We would also hope that the meeting of our network of correspondents scheduled to take place in Washington in mid-

Mr Barber B. Conable Jr.
President,
The World Bank
1818 H Street NW
Washington DC 20433
U.S.A.

September could be the occasion not only for our usual exchanges on Eastern Europe, but also for a discussion of the main issues concerning the Soviet Union. I would also suggest that we meet in the margin of the annual meetings of the IMF and the World Bank in Washington.

The economic analysis of the Commission services will be carried out by the Director-General for Economic and Financial Affairs, Mr Giovanni Ravasio.

I am writing in the same terms to Mr Attali, Mr Broeder, Mr Camdessus and Mr Paye.

Yours sincerely

Henning Christophersen

September could be the occasion not only for our usual exchanges on Eastern Europe, but also for a discussion of the conclusions concerning the Agenda [illegible]. I would also suggest that we meet in the margin of the annual meetings of the IMF and the World Bank in Washington.

The economic analysis of the Commission services will be [illegible] by the Director-General for Economic [illegible], Mr [illegible].

I am writing in the same terms to Mr [illegible], Mr [illegible], Mr [illegible] [illegible].

[illegible]

Claire

Wd you like to file this somewhere?!

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FEDERAL TRUST FOR EDUCATION AND RESEARCH

British member of the Trans-European Policy Studies Association (TEPSA)

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file

President: Sir Donald Maitland Chairman: John Pinder

Mr Barber B. Conable
President
International Bank for Reconstruction and
Development
1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

1st February, 1988

Dear Mr Conable,

It was a privilege to have been able to listen to your excellent talk at the House of Commons, as well as having our mutual friend Bowen Wells introduce us personally. It was also a welcome revelation to have the totality of your intentions for the Bank made available to us, and to be able to appreciate them in the round.

That approach encourages me to transmit to you the attached Federal Trust study on The European Community and the Developing Countries: A Policy for the Future. The study group which I chaired had a similar concern with looking at problems and policies in the round.

Amongst other things it concludes that there are a number of areas, such as constructive debt relief, investment, the environment, food security and encouragement of regional co-operation and self-help, in which the Community could take effective action without waiting for international agreement. We also stress the importance of the Bretton Woods institutions as the forum for concerted action and the consequent need of the Community to support them by acting more homegenously within them.

I greatly hope both the spirit of this study and its recommendations will commend themselves to you. Meanwhile I look forward to the next opportunity of being among your audience.

With kindest regards and every good wish for the task ahead,

Yours sincerely,

John Leech.

John Leech
Chairman of the Study Group

FEDERAL TRUST FOR EDUCATION AND RESEARCH

THE EUROPEAN COMMUNITY

AND THE DEVELOPING COUNTRIES:

A POLICY FOR THE FUTURE

A FEDERAL TRUST STUDY

REVIEWED BY AN INTERNATIONAL CONFERENCE

HELD JOINTLY WITH THE INSTITUT D'ETUDES EUROPEENNES

FEBRUARY 1988

EUROPE HOUSE, 1 WHITEHALL PLACE, LONDON SW1A 2HD

FEDERAL TRUST FOR EDUCATION AND RESEARCH

THE EUROPEAN COMMUNITY AND THE DEVELOPING COUNTRIES: A POLICY FOR THE FUTURE

FEBRUARY 1988

£5.00

The Federal Trust is an educational charity which was set up in 1945. Its aim is to contribute to the achievement of a more just, harmonious and peaceful world, by studying the application of federalist principles to the organisation of society, states and international relations. It has a particular interest in the work and development of the European Community as an instrument of closer unity between the countries of western Europe; as an example of regional integration; and as a potential catalyst for a better-ordered world.

The Trust is a founder member of the Trans-European Policy Studies Association (TEPSA), which brings together like-minded institutes and associations in other member countries of the European Community.

Recent Trust studies include: *Paving the Way: Next steps for Monetary Co-operation in Europe and the World*, Report of a Study Group chaired by the Rt Hon. David Howell MP; *Europe and the Global Crisis* by Christopher Layton; *Turkey and the European Community* by Sir Bernard Burrows; and (with TEPSA) *The Dynamics of European Union* edited by Roy Pryce. (London: Croom Helm, 1987)

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CONTENTS

THE EUROPEAN COMMUNITY AND THE DEVELOPING COUNTRIES: A POLICY FOR THE FUTURE

INTRODUCTION

The European Community has the largest share of world trade. It constitutes the Less Developed Countries' (LDCs) biggest export market and sells to them more than the United States and Japan combined. With its Member States it accounts for 40% of total aid and financial flows to the LDCs and more than 50% of those to Africa, the Caribbean and Latin America.

Such interdependence requires continual adjustment. In the past the European Community has been foremost in proposing new forms of co-operation which, while safeguarding Europe's vital economic interests, seek to give favoured partners some tools to build a better economic future. Today, the need for co-operation between Europe and the developing world embraces new fields such as indebtedness and environmental issues; yet the Community's relations, particularly with the larger and more advanced LDCs, remain fragmented for want of a coherent political view of interdependence.

This report is directed at the potential of the European Community and to all those who can contribute to realising it; in particular the Member States, the Commission and the European Parliament. Its structure already qualifies it to deal with today's 'collision between sovereign states and stateless economic forces'. Given the political will, the European Community can make an impact on a number of pressing world problems without waiting for global agreement. Significant action can be taken at Community level on:

- relieving debt and reversing the perverse flow of funds from some poor countries to rich ones
- linking debt relief to sustainable development which preserves the environment
- establishing a Food Charter to produce assured supplies for the poorer food deficit countries
- encouraging regional co-operation and self-help, especially to regenerate the flow of investment to developing countries.

The horizon of European development policies will have to widen in order to achieve such a programme. Policy globalisation needs to be both geographical and functional, to embrace all the significant developing regions and engage them in a dialogue touching all their concerns.

The report applies similar reasoning to the development of the existing Lomé relationship, particularly in the light of negotiations for a new Convention which are due to begin in 1988.

At the outset it seeks to trace the diverse factors which have interfered with the realisation of a noble objective: the belief that a mature European Community can play a crucial role in leading the world out of poverty and fragmentation. It concludes that there is no shortage of solutions to the great problems of the world. What is lacking is the political will to create, piece by piece, a coherent system to defeat them. It is the ultimate purpose of this report to show that good sense can also correspond to the exigencies of political reality.

SECTION I – SUMMARY OF PRINCIPAL RECOMMENDATIONS

The Community's potential for action

The major thesis of this report is that problems which appear intractable on a global scale are capable of solution within a more modest and therefore manageable and purposeful framework. It is our contention that the European Community can provide such a framework, if its Member States are prepared to find the will. Seen against the anticipated course of world developments over the next decade, the European Community will in any event be called upon to share increasingly greater burdens. Unless the Community prepares itself with greater political purpose, a dangerous vacuum could arise if, for instance, the United States became reluctant to continue its world role in terms of expenditure on defence, supporting a world currency or regulating the international trading system without substantially higher participation by its European partners.

Community action should concentrate on areas where its special nature and experience allow it to make an effective contribution. These areas cover action on problems such as debt where the Community's own strength can provide leadership; support for regional solutions and initiatives which enable LDCs to deal with such problems collectively; using its voice within international agencies, to present a co-ordinated policy on development based on the Community's experience as a major actor in the development field; and stimulating the transfer of European investment, management skills and technology to LDCs, particularly for the benefit of the hungry.

Intensifying Lomé and other relationships

We also believe that a restricted canvas on which to test solutions will enable them to be launched and monitored more effectively. One of the Community's special features is its relationship with the African-Caribbean-Pacific (ACP) States which is well suited for further innovation. The ACP States include most of the Least Developed Countries, commanding special consideration and the greatest urgency. Section V of this report sets out a detailed set of recommendations for further development of the Lomé association.

At the same time, we believe that the European Community has now to begin to develop its links with the more industrially advanced LDCs in Asia and Latin America. As argued in Section VI, there is a need for a more structured relationship, on the one hand with the future regional leaders and, on the other, with the faster developing trading countries. In the longer term, the Lomé experience of codified co-operation will be appropriate; for the time being we advocate the formulation of a series of initiatives by the Community for the development of existing co-operation agreements which do not adequately serve these relationships. This will be a timely accompaniment to initiatives on debt, the Uruguay Round and environmental issues which will show the Community in the forefront of concern for the poorer parts of the world.

We summarise our principal recommendations below.

Dealing with debt

1. **We call upon the Member States collectively to recognise the crucial role which a European initiative can play in breaking the international impasse on debt and**

monetary disorder; and to use their combined economic and political strength by acting now to:

(a) implement the Lawson/Balladur plans in favour of the ACP States and the remaining Least Developed Countries as a European Community initiative, whilst continuing efforts to enlist the support of other countries within the Group of Ten and the international institutions;

(b) offer modified debt relief to these countries such that they continue to 'service' the debt, but in local currency. The proceeds could be channelled by a European development financing instrument into agricultural, environmental and social investment requiring predominantly local currency inputs. This instrument could also help to channel private investment alongside. A less constrained European Investment Bank (EIB) acting in concert with a remodelled Centre for Development of Industry (CDI) might fulfil this role but, if not, a more entrepreneurial new body, acting as a European Development Corporation, should be created;

(c) examine the extent to which such a European instrument would also be capable on a limited scale of purchasing discounted developing country debt or offering itself to the commercial banks as an alternative debtor, obtaining hard currency resources from capital markets under an Ortoli-type facility;

(d) endeavour to link such debt relief to the maintenance of globally significant environmental assets;

(e) encourage the LDCs to help to resolve their problems through regional inititatives such as payments unions and regional trade promotion;

(f) develop the European Monetary System into a monetary union if further investigation suggests that this will reduce volatility in exchange rates which is not related to imbalances in trade between countries; and

(g) play a more vigorous role within the International Monetary Fund and the World Bank in order to support co-ordinated action on monetary stability, debt relief and development.

Stimulating trade, production and investment

2. Coupled with these steps we recommend that the European Community and the Member States take determined action to enable the LDCs to build up their economies and trade by:

(a) clarifying objectives for the Uruguay Round of trade negotiations, including the need to seek greater liberalisation of worldwide trade which benefits the LDCs, coupled with appropriate adjustment measures;

(b) linking access for LDC manufactures to the needs of European industry through collaboration between LDC and Member State enterprises on production-sharing projects in LDCs; and facilitating the flow of trade by implementing Community rules on export credits and possibly by establishing a European Community Export Credit Agency or Ex-Im Bank;

(c) defining a new role for the European Investment Bank (EIB) by combining

its intra-Community and overseas operations within a programme to relaunch growth simultaneously within the Community and the LDCs;

(d) encouraging the flow of European private investment, management skills and technology to LDCs, initially by setting up a European Community private sector working party to prepare action on proposals for Development Co-operative Councils;

(e) investing the Centre for Development of Industry with a more purposeful role by making it responsible for the entrepreneurial parts of the proposed EIB programme as well as for the formation of similiar private sector Development Co-operative Councils within the ACP countries;

(f) enabling the EIB to support European investment in LDCs outside the ACP and the Mediterranean, in particular in the Association of South-East Asian Nations (ASEAN), though without the benefit of EDF subventions; and

(g) presenting a co-ordinated Community policy based on these elements within the international financial institutions which deal with official flows to developing countries.

Combating hunger and a dying environment

3. We attach the highest priority to action designed to eliminate hunger. Action is urgently needed to attack the causes of hunger, by (a) creating better physical conditions for agricultural development, (b) stimulating the growth of efficient production and marketing systems incorporating appropriate incentives, and (c) giving the poor access to food through rural employment. The Community has an even greater contribution to make than with emergency aid.

Today, hunger is most visibly an African problem. We advocate action within the Lomé framework for a "Food Charter", incorporating both rights and obligations. This would bear on the policy environment on both sides, the delivery of technology and research for longer term development, and triangular food aid for emergencies. We address this and other matters we regard as vital in Section V of this report, devoted to elements for the next Lomé Convention.

4. Both in the context of hunger and that of curbing a growing threat to development generally, we stress the urgency of action to safeguard the environment, and to uphold the principle of sustainable development in all the projects and programmes financed from European Development Fund resources, notably by:

(a) supporting the creation of a World Environment Trust to be invested where practical with major environmental assets such as the African and Amazonian rainforests, and linked to remedial action on debt;

(b) substantially increasing EDF funding of Non-Governmental Organisation activities aimed particularly at the promotion of environmentally sound development practices by large populations unreachable through other programmes; and

(c) promoting agreements such as that of the International Tropical Timber Organisation in respect of other environmentally sensitive commodities, and combating the undesirable environmental effects of expansion in export commodity production.

Initiatives to assist regional development

5. We believe that in all these respects the common interests of the European Community and the LDCs call for a common approach. In order effectively to harness the full energies of both parties, this relationship needs to be contractual rather than loosely co-operative. This follows the pattern of the Lomé partnership, though we propose that this too be expanded and deepened to ensure better results than have been obtained so far. In order to launch such action as part of a unified policy of coherent relationships with the developing world, we therefore propose:

   (a) **a European Community initiative aimed at developing its relationships with the potential regional leaders and the regions they represent, such as Brazil, Mexico, India, China, Egypt and Nigeria and the Association of South-East Asian Nations, for a dialogue on the co-management of the most urgent world problems, and the creation of a partnership designed to integrate the regional leaders fully into the international trading system; and**

   (b) **support to them and their partners for the promotion of regional solutions and to assist the growth of the regions into viable economic units through regional trade financing agencies, payments unions and common negotiating mechanisms.**

Co-operation agreements already exist with most of the major potential regional leaders. These can provide a practical platform for a broadening relationship aimed at joint regional assistance and political dialogue. Today's problems are too complex for sweeping solutions. They require the building up of partnerships, rather than formal institutions, within which to resolve difficulties as they arise. Yet the Lomé Convention has shown how a range of many different countries, straddling the globe, can create fruitful compacts based on a recognition of convergent interests.

The next Lomé Convention

6. We divide our recommendations into the practical initiatives outlined above concerned with feeding the hungry, improving financial mechanisms to deal with debt, trade and development and the harnessing of private investment which should be enshrined in a new Convention; and steps which appear to us equally essential to strengthen the Lomé association itself and to develop its as yet unrealised potential.

   We therefore recommend the inclusion in a new Convention of:

   (a) **a Food Charter as described in 3 above;**

   (b) **a Community-ACP Debt Relief Compact based upon the Lawson/Balladur plans and linked to a European instrument to implement debt-development swaps (as in 1 above);**

   (c) **a Balance of Payments Support Chapter, including a special fund for non-project lending attached to the EDF (if necessary fed progressively from unused EDF balances); new rules for Stabex funds to ensure their adequacy and their more effective use for diversification, adjustment and market management for commodities in decline; and the promotion of the ECU as a stable trade currency within the ACP countries; and**

(d) measures for an improved investment flow based on greater private sector involvement in a programme linking growth in the Community with investment in the ACP, supported by private sector Development Co-operative Councils and backed by a more entrepreneurial role for the EIB and CDI (as in 2 above).

As measures to strengthen the Lomé institutional structure and to develop the Association's longer term potential we further recommend:

(a) that the new Convention should contain provisions for political co-operation between the signatories, following the pattern successfully established within SADCC;

(b) that the ACP secretariat be provided with adequate resources and enabled to serve the ACP states in gaining a wider and more effective role;

(c) the establishment of an ad hoc Policy Studies Group in close co-operation with the ACP/EEC Joint Assembly to explore ways in which the Lomé community could become more fruitful for its members and respond to problems as they arise;

(d) the co-ordination of the activities of existing public administration and management training institutions through a special Lomé Programme of Public Administration to deliver improved management and public service skills throughout the Lomé Community; and

(e) much greater co-ordination of development policies between Member States, and between them and the Community and the ACP States themselves, including Community-ACP consultations on their common interests in the new GATT Round.

Measures for the Community

7. Within the Community itself, we believe that among the principal objectives of the Commission and the Member States should be:

(a) to facilitate the resumption of growth in Europe and through it in the developing countries;

(b) to ensure the coherence of all European Community policies through the establishment, preferably by the European Parliament, of an independent commission with permanent review machinery; and

(c) the achievement of a more global and interactive approach, within the Commission by co-ordinating views and actions on aid and trade particularly between the Directorates-General for Development and External Relations; and as between the Member States, and especially their effectiveness within international organisations, by the application also to aid matters of the principles set out in the Single European Act for co-operation in the sphere of foreign policy.

None of our recommendations requires the allocation of resources exceeding those available. Over the last 30 years, successive European Development Funds have totalled over ECU 17 billion. Much of the value of this resource has been reduced by inflation and slow disbursement; some part could well be transferred to the objectives set out by us. Without sacrifice by the ACP, some of the new resources under Lomé IV could be applied to debt relief linked to investment in development rather than conventional programming. As for the rest, we have insisted that much greater use be made of capital markets and direct private sector resources.

We have hesitated to advocate the creation of new institutions, preferring instead that new tasks and significance be given to those that already exist. However, if by reason of its Statute the EIB were not able to assume a fully global developmental and entrepreneurial role, consideration should be given to the creation of a European Development Corporation with these attributes.

All our recommendations represent opportunities for determined European leadership. The fundamental question today is whether the Member States are ready to respond to them by recognising the Community's role as a major economic power on the world stage; or whether they will choose to leave its fortunes, and those of the developing world, to the continued exercise of national interests, at the mercy of outside forces which no one has the courage to control.

Table B: DEBT OUTSTANDING AT END OF 1985
AS SHARE OF DEVELOPING COUNTRIES' DEBT (per cent)

	ODA	Total export credits	Financial markets	Multilateral	Use of Fund credit	All other debt	TOTAL
LLDCS	8	3	1	11	6	10	4
Other LICS	52	21	8	33	28	23	18
LMICS	20	20	12	22	22	24	16
UMICS	20	57	79	34	44	44	62
Developing Countries	*100*	*100*	*100*	*100*	*100*	*100*	*100*
Of which selected regions:							
Western Hemisphere	13	21	52	28	38	26	38
Africa South of Sahara	11	14	4	16	17	11	8
N. Sahara and M. East	19	32	12	9	4	24	17
Asia	50	24	23	37	29	20	26
Memo: Eastern Europe	–	21	8	2	5	13	9

Source: OECD.

was unsustainable. It is particularly hard to maintain if pressure is simultaneously put on the United States to reduce its trade deficit. How are Latin American debtors to generate their trade surpluses if their most important market closes its doors? The latest plan for securitising a portion of Mexican debt, backed by US Government paper, is imaginative but offers little hope to other major debtors lacking Mexico's reserves.

Debt in sub-Saharan Africa

In sub-Saharan Africa, the problem of servicing foreign debt is now exacerbating already intractable economic difficulties. But Africa's debt has taken second place in the lending world's attention because its total of $88 billion at the end of 1985 is much smaller than the $405 billion owed by developing countries in the Western hemisphere, and represented only 4% of the total developing country debt to commercial banks at the end of 1985 (see table B); most of the rest was owed to governments and multilateral institutions. Yet the problems of long-term poverty which many African countries now face mean that a relatively small debt service bill can represent an insurmountable difficulty. Clearly the problems of such LDC debtors require different solutions from those devised for the big middle-income commercial borrowers, whilst the institutional character of the lenders provides opportunities for action by OECD members themselves.

2. Trade and monetary disorder

After 1945 the world economy enjoyed ordered trading conditions based on stable exchange rates (oiled by liquidity from the International Monetary Fund), on loans from rich to poor or war-damaged countries, and on the principles of multilateral, non-discriminatory trade enshrined in the General Agreement on Tariffs and Trade (GATT). All three pillars of ordered trade have crumbled. Outside the European monetary system, exchange rates float. Commercial loans from rich to poor countries have more or less dried up and institutional loans are limited by the willingness of member countries to subscribe capital to the lending institutions. GATT rules have been bent and broken shamelessly.

Floating currencies have to some extent been managed by national monetary authorities, whose aim is to increase stability in their financial and trading systems. But this has not prevented fluctuations in the relative values of major currencies much greater than anticipated when the adjustable peg system was finally abandoned in 1973. These fluctuations, and interest rate policies geared to maximise national advantage from them, have made currencies in themselves investment instruments. As a result, currency values no longer directly reflect the balance of international payments.

Exchange rate fluctuations greatly increase uncertainty for developing country trade. A country dependent for its foreign exchange earnings on a dollar-denominated commodity, as Jamaica depends on aluminium, can only base its projections of future earnings from that commodity on what form it thinks United States exchange rate policy is likely to take. The current United States administration has swung from supporting the dollar with high interest rates in order to attract foreign lending to promoting a slide in the dollar's value so as to tackle the country's trade deficit. The effects of these policies on Jamaica's economy are unlikely to enter into a United States treasury secretary's calculations.

Changing currency values have encouraged many developing countries to peg the value of their own currencies against a basket of others, or the SDR. Developed and developing countries alike have been obliged to diversify their reserve assets from gold and dollars into other currencies. But calculating what mix of currencies will best preserve the value of reserve assets places yet another burden on the already stretched financial skills of developing country banking systems.

Trade

GATT rules of reciprocity between countries on tariff-fixing have been unable to police world trade partly because the nature of goods traded, and the trading parties, have changed so much since the rules were drawn up after the second world war. But they have been most seriously challenged by the growth of non-tariff barriers to trade. The rise of this form of protectionism has not only curbed new investment in manufacturing industry in the developing world, it has slowed the structural adjustment of industrialised countries to technological changes witnessed in the second half of this century. Although a new round of GATT negotiations is under way, its first leg, held in Uruguay in September 1986, does not bode well for a radical result (although subsequent offers tabled by the Community evidence some recognition of the round's significance in setting the pattern of trade for the next five to ten years).

The developing countries will want to use the new GATT round to reduce trade barriers on their exports to industrial countries, especially textiles, and tropical, natural resource and agricultural products. In addition, they are concerned to strengthen and clarify rules governing safeguards and dispute settlement, as well as surveillance to make sure that such rules are observed. They want to put more practical content into the concept of 'differential and more favourable treatment' enshrined in part four of the GATT and in the Enabling Clause adopted during the Tokyo Round, from which their exports are supposed to benefit.

The source of these concerns is the great need for developing countries to grow at a faster rate. In the absence of increased resources from official or private sources, the only way developing countries can get investment capital is by earning it through trade. This means trade in non-traditional products, if they are not to cut the ground from under each others' feet by contributing to already oversupplied markets for their traditional mineral and raw commodities. The major implications for industrialised countries of this necessity for diversified trade have yet to be recognised in the North as well as the South.

3. Commodity dependence, famine and falling food production

The need to generate foreign exchange in order to pay foreign debts, coupled with uncertainty about currency values and markets, creates the worst problems in those very poor countries which remain dependent for foreign exchange on one or a few commodities. Schemes to compensate single commodity economies for violent fluctuations and long-term downward trends in commodity prices help only if they ensure that part of the compensation is spent on investment in diversification. Yet in today's climate of restricted trade, what are developing countries to diversify into, even if they did have access to the necessary finance for investment?

Those countries dependent on agricultural goods for the bulk of their foreign exchange face particularly invidious choices. The domestic monetary policies of many developing countries continue to discriminate against both food producers and agricultural workers. Local currency earnings will be less if the currency fails to reflect the real balance of payments position. In addition, if marketing is centrally handled by a government organisation, the earnings from rural produce are likely to be heavily taxed at the first link in the marketing chain. High-valued currencies make foreign foods unnaturally competitive in urban markets, a problem which can be exacerbated by food aid programmes. Self-sufficiency in food is not necessarily a policy worth pursuing if a country has a comparative advantage in producing some other good which can be exchanged for food. But it is not always the rural producers who will benefit from such an exchange.

Developing countries as food importers

Since 1978 developing countries as a whole have been net importers of food. According to the World Bank's 1986 World Development Report this has occurred because farmers, who make up roughly 9% of the workforce in the industrialised world, receive government subsidies; while in the developing world, where about 75% of the population is in farming, agricultural production is effectively taxed. If world food markets were liberalised overnight, the World Bank estimated that developing countries' national incomes would rise by $18 billion annually, industrialised countries would gain $46 billion and the only loser would be the Eastern block, which would forgo about $23 billion a year in acquiring subsidised produce. Protecting domestic agriculture costs the United States an estimated $35 billion, the European Community $25 billion and Japan $11 billion a year.

If market conditions are unfavourable for food producers in developing countries they can resort to becoming subsistence farmers with their own food supply guaranteed. But they then run the risk of having no income on which to fall back should their harvest fail, the first step on the road to famine.

Population pressures and changes in land tenure are anyway making such a choice impossible in ecologically fragile countries. Shifting cultivation was well suited to areas where land could be left fallow long enough for all the necessary nutrients to be replenished. But when competition for land, whether inspired by a booming local population or because land formerly available has been bought by non-traditional farmers, means that fallow times must be shortened, irreversible degradation of the soil can take place swiftly. Even where high-yielding crops dependent on marketed inputs have been adopted, yields can be maintained year after year only by increasing the amount of inputs. Population pressure can encourage a destructive intensification of agricultural production which is in the long term unsustainable.

Food insecurity in developing countries has meant that arguments in favour of food aid continue to be put forward even though, when badly managed, it demonstrably discourages local production. But there are many examples to show that offering good returns to peasant farmers can yield rapid results. Zimbabwe's post-independence farm policy, for example, has seen maize production grow from 41,390 tonnes in 1980/81 to 480,613 tonnes in 1985/86, mainly thanks to greater price incentives for peasant farmers (source: FARM). China too has now apparently conquered the spectre of famine which has threatened the country throughout the twentieth century, partly by offering some leeway to farmers in their marketing decisions. Yet greater food production may not end hunger, because poverty still prevents people from buying adequate food. To combat these inequalities, different policies must be adopted, giving greater assistance to communal self-help. That also implies a shift in the aims of aid policies.

4. Lack of investment

Uncertainty about the value and convertibility of currencies and the openness of markets limits the capacity of all participants in the world economy to judge whether new investments will ultimately be profitable or not. This is especially damaging for developing countries which must diversify the productive base of their economies. Aid donors and private investors have trouble deciding which are the best projects to support. In the main, their horizons remain unrealistically short-term compared with the problems of adjustment faced by developing economies. Difficulties in disbursement turn donors away from long-term investment. The short-term approach is reflected in the now fashionable use of aid to fund programmes, particularly fast-disbursement programmes, rather than projects in order to ease the problems caused by balance of payments difficulties, themselves in part a result of uncertainty surrounding currency values and markets. While conditions attached to such programmes may be aimed at improving the recipient's economy in the long term, compliance with them has to be demonstrated at frequent intervals if their long-term value is not to be dissipated by short-term concerns.

Equity participation in productive projects is more attractive to many developing countries than loan finance because the investor shares the risk of the project not succeeding. However, in the 1970s, the ready availability of commercial loans greatly reduced the share of direct investment in the total mix of capital flowing into developing countries. Despite efforts made by both bilateral and multilateral institutions to attract direct investment, it has not risen in proportion to the decline in new commercial lending.

In the past, multinational corporations have been wary of the political risks of investing in countries whose governments were liable to nationalise foreign assets with scant compensation. Relations have improved in the past decade, through a combination of host country need and multinationals' understanding, but results are not yet encouraging.

The problem is less one of a shortage of potentially profitable projects than the risk involved in putting money into them. Even more of a deterrent is uncertainty whether profits and the original capital can ever be repatriated. Investors choose more secure lending or investment alternatives in the developed world, even though they might get higher returns on more risky developing country investments. This uncertainty affects not only holders of foreign private capital. The volume of capital flowing out of developing countries testifies to an internal lack of faith in the currencies and the economic policies of many developing countries.

All the major industrialised countries now have national investment guarantee schemes to protect the investments of their own nationals overseas. These need to be refined if direct investment in developing countries is to grow. They need also to be supplemented with international schemes such as the recent World Bank attempt at a Multilateral Investment Guarantee Agreement.

5. Environmental crisis

Any review of the direction which the world's economic development should take must consider changes already wrought in the natural environment by industrial expansion in the North and population pressures as well as climatic changes in the South. These changes threaten the maintenance of current material standards worldwide, meagre though these are in much of the developing world. The world's population has now reached five billion and, according to the United Nations Fund for Population Activities, is unlikely to stabilise at less than 10 billion. No development policy can be sustainable in the long run if demand, which is determined by the size and structure of the population, chronically exceeds the supply of resources and destabilises the ecological system.

The statistics of environmental degradation are so frequently rehearsed that they are losing their impact, but not their seriousness: at present rates of desertification, 15m square miles of the earth's surface will turn into desert during the next quarter century and one third of the world's cropland will disappear within 20 years; tropical rainforests are felled at the rate of 20 hectares a minute which, if continued, will cause their complete disappearance within 85 years.

Information on environmental destruction at a microlevel is now more widely available. Shifting cultivators do not wilfully exhaust their productive resource but their immediate needs may conflict with long-term aspirations. Tree-planting schemes are unlikely to succeed unless people are paid more to leave the trees alone than they will get for selling the wood for fuel. Similarly, governments may recognise the environmental dangers of encouraging the intensive cultivation of cash crops to meet foreign exchange needs; but the need to service their debt may be paramount. International financial institutions could contribute to restraint without sacrificing development by offering financial incentives for adjustment measures which protect the environment.

The commercial felling of tropical hardwoods on a large scale will continue as long as profits can be made. Measures to slow the rate of destruction must incorporate those people who make a living out of such practices into new patterns of economic activity which sustain the environment instead. For example, timber felling contractors are unlikely to ensure that only renewable numbers of trees are removed from a particular area of forest unless their client gives them a financial spur to do so. The new International Tropical Timber Organisation brings together producers and consumers of timber and can become a forum in which to devise such mechanisms and the provisions to enforce them.

Greater understanding of the complex relationships between future security and present necessity must be demonstrated when development policies which protect the environment are devised. But this must be done sensitively to avoid the accusation that the environmental card is being played to protect industrialised markets. For example, the European Community has agreed to buy 18,900 tonnes of Botswana's beef each year. Ironically, this guaranteed market has been an important factor in encouraging farmers to expand production to the extent that cattle compete with wildlife for resources. If the European Community takes this environmental threat into account in its review of the Botswana beef quota, cattle farmers will see this is an excuse to limit their market access and the Botswana government will perceive it as a threat to employment. To meet such situations as well as to uphold the principle of sustainable development, the European Community should, with its African-Caribbean-Pacific partners, work towards the financing of new forms of economic activity, such as wildlife resource management and tourism, which generate a livelihood for those whose living would otherwise be threatened.

6. What has gone wrong with development?

Why then is there so little to show for more than 30 years of effort to assist the developing countries? Why are poverty and its ugly consequences at least as widespread today as they were after the second world war, when the richer nations first set out to help the developing ones?

Much of the problem lies in having treated development piecemeal. Using simplistic solutions to solve one difficulty has frequently produced another. Mistakes range from digging wells for the drought-stricken which have put the water table further out of their reach, to educating children for jobs which their economies will never supply, to giving food aid which depresses the capacity of local people to feed themselves.

The swift changes in development fashions have proved equally counter-productive. First came large-scale mechanised farming, which has left great tracts of land exhausted, saline and unusable; or plantation crops whose prices have sunk to all-time lows. Then it was lending against sovereign risk, marking the supposed coming of age of countries which would make them independent of aid. Today it is growth-oriented adjustment, accompanied by the minutiae of micro-projects, patiently pieced together by voluntary agencies as an antidote to the inefficiencies of major government-to-government-funded schemes.

All three approaches demonstrate the North's propensity to hover between charity and pedagogy. Only rarely does it get away from thinking of development in its own terms, to a perception of the real needs of those to be helped. Small wonder that its solutions turn out to be perverse. While International Monetary Fund-imposed structural adjustment may produce riots and a retreat into debt service moratoria, some development policies formulated by developing countries themselves have succeeded. For example India, only recently considered the world's most problem-ridden country, has begun to reverse its fortunes by a variety of actions favouring both industry and agriculture.

The problem with using Northern solutions to assist developing countries is that they are ill-suited to the economies of non-industrialised nations. The redistributive policies of the North cannot be transplanted unaltered to the South where there is much less wealth to distribute. The vast differences in climate, culture and resources between North and South can make Northern solutions non- or even counter-productive if they are not first adapted to local conditions. They can conflict with the political or social desires of LDCs which may be incompatible with a strict definition of economic efficiency. Moreover, some industrialised countries themselves now face structural problems on a scale similar to the developing nations, although they may not yet admit the frailty of their economies.

The mere transfer of capital without regard to the policy environment – in the industrial countries as much as the LDCs – has led to waste. The complexities of the international economic system have grown beyond the capacity of individuals to analyse or control. At the same time the degree of interdependence between all parts of the globe has risen. While every country has a clear idea of what policies Japan, West Germany and the United States, as the most economically powerful, should adopt to assist the international economy, individual nations continue to take their own economic decisions in an isolation as remote as that of the world leaders. The industrialised countries foster an illusory belief in discrete, controllable national systems in the developing countries as well.

But the illusion applies not only to systems bounded by national sovereignty. The international community tries to maintain equally implausible divisions between the several systems whose functions are to maintain international order. The most obvious example is the concept of the international trading system. Man-decades are spent discussing its rules, keeping it free from protectionist barriers and in making sure that goods can be exchanged within it with minimum hindrance. But the trade rule book is kept strictly separate from the rules governing agricultural pricing decisions in temperate countries, which in turn may determine whether tropical producers can find a market for their commodities.

Nor is either of these mechanisms allowed to influence industrial policy. Yet they are clearly related to the fact that the developing countries have little money with which to buy manufactured goods from the industrialised world.

In consequence, the developing countries borrow. But borrowing is the sole concern of the banking system and credit insurance institutions. Aid normally runs on a separate branchline altogether, except insofar as it might serve foreign and trade policy. Neither is able to deal with the foundations of an international relationship.

The world's international institutions mirror the complexity of the bureaucracies of individual countries. They are already inadequate and have allowed the global economy to grow wild and out of balance. It is not far-fetched to suggest that not just persistent poverty but the negative transfer of financial resources, recurring famines, even the degradation of the environment are the bitter harvest of the international community's refusal to look at problems in the round. Until the European Community adopts in its international relations the integrated approach which it has come to regard as essential in solving problems within Europe, no fruitful partnership between the Community and the developing world can emerge.

SECTION III – EUROPEAN COMMUNITY DEVELOPMENT POLICY: EMERGING RESPONSES

To gauge the responses of the 'Community' to the development crisis it is first necessary to examine the mechanisms through which they can in fact be expressed.

Development policies consist basically of trade and aid, in its various forms. In the trade field the Community has full autonomy; the Commission negotiates and implements policies agreed within the Council. These cover the trade chapters of the Lomé Convention as much as the Generalised System of Preferences and trade relations with other LDCs within multilateral bodies such as the GATT and UNCTAD.

In aid matters the situation is radically different. The aid for which the Commission is responsible is in effect only one of the multilateral programmes through which the Member States channel their official development flows. Total contributions to the European Development Fund (EDF) and to items covered by the Community budget (food aid, non-Lomé LDCs, Non-Governmental Organisations etc.) amount on average to no more than 13% of the Member States' total official flows (see Appendix D). Bilateral aid averaging some 62% of these flows is outside the Community net altogether, and the Community as such has no standing in the World Bank, IMF, regional development banks and the range of other UN agencies whose programmes are supported by the Member States.

Nevertheless, there is a growing acknowledgement that the Member States' actions within and outside the Community cannot be totally isolated from each other. Despite the fact that bilateral aid programmes are deemed by them to have considerable commercial potential, a commendable degree of aid co-ordination already exists in the field. Within Europe the heads of aid ministries come together at intervals, even though their appearance within international organisations is still far from being the 'cohesive force' envisaged under the Single European Act.

An increasingly positive role has also been played by the European Parliament. With more and more vigour it has questioned the Commission and posed demands to the Council. Equally important has been the work of its Members within the ACP–European Community Joint Assembly resulting in a series of well-reasoned reports to substantiate such demands.

Willingly or unwillingly, the Community and its Member States are becoming seen by others as exercising a single responsibility in relation to the developing world. In this report we advocate advancing this process through the globalisation of Community policies and the integration of Member States' development policies within them. Our assessment of the Community's responses to the problems of the developing world is therefore made in this light.

In the early 1970s, the European Community appeared to have the most visionary and coherent approach to the developing world among the major industrial countries. The Lomé Convention linked it to many of the poorest countries in a compact which was much more than a partnership of unequals, as some critics claimed. Before Lomé, the Community had joined the Convention on Food Aid under the International Grain Agreement; it had been instrumental in setting up the Generalised System of Preferences, and was the first to apply it in 1971. As the Community matured, it extended relations beyond those countries with which member states were historically linked to partners in Asian and Latin American countries. Its aid programme, steadily increasing in resources, was underpinned by the relatively generous bilateral aid programmes of Member States such as France, Germany, the United Kingdom and the Netherlands. These involvements gave a strong sense that the European Community was motivated by a plausible mix of altruism and self-interest regarding the developing world. Whatever the Community's other problems, as far as trade and development were concerned it had practical, concrete policies.

By the late 1970s, and with the onset of the debt crisis in 1982, the Member States were increasingly unable to follow the new thrust of Community development policy hammered out between the European Parliament and the Commission. In a deteriorating economic climate, they seemed shy of asserting themselves against other industrial countries to defend a clear set of objectives regarding the developing world, despite the best efforts of the Commission. The changes in North-South relations which had taken place since the first Lom'e Convention was signed have been traumatic. European development policy has only slowly been able to adapt to them.

Those changes include the rapidly increasing trading strength of the newly industrialising countries (NICS), especially in South Asia, the economic stagnation of much of sub-Saharan Africa, subsequent attempts by many African governments to adjust their domestic economies, and above all the debt crisis with its differing ramifications for debtors in all three continents.

Those developing countries in Asia which have enjoyed most success still find that their relations with the European Community are ill-defined when compared to those between the Community and the Lom'e signatories. Lomé makes Europe appear less concerned with development in Asia than elsewhere. And yet South-East Asian states in particular would like to see Europe play a stronger role in their region to offset the natural dominance displayed there by their nearer neighbours, Japan and the United States.

Intractable problems and rising expectations have eroded enthusiasm for Lomé among some of the African-Caribbean-Pacific (ACP) countries themselves with the years. The Convention's provisions are certainly worthy, but still modest. It has been hard even for the Community to react promptly and appropriately to Africa's difficulties, although the Commission has tried valiantly to speed up the development process with initiatives such as the Natali Plan which provided ECU 100m of quick-disbursing funds for African agriculture following the crisis of 1984/85. Enlisting wider help for the ACP has been delayed because the Community's Member States have not used the potential of their combined voting strength in the Bretton Woods institutions.

In trade policy, European countries have had to adapt to the pace with which some Less Developed Countries have been able to export manufactured goods. Now, over half of non-oil LDC exports are manufactured goods, coming not only from the NICs but from other members of the Association of South-East Asian Nations (ASEAN), from the Mediterranean littoral, Latin America and South Asia. Adjustment policies in some African countries could lead to their producing more non-traditional exports as well, both industrial and agricultural. The current GATT round presents the Community with an opportunity to influence the framework of rules which will regulate international trade for the next 10 to 15 years so that they incorporate the changes in the pattern of world trade to the mutual advantage of all participants. Yet some developing countries fear that Europe's major preoccupation is the harmonisation of the internal market which must be completed by 1992. Is this then an appropriate time to expect a more outward-looking trade and development aid policy from the Community?

There are encouraging signs that it is. Increasingly, the Member States of the Community are collectively ready to stand behind innovative proposals on the most pressing problems put forward by individual states, by European institutions and by the European Commission itself. For example, two of the leading schemes to relieve the poorest sub-Saharan African countries of some of the burden of their official debt were put forward by European Community Finance Ministers, Edouard Balladur of France and Nigel Lawson of the United Kingdom. European bankers (Hervé de Carmoy at the Midland, Alfred Herrhausen of the Deutsche Bank and David Lomax at Natwest) and Belgium's finance minister Mark Eyskens have made similarly important proposals for long-term solutions to the debt problems of larger debtors.

The Commission obtained a commitment from the Community Heads of State at the Venice Summit to act on the problem of low-income debtors by softening the terms of the Paris Club reschedulings, continuing the retroactive adjustment of aid terms and providing further concessional funds, both bilateral and multilateral. At Community level, the Commission proposed a special programme to provide in 1988/89 quick-disbursing aid, partially financed from unused EDF balances, the recycling of existing and future funds from the repayment of special loans and risk capital previously granted to ACP states, and derived partly from modifications to national indicative programmes. All of this could aggregate ECU 450–500m but has to be accompanied by action by Member States bilaterally and through the Community.

On trade, the European Community has tabled proposals in the current GATT round on the liberalisation of trade in tropical products, on natural resources and the Commission is preparing a proposal on agricultural products, refuting criticism at the opening meeting of the round that the Community seemed overly concerned with its own agricultural interests. The efforts of Member State representatives at the 1987 Unctad 7 meeting are also recognised to have been largely instrumental in bringing about a unanimously approved Final Act.

These signals seem to confirm that now is indeed the time for the Community and its Member States to take a concerted lead on development. It is to be hoped that they are also ready to see their common political and economic interest lying in a more coherent policy towards the developing countries.

SECTION IV – RECOMMENDATIONS FOR A EUROPEAN COMMUNITY DEVELOPMENT POLICY

1. Debt and monetary disorder

We endorse many of the sensible proposals already made for dealing with components of the debt problem. In particular we subscribe to the approaches set out in several imaginative works presented to us: the Commonwealth Secretariat's *The External Debt Problem of Developing Countries*, the United Kingdom All-Party Parliamentary Group on Overseas Development's report *Managing Third World Debt*, and various proposals put forward by Lord Lever. In his words, 'There is no shortage of solutions, only of the political will to apply them'.

Waiting for concerted action by all the main creditors could take longer than both debtors and creditors can afford. Moreover, no master plan is likely to emerge; the best that can be hoped for is a loose definition of an overall approach, leaving the real action to be taken piecemeal at country or regional level. We believe that Europe must wake up to the real dangers of the debt crisis. It threatens not just to erode the banking system but to undermine the prosperity of Europe itself. Europe more than any other continent lives by trade; it cannot afford to watch the developing country customers for 38% of its total exports run out of money to buy them, nor to jeopardise the five million European jobs their custom represents.

We urge that the European Community assume the leadership in a series of initiatives to resolve the worst problems of debt. Europe carries all the financial strength required for the role. It has greater potential voting strength within the International Monetary Fund (IMF) even than the United States. The Lawson/Balladur plans for major relief and rescheduling of the low-income countries' official debt constitute a beginning. The European Community should adopt the combined plan, agree to implement it by a certain date, then seek support from the Commonwealth, the African-Caribbean-Pacific (ACP) states, the United States and Japan for its wider implementation. To speed up such action, the Community should itself fund the research on possible budgetary difficulties for the creditor countries. In promoting any initiative, the Community should make full use of Europe's potential influence within the Bretton Woods institutions.

We do not believe that such unilateral action will put those who take it at a disadvantage. The forerunner of the Lawson plan, Retroactive Terms Adjustment (RTA), was agreed in 1978. It was swiftly implemented by the United Kingdom and others in Europe, but the United States and Japan have still not completed the procedures. Those countries which did implement RTA have not suffered consequences by setting a precedent. We believe that the present plan is also unlikely to involve moral hazard.

To some extent, the book value of LDC debts no longer represents their true value. Developing country debts to commercial banks are already being traded at discounts which appear to vary from 25% to an astonishing 90%.

We recommend that the European Community should play a role in the secondary debt market in two ways. First, the Community could purchase debt outright. The debtor would be required to continue to service the debt, but in local rather than hard currency. This money would go into a Development Fund used to contribute towards the local currency costs of investment in long-term development in the debtor country. Secondly,

the Community could offer to substitute itself for the debtor. Commercial banks would be expected to allow some discount on the conversion (although clearly not so large as in the first case) in return for replacing a bad debtor with a blue-chip borrower. As in the first case, the Community would require the original borrower to continue to make the loan servicing payments into a local currency Development Fund at the rate of exchange ruling at the point of each payment.

Similar transactions are known as debt-development swaps. Schemes of this kind could be linked to local commodity stabilisation and diversification funds. Conditions on the disbursement of such funds could be tied not just to economic but to environmental criteria (see subsection 5 below).

We have considered a possible role for the European Investment Bank (EIB) in this but conclude that it would require considerable adaptation. On the one hand, even in its present ACP operations, it perceives itself as having to exercise caution in order to maintain the credit rating which allows it to raise funds on advantageous conditions for its major domestic operations. On the other, it is a privileged lender and believes that deviation from its terms could have serious effects. A strong entrepreneurial approach is also required if projects on which to deploy the funds are to be identified and made operational. This could be a parallel function for a much modified Centre for Development of Industry linked with the financial expertise of EIB.

We recommend the creation of such an instrument (or, failing such restructuring, the creation of a European Development Corporation (EDC)), part of whose role would be to act as the Community's agent in debt-development swaps..

In addition to helping countries to cope with their debt, the instrument's function would be to promote efficient development in agricultural and social fields which require predominantly local currency financing.

Both forms of Community activity in the secondary debt market outlined above would require new money. The first would need a lump sum, but the cost of the second could be significantly reduced through a guarantee arrangement, requiring much smaller cash sums to service the Community's debt to the commercial banks. **We recommend that EDF moneys under previous Lomé Conventions but as yet unspent should be used wherever practical, since otherwise their value would continue to be eroded or they might not be used at all. Member States should agree to commit a portion of the European Development Fund negotiated within the forthcoming Lomé IV to immediate debt relief measures. Such moneys would of course, still be applied to development in the countries concerned. This would ensure the use of funds earmarked for the specific debtor countries rather than the transfer of general funds. It also makes sense when so many projects and programmes designated under previous Lome agreements have yet to be completed. In addition, hard currency could be raised by the instrument on capital markets under guarantees similar to the Ortoli Facility.**

The commercial banks cannot be coerced into providing new loans to developing countries. They would do so only as prospects for productive investment in those countries justified the commitment of further funds. The European instrument should foster those prospects by collaborating with local and European entrepreneurs. **We recommend that the European Community create conditions conducive to commercial banks relaxing the terms on their existing loans to countries facing severe debt problems but willing to take effective remedial action. This would be in line with the larger provisions the banks are now making for loans which they do not expect to recover in full.**

The Community could help to create those conditions by itself providing some new credit, for example in the form of a 'Development ECU' lent on preferential terms. In addition, it could pursue the Herrhausen proposal for an interest stabilisation fund, allowing debtors to continue to repay their loans at a rate which does not preclude growth in their economies. One of the most important steps, however, would be for the Member States to co-ordinate their regulations governing bank lending.

Member States in a position to take action on the debt problem have welcomed the Commission's initiative following the Venice summit but without inclination to follow it up on a wider scale. **We call on them to recognise the crucial role which a European inititative can play in breaking the international impasse on debt and that it lies within their power to devise such an initiative. We ask particularly that they consult the Commission in assessing the damage caused by inaction on debt both to the European and the developing economies and that they should chart practical steps towards implementing the action outlined above, taking developmental aspects into account.**

Action by developing countries

Certain action should also be required of the debtor countries as a quid pro quo for debt relief. Some mechanism for jointly guiding their domestic policy framework will need to be devised (see sub-sections 4 and 5). They should also undertake to help themselves through regional co-operation such as the proposed Latin American Development Community and Payments Union (sub-section 2).

Monetary union

The compartmentalised approach within specialised institutions has blinded governments to interlocking aspects of the debt problem and monetary disorder. They both demand and stand in the way of a solution. The volatility of exchange rates has had an adverse effect on the structuring and repayment of LDC debt as well as on direct foreign investment in LDCs. It is necessary that stability be brought to the international monetary system while at the same time allowing exchange rates to reflect the real balance of payments of individual countries. The European Community should support efforts to stabilise the world trade currency system and rationalise it to take account of changes in the relationship between the dollar, the yen and the combined strength of the European currencies. It is not certain what the most effective mechanism for achieving stability will look like, but positive steps need to be taken now to limit the damage caused by the world's reserve currencies losing value because of economic slowdown or recession.

The Federal Trust's study group on Monetary Union has made a number of proposals on measures which Europe could take to limit exchange rate volatility. **We believe that the Community should investigate the contribution to exchange rate stability which could be made by developing the European Monetary System (EMS) into a monetary union.**

The importance of the Bretton Woods institutions

Co-ordinated action on monetary stability, debt relief and development has to be taken within the IMF and the World Bank. Member States of the European Community should contribute to this by formulating a common strategy for growth and employment, the development of a large integrated market, the strengthening of the EMS, a positive role in the new GATT round and the financing of trade with those countries pursuing priority programmes set by the World Bank. By setting such an example, the Community should be recognised as a single entity in the World Bank and the IMF and should use the united voting strength of the Member States to press these institutions to adopt more imaginative policies. The Community's voice within them would be further strengthened if a co-operative strategy for growth induced monetary policy co-ordination between Member States. **We urge that the Member States follow the principles for acting as a cohesive force within such institutions, as laid down in the single European Act.**

2. Trade

Industrialised countries have three choices: to channel domestic savings to the LDCs via aid and investment; to relieve them of the debt burden; or to help them to trade their way out of bankruptcy. If industrialised countries choose the trade option, they have three further routes: to open up industrial markets and adjust to the consequences; to help to finance and promote South-South trade which can create alternative markets; and to improve the functioning of the international system generally by playing a positive role in the new Uruguay Trade Round.

Commodities offer little further scope for LDC exports. Their prices are chronically depressed and additional production will only erode them further. More seriously, as the high-tech and service sectors become even more predominant in the industrial economies, manufacturing will require fewer and fewer of the traditionally traded commodities. There has been a profound change in the world trading system and the production of the developing world can no longer be regarded as complementary to the needs of the industrialised economies.

We believe that the European Community must from now on provide increasing market opportunities for manufactures from the LDCs. At the same time, those Newly Industrialising Countries (NICs) which are now emerging as major trading nations need to take on the responsibilities of their new wealth and accept the loss of preferential treatment in some markets. Both the European Community and the NICs need to come to terms with the considerable adjustment these changes will entail over a short period.

To increase the LDCs' purchasing power and employment, we recommend that European industry be encouraged to enter production-sharing arrangements with LDC enterprises when this is commercially efficient. The European Community should introduce favourable tariff measures to ensure that the products from these LDC enterprises gain access to the European Community market.

The process of change in the commodity markets, including the oil market on which the Community depends, must be managed. Initiatives such as the Common Fund and the old-style commodity agreements have not proved durable. For those commodities which face a long-term decline in value, any compensation for falling prices must be tied to investment in diversification.

Improving trade flows will also depend on improving financial mechanisms. It is essential to promote clearing facilities between people who have something to sell to each other. The European Community's Member States have already agreed to harmonise export credit rates but have fallen short of applying this. **We urge that this harmonisation be implemented swiftly and that renewed consideration be given to the creation of a European Community Export Credit Agency or Ex-Im Bank to facilitate collaboration at a European level in third countries by enterprises from Member States.**

We further recommend that the ECU should be used as the unit of the Agency's transactions and that the ECU's role as a stable trade currency should be promoted. This could stimulate South-South trade and help to open up alternative markets within the LDCs.

Regional Co-operation

Regional co-operation can bring not only economies of scale to developing countries but an element of protection behind which to consolidate these. South Asian regional co-operation could provide an example. While Africa and the Caribbean may still be too fragmented, sub-regional instruments such as the Southern Africa Development Co-ordination Conference (SADCC), the Economic Community of West African States (ECOWAS), the Caribbean Economic Community (CARICOM) and the newly invigorated Community of East Caribbean States should be assisted to serve wider functions. **We call upon the European Community to offer guidance and support to regional initiatives in all areas of the developing world. The Community could assist their growth into viable economic units and their confrontation of common problems such as environmental breakdown and indebtedness through the development of regional payments unions, trade financing agencies and common negotiating mechanisms. Community regional funds could also be applied to major regional environmental actions such as the South Asian Regional Co-operation plan for the Brahmaputra basin.**

The new GATT round

The Uruguay Trade Round will provide a uniquely important forum which will shape all the Community's trade relations with third partners for the next five to ten years. The forthcoming negotiations offer important opportunities for improving the international trading system and avoiding trade wars between the major participants, especially over agricultural products. Trade problems facing LDCs have become more acute since the Tokyo Round, principally because of the surge in LDC manufacturing capacity and the pressure on debtors to export more. The European Community's stance towards the developing world will be vital to the solution of these problems. **We recommend that the European Community formulate a policy to develop its relations with the future regional leaders – notably India, China, Brazil, Mexico, Argentina, Egypt and Nigeria - aimed at bringing them fully into the international trading system, and thus equipping them for the task of promoting regional solutions to regional problems. An essential part of such an initiative will be the acceptance by the Community's Member States of a multilateral system, and their renunciation of unilateral action, for example when dealing with unfair trade practices.**

The European Community's own direct objectives may be limited to the preservation of markets, the avoidance of trade wars, liberalisation of financial markets and control of counterfeiting. **We urge, however, that the Community pay equal attention to its indirect interest in helping the economies of LDCs to grow, thus putting them in a position to repay their creditors and continue to import capital goods. The Community needs to decide on areas where the LDCs have a comparative advantage (such as in labour-intensive production) and agree to assist them to expand in those areas.**

The Community is the only major trading block so far to have tabled trading concessions in the Round. Since the Punta del Este meeting, it has submitted an offer on tropical products, offers on natural resources, and the Commission has been authorised to make an offer on agricultural products.

Before the process gathers pace, we believe that the European Community should mobilise its partners within the Lomé Convention by convening special European Community-ACP consultations to discuss their common interests in the Uruguay Round negotiations and how the partners can sustain one another. Through regular co-ordination, not only during the Uruguay Round but in other multilateral trade negotiations, the two groups could develop a complementary position on the inevitable erosion of existing ACP preferences and other sensitive issues.

We stress again our belief that the most effective way to increase trade is by dealing with the debt problem which has depressed it. Freeing resources and making available new ones would stimulate a return to former trading volumes.

3. Food

After the relative success of India and China in boosting food production, recurrent famine has become largely an African phenomenon. The United Nations Food and Agriculture Organisation

(FAO) estimates that, if present trends persist, Africa's cereal deficit will have quintupled by 2010; in order to maintain even the present inadequate level of consumption, food aid would have to be increased tenfold. Population increases, drought and inappropriate policies have combined to reduce food production per head in Africa by 20%, even since 1980.

Yet the FAO believes that Africa would still be able to feed itself if investment in farming was increased from 10% to 12% of national incomes, inflexible land tenure systems revised, conservation of land and water resources improved, and better food storage facilities set up; this needs to be done in the face of populations which double every 22 years and require a growth in the supply of resources of all kinds at the rate of an additional 10% every three years.

There are two elements to the immediate African problem of hunger, apart from population growth rates: needlessly low levels of food production in some countries and perennial drought in others.

Countries belonging to the first group need investment at a variety of points: help for peasant farmers, women as well as men, to upgrade their own farming skills in appropriate ways, land reform appropriate to the culture of the people and the crops they grow, rural education and incentives for people to stay on the land, better roads and improved marketing systems. But none of these can bear fruit unless people have an incentive to work. That means offering them remunerative prices in terms of goods which they can buy.

Through the Pisani food strategies, the European Community has already promoted a useful consciousness in a few countries of the need to approach these policies in the round. **We believe that the problems are too great and urgent to be met by experimentation in a handful of countries. The European Community should seek to deal with them by means of a new compact within the Lome framework. It should offer to concentrate its currently slow-moving European Development Fund resources and other actions on the farming sector, in return for ACP countries agreeing to create a policy framework enshrined in a 'Food Charter'.**

We recommend that such a Charter should include an objective assessment of the role of the public and private sectors in agricultural production and marketing, the payment of remunerative prices, curbs on the subsidisation of urban consumers at the expense of rural producers, the development of rural market centres to counteract poor infrastructure; and a concerted research effort to improve the production of African staples, to develop higher-value crops and to find alternative uses for crops with consistently falling prices.

These policies should be measured against the following criteria: Do they help rural Africans to help themselves by building on their indigenous knowledge and experience? Do they encourage rural Africans to develop their farming and forestry in ways which are sustainable and contribute to the stabilisation and preservation of their environment?

In return, the Community should cease to subsidise European farming of crops that compete with those from African farmers. In cases where the African producers have a comparative advantage, continued subsidy represents a cost both to them and to the European consumer and taxpayer.

Triangular food aid

One of the early benefits of the Community's recent divorce of food aid from the Common Agricultural Policy is the increasing tendency to buy up surplus food in Africa and distribute it to deficit areas in the continent. **We recommend that, without institutionalising food aid, more of the Community food aid budget should be spent in this way.**

Research has rendered European agriculture almost independent of the vagaries of climate. **We suggest that the European Community and the drought-affected countries in Africa have a strong interest in developing a similar resistance to climatic changes in African agriculture, in particular through improved technology for the reduction of post-harvest losses, estimated to have a potential equivalent to a 20% increase in production. The European Community should also encourage the application of biotechnology to the development of drought-resistant crops.**

Taking a wider view, the President of the European Parliament has called for a World Food Conference aimed at regulating agricultural trade and bringing about greater balance in world food production. In particular, the conference is to look at the reform of agricultural protection because of the heavy costs this involves for the LDCs and industrial countries alike. **We urge the Commission and the Member States to give the fullest support to the preparation, conduct and recommendations of this Conference.**

4. Private investment

Encouragements to private investment such as investment guarantees will not succeed until all the causes of the slow-down in private direct investment in LDCs have been tackled. These include the United States budget deficit, which now mops up the bulk of European savings, the uncertainties of LDC policies and the deflationary remedies to balance of payments problems in LDCs imposed by the International Monetary Fund.

In the same way as the obstacles are interconnected, so their removal requires a chain of actions. The IMF might be more likely to adopt growth orientated remedies to the balance of payments problems in LDCs if the Member States were to put forward the merits of such policies as a co-ordinated group within the Fund. If the rate of growth in LDCs increases, a much intensified European investment programme in those countries would become plausible.

We recommend that the Member States formally delegate to the European Community the task of presenting a co-ordinated Community position to the IMF regarding the LDCs, with a view to improving the climate for investment within them. The Community should play a part in this improvement by offering a more powerful investment guarantee scheme than that currently contained in Lomé III, the more so as the World Bank's efforts to create the Multilateral Investment Guarantee Agreement have not been successful so far. At the same time, the European Community should provide the LDCs with technical assistance in framing appropriate investment legislation and tax regimes governing foreign investors.

Strengthening the local private sector

As the LDCs' capacity to absorb financial flows other than programme lending and balance of payments support has declined, the disbursement process has also slowed. Donors including the European Community have found that the sounder the project, the more laborious the disbursement. Support for small farmers and Non-Governmental Organisation (NGO) activities goes out in restricted packets and makes only a modest overall impact on financial flows. New ways of speeding up disbursement must therefore be found.

Until Member States are ready to increase aid budgets, and banks to resume lending, the only way to increase resource flows to developing countries is to harness the energies of the private sector, both local and international, especially to rehabilitate assets which have become ineffective under public ownership. The private sector could play an equally important role in diversification of crops and products. We recommend that the European

Community and the ACP states establish a joint private sector working group to prepare proposals for co-ordinating European Development Fund operations with private sector investment and management; and that EDF funds should in future be programmed to supporting such operations in the field.

Development Co-operative Councils

LDCs themselves must be involved in identifying projects and reshaping the policy environment in order for private sector investment to be effective. To this end, we recommend that the European Community establish a European Development Co-operative Council (EDCC) as a private sector, non-profit-making body whose membership would be restricted to enterprises with operations in LDCs or a declared interest in establishing them. As a semi-official body, it would encourage the establishment of similar Councils in individual LDCs by groups concerned with productive enterprise in industry or agriculture. Together these Councils would be in a privileged position to advise LDC and European Community governments on the effects of policies and regulations on business, and on the specific needs of the business community.

We believe that within the ACP the creation of such Councils essentially composed of businessmen would be an ideal function for the Centre for Development of Industry (CDI) and a useful means of giving it a more purposeful role. For countries outside the ACP, the EDCC will need to use its own initiative.

The Community's development policy needs to assist European industry to identify opportunities for production-sharing in LDCs, and to invest in areas where restrictions on, for example, the movement of foreign exchange would normally deter investors. This should be complementary to the restructuring of European production away from smokestack industries in which Europe no longer enjoys a comparative advantage. The European Investment Bank, with responsibility for strategic investment within the Community and support for the private sector in LDCs, should be called upon to take up this challenge.

We therefore recommend that resources to relaunch growth simultaneously in the European Community and the LDCs be incorporated into a special EIB programme to support production-sharing projects in LDCs which depend on industrial restructuring within the European Community, and that the EIB be requested to provide concrete proposals for such a programme within a given time. However, if by reason of its statutes the EIB should be prevented from playing such a role, an appropriately empowered new institution should be created.

In order to make such a programme fully effective the role of the EIB in support of European investment should be extended to other LDCs, and in particular to the countries of ASEAN, though this would be without benefit of EDF subventions.

The priming and support of private investment will continue to require a measure of EDF resources, particularly in the existing form of interest rate subsidies and risk capital. We recommend that the necessary funds be made available to the European Investment Bank with such a combined European overseas programme to enable it to play a more active part in promoting private investment. There should also be close liaison between the EIB, the CDI, the Development Co-operative Councils and the development institutions of Member States.

5. Environment

Serious as the threat to the world's environment has become, we see it in the context of this report primarily as a potential danger to continued economic development. Climatic changes, soil erosion and similar largely man-made phenomena are placing ever-tighter limitations on sustainable development. Our developmental concerns must therefore include effective measures to deal with the environmental challenge.

Developing countries could offer as a quid pro quo for the kind of debt relief outlined in Subsection 1 above guarantees that they would maintain their stock of renewable natural resources and conserve their non-renewable resources. The European Community should review mechanisms for implementing such guarantees.

In doing so, the Community could require 'environmental performance bonds' from contractors on rural land management and forest projects financed by it. Unless certain environmental criteria attached to the project were met, the bond would be forfeited. This would give companies an incentive to ensure that subcontractors employed for example to fell timber did not use environmentally destructive methods. We recommend that the European Community devise master contracts and performance bonds which could be applied in such circumstances.

In addition, we recommend that local currency funds accrued through the Community's debt relief schemes should be released only for projects which comply with environmental criteria.

Environmental protection depends on persuading those commercial interests which now cause irreparable damage to the world's resources that they have a long-term financial interest in protecting the environment as well. We welcome the establishment of the International Tropical Timber Organisation (ITTO) because it brings together representatives of commercial, environmental and governmental interests in the timber industry. The organisation's future is threatened because of current animosity between member governments over the 'trade war'. **We strongly urge the European Community to give ITTO the political support it needs to be effective. We recommend that the Community promote similar organisations covering other environmentally sensitive commodities. Ecology has been incorporated in the Single European Act and under the rules for European Political Co-operation the Member States are required to adopt a co-ordinated approach.**

With regard to the world's non-renewable resources, we endorse proposals for a multinational World Environment Trust which would be invested with assets such as the African and Amazonian rainforests. In Bolivia, a private environmental trust has already shown the way by acquiring 'in trust' four million acres of tropical forest in return for discounted debt, allowing indigenous species, and the people dependent on them, to survive. The Community should follow this example on a larger scale. The upkeep of these assets would in part be paid for from the local currency proceeds of debt relief. We would also recommend that non-renewable resources are preserved through self-sustaining mechanisms such as wilderness tourism or controlled game ranching. These could help to ensure that the resources were maintained, that they provided local people with a sustainable living, and that destructive economic activities were discouraged.

In countries subject to prolonged drought particular attention needs to be paid to the probable environmental causes as well as the environ-mental effects. There is no chance of measures imposed to protect drought-stricken areas succeeding unless they generate economic benefits for the people involved. Combating desertification requires patient work with individuals which may over time change the lifestyles of the millions involved. NGOs are often thought better suited to this task than larger institutions. **We recommend that NGOs accept the European Community's proposal to**

progressively by the partners. The ACP states are the natural spokesmen of the Least Developed Countries and should be enabled to represent their interests more fully.

The European Community must find means to develop similarly close and fruitful relations with other groups of LDCs. Regional co-operation can result in progress on matters like food security, transport, debt negotiations, trade financing and the economies of scale for industrial development. The European Community has already sought to strengthen links with South-East Asia through the ASEAN Co-operation Agreement. The accession of Spain and Portugal to the Community is now likely to focus increasing attention on Latin America. The European Community's experience of regional integration can be of help to those regions; the development experience of those areas can in turn bring important benefits for the ACP States.

A wider political approach to new regional groupings is necessary if individual issues such as trade competition are not to determine their character. As the world's largest trading block, the European Community has responsibilities which it should seek to express through a framework of broad co-operation. **We recommend that existing co-operation agreements with the major regional leaders in Asia and Latin America should be broadened to encompass joint regional assistance and a comprehensive political dialogue on intra-regional concerns. Agreement on common action could be progressively incorporated in Lomé-type conventions.**

At the same time, the European Community should avoid becoming all things to all men. It should concentrate on areas where its unique qualities and experience enable it to contribute what others cannot. Where these qualitites are not relevant, it is doubtful that its Member States will forgo what they regard as the benefits of bilateral aid relations. **We recommend that the Community's development policies should concentrate on the special areas which have emerged from the preceding analysis: the support of regional solutions and initiatives which enable countries to deal with common problems; initiating action on global problems such as debt where the European Community's own strength can provide leadership; using its role as a major actor in the development field to speak with a more effective voice in the international institutions on behalf of LDCs; and stimulating the transfer of European investment, management skills and technology.**

Above all, the European Community should maintain as the larger objective of its development policies the resumption of growth in the developing world, and, with it, in the world as a whole. It should not be forgotten that the perverse net outflow of resources from developing countries in recent years has also damaged the industrial economies, especially in the United States and the European Community, which together suffered a 30% drop in exports to debtor countries between 1981 and 1984, according to the World Institute for Development Economics Research (WIDER). The ensuing resurgence of protectionism can therefore be seen as a consequence, not only a cause, of the present world recession. What is needed is the restoration of substantial resource inflows to developing countries to propel their economic recovery and thus to restore export led growth in industrial countries.

7. Internal measures for the Community

Enabling the European Community to apply such policies will require a series of internal actions. Most of these will be concerned with the co-ordination of the above measures with other Community policies. Lack of such co-ordination at present means that Finance Ministers often put money into LDCs with one hand and take it out with the other. **We recommend an independent commission on the coherence of European Community policies including but not limited to those addressed to development, emergency aid, environment, energy, science and technology, domestic agriculture and external relations. Its terms of reference should include proposals for a permanent review machinery, a role for which the European Parliament would appear to**

be best qualified.

Globalisation of Community policies will concern not only the Commissioners responsible separately for trade and aid matters relating to the ACP on the one hand and the non-associates on the other, but also trade questions with the industrialised countries. **We stress the importance of co-ordinating the views and actions particularly of Directorates-General I and VIII to achieve a more global and interactive approach.**

Although substantial new resources must soon be devoted to development, we recognise that, at the moment, with European Community finances overstretched and the EDF disbursing its available funds with difficulty, it would be idle to count on substantial extra resources for development. We therefore suggest that better use is made both of existing funds which could support development policies and of existing institutions with that vocation. **We recommend in particular the use of internal structural funds for any adjustment required in consequence of liberalising imports of goods which are crucial to LDCs, and the more effective use of the EIB and CDI and their resources. Wherever possible, existing institutions should be adapted for the new tasks; only if that proves impossible should new ones be created.**

A more positive European Community role will clearly require the direct support of the Member States. Particularly as 1992 and the completion of the internal market approaches, we would hope that the distinctions perceived by Member States between bilateral aid and that channelled through the European Community will fade. This process should be accelerated as the benefits of more cohesive European Community development policies become apparent. **We urge the Member States to make greater efforts at aid co-ordination in Europe and overseas, between themselves and with the European Commission. In particular, a mechanism must be found for inappropriate capital projects supported by individual Member States at the behest of their industries to be eliminated or, in appropriate cases, combined with less capital-intensive projects.**

Aid and trade have become the principal instruments of foreign policy with two-thirds of the nations of the world. We believe that the principles set out in the Single European Act for European co-operation in the sphere of foreign policy should be applied to aid matters. These should cover not only aid co-ordination among the Member States and between them and the European Commission but also 'their effectiveness as a cohesive force within international organisations'.

SECTION V – TOWARDS LOMÉ IV

We now examine what effect these proposed long-term goals would exert on one of the European Community's most immediate obligations, the negotiation of a new multi-annual Convention as a successor to Lomé III. Each of its predecessors has had major themes, established *a priori* or developed during negotiations. We suggest five major themes for the Lomé IV negotiations below:

1. Institutional development of the association
2. Improving its management and administration
3. Feeding the hungry
4. Financial mechanisms to deal with debt, trade and development
5. Harnessing private investment and technology.

1. Institutional development

We believe the Lomé relationship to be at a cross-roads, created in part by rising African-Caribbean-Pacific (ACP) State expectations of support and leadership from the European Community and, in the main, by the desperate economic straits in which they find themselves. This has created not only needs but opportunities which should not be denied. The effects of recession and indebtedness have brought a willingness to confront problems in more pragmatic ways, whilst second-generation leadership in most ACP countries is less influenced by the concerns of the immediate post-colonial era.

For these reasons it seems opportune to invest Lomé with a much stronger institutional structure. What is needed is a stable and functioning framework within which a wide variety of problems, material to development (and capable of frustrating it if ignored), can be reviewed and dealt with on a continuing basis. Most of these problems are too urgent to await the five-yearly renegotiation cycle which is currently the main trigger to activate the ACP as well as the European Community secretariats.

The role of the ACP Secretariat is central to any improvement in Lomé's structure. At present it is weakened by lack of resources and inadequate support from its members. In consequence it is unable to adopt a sufficiently sophisticated negotiating stance to match its interlocutor, the Commission. **We urge both the ACP states and the Commission to ensure that the ACP Secretariat is provided with adequate resources to allow it to play an effective role in servicing their interests.**

The ACP states have not yet used their opportunity to act in concert in spheres outside the negotiation of new Conventions. A strengthened and fully active Secretariat could service the ACP countries' needs within UNCTAD, the GATT, the Group of 77 and the General Assembly itself.

In this way, the ACP countries could in due course develop a more homogeneous structure akin to that of the European Community. That in turn would open the way to a new form of Convention between the ACP and the Community in which reciprocal rights and obligations, and prior agreement on the application of common decisions in agreed fields were set out and acquired the force of a treaty. This would in turn demand facilities for a more permanent review of adjustments and opportunities for improving the functioning of the resulting Development Community.

We believe that a new Convention should contain provisions for political co-operation between the signatories, following the pattern so successfully established within the Southern Africa Development Coordination Conference (SADCC).

We also propose the establishment of an ad hoc Policy Studies Group able to explore and review ways in which the Lomé community could become more cohesive and effective. Such a group would be composed of not more than 30 parliamentarians, academics and

other representatives of high standing of the African, Caribbean, Pacific and European regions. It would co-operate closely with the ACP/EC Joint Assembly to which it would also address its recommendations in the first instance.

We believe a Policy Studies Group could offer guidance to the ACP on regional co-operation to assist their growth into viable economic units capable of confronting common problems. Regional solutions could include the development of regional payments unions, trade financing agencies and common negotiating mechanisms.

2. Improved management and administration

We have expressed our strong support for the concept of people-centred development as propounded in the Resolution of the ACP-European Community Joint Assembly on the report *Towards 2000*. The Resolution itself recognises that such an approach will require leadership and training on a substantial scale to ensure that people are indeed able to make the responsible contribution expected of them. It will be essential to see that these qualities are developed at all levels, not least by the administrators themselves.

We propose that the activities of various existing public administration and management training institutions be co-ordinated and focussed on the ACP by means of a special Lomé Programme of Public Administration. Through its constituent institutions, this would be responsible for the introduction of standard training and management systems for public, parastatal and private administrators. These systems would include techniques for motivating people at all levels. The Programme should simultaneously be directed at the maintenance of examination, professional and practical standards.

A vital aspect of management skills required by the ACP concerns business and financial administration, espcially in relation to debt management. Particularly in Africa, training in business economics, financial analysis and management and other elements of Business Administration are lacking. We believe that there is a strong case for a European Community College of Financial Management, perhaps located in Luxembourg in proximity to the EIB. This College should within a measurable time offer courses specially tailored to ACP administrators and private sector staff.

We believe that the institutional improvements we advocate will lead to a more reciprocal relationship between the European Community and the ACP, a partnership for which both sides make specified contributions and sacrifices. This should lead to a system of co-management of development planning and implementation. Day to day mechanisms need to be introduced for sharing experience – the experience of the ACP countries' own people and social systems, the experience of the European partners of the complexities of the development process. The plight of many of the ACP states, particularly in Africa, is too serious for them to spurn help, be it from the private sector or from non-national sources.

What is true for the ACP States is equally appropriate for the European partners. **We urge a far greater degree of aid co-ordination between European Community Member States, and between them and the ACP States. In particular, all partners in development should seek to limit inappropriate capital projects and control the commercial pressures which give rise to them.**

3. Feeding the hungry

Elimination of hunger must be the primary objective of the institutional and administrative improvements recommended above. Notable successes have been achieved in countries with continental-scale problems of a seriousness akin to those experienced in Africa today. European agriculture too has been able to make itself virtually independent of climatic factors. Considerable experience is waiting to be transferred from both types of environment.

Although the European Community provides over 50% of all the concessional flows to the ACP States, money is not the only thing in its gift. It can offer simultaneously technology, expertise and trade benefits. All these are powerful tools to be brought to bear on the problem of hunger and can often be made to flow more readily than money. In Section IV sub-section 3 we have advocated that all these be brought together within a "Food Charter" for the benefit of the ACP states, joined to the latter's contribution in the form of a more propitious policy framework.

Such a Food Charter should be the framework for a number of actions whose effectiveness it would assure. These range from a purposeful joint research effort aimed at crop improvements, alternative crops and more remunerative uses of surplus commodities, to purchases of food in ACP food surplus countries for use as food aid in deficit areas.The transfer of bio- and post-harvest technologies would be a strong feature of the Charter.

We urge that a Food Charter be negotiated as an integral part of the new Convention and that the proposal should be a subject for discussion at the forthcoming World Food Conference.

4. Financial mechanisms for dealing with debt, trade and development

For most of the ACP States the debt burden weighs more heavily than for the major debtors, even though the larger part is official. **We recommend that the Lawson/Balladur plans for cancelling government debt and long-term rescheduling of the remainder should become a European Community-ACP debt relief compact with its modalities agreed within the framework of the Lomé institutions, and that the Community's action plan in favour of the ACP countries most affected by debt should be seen as a useful first step. We urge that the Member States should not wait for multilateral agreement on implementing the plan as this would seriously delay action.**

We believe that this debt relief compact should include several further elements:

(1) the creation of an instrument as recommended by us in Section IV sub-section 1 above to undertake systematic debt-development swaps which will link debt relief to urgent investment in agricultural, social and similar development;

(2) the linking of debt relief to the conservation and management of important environmental assets in the ACP states; and

(3) agreed machinery to counter the flight of capital.

The most effective way to enhance the ACP States' economic performance is through trade. The European Community accounts for 40% of the ACP's external trade and is therefore in a unique position to act.

The overall objective should be to boost trade with the Community, to provide assistance to diversify the ACP's production base, take more specific trade promotion measures to gain access to European and other markets, and place greater emphasis on the services sector, including tourism.

So far few ACP states are significant exporters of manufactures and attention must therefore be focussed in the first instance on making commodities more remunerative. **We recommend that Stabex funds should in future be applied to diversification, adjustment and market management in the case of commodities facing a long term decline in price. The inadequacy of Stabex funds should itself be remedied through local price stabilisation schemes, operated in conjunction with the chosen instrument for debt-development swap operations.**

Other forms of soft balance of payments financing will nevertheless still be required while reforms and adjustment programmes work through ACP economies. **We recommend that a special fund for non-project lending, particularly to African countries, be attached to the European Development Fund (EDF) in the same way as the International Development Association forms part of the World Bank. If necessary, this could progressively absorb unspent EDF balances, thus requiring only amendment of the terms and criteria.**

We propose that these and other measures should form part of a Balance of Payments Support Chapter in the new Convention.

We have stressed the need for trade within the ACP states to be lubricated by a stable medium of exchange. The European Community has a particular interest in facilitating such trade to increase the ACP states' purchasing power, given that, for the past five years, they have constituted the only expanding market for the Community's industrial products. **We urge that Community Member States take all necessary steps to consolidate the ECU and promote it as a stable trade currency within the ACP states. This could be accompanied by the establishment of a European Export Credit Agency or Ex-Im Bank as suggested in Section IV sub-section 2.**

We also believe it to be imperative for the Lomé partners to concert their approaches to the Uruguay Round negotiations. **We therefore recommend that the Community should initiate consultations to discuss their common interests and how the partners can sustain each other during the negotiations.**

We believe in particular that the above recommendations will provide a framework within which the ACP can be helped to make some of the adjustments to problems which may sooner or later confront them, such as the loss of preferential treatment for some tropical products.

Finally, we believe that the programming approach has become too inflexible. Experience with Lomé III shows that sectoral programmes tend to prevent good development outside the sector being considered. Some greater flexibility in the programming cycle is therefore needed.

5. Harnessing private investment and technologies

For the time being it seems unlikely that donor governments will substantially raise their aid contributions either bilaterally or through the European Development Fund. The only way to augment resources is therefore to engage those of the private sector, making them more fruitful through the addition of technology and management skills. For both the ACP states and the European Community, involvement of the private sector offers relief to their overburdened administrations, a factor which in many cases has held back expansion.

For similar reasons, we believe that several existing institutions should be more effectively engaged in support of the investment process. **We therefore advocate the following action:**

(a) means should be found to co-ordinate EDF operations with private sector investment and management. In Section IV, sub-section 4, we recommend the creation of a private sector working party to prepare proposals in this regard, paying particular attention to the needs of Africa, and

(b) that same working party should study ways in which the Centre for Development of Industry (CDI) can be given a more positive role alongside the European Investment Bank (EIB) to make the Bank's operations more entrepreneurial; and to ensure that the EIB will assist European industries in entering production-sharing arrangements with LDC enterprises, and will support private sector investment even in areas where restrictions on, for example, the movement of foreign exchange deter the investor.

We have argued in the same section for a Development Co-operative Council, grouping

enterprises having operations in LDCs or a declared interest in establishing them; and for the CDI to stimulate the setting up of similar Councils in the LDCs. We believe this formula to be of particular importance to the ACP States, many of whom are currently called upon to forge a new relationship with their own private sector. The European Development Co-operative Council should arise naturally as a practical outcome of the private sector working party proposed above.

6. Conclusion

We believe that the various proposals made above constitute an organic whole. In particular, a Food Charter, a debt relief compact, a common European Community-ACP approach to the Uruguay Round, and the improved working of a number of European Community or Lomé bodies will all depend upon the forging of a new Lomé relationship within a new contractual Lomé framework. Whilst they point the way to the resolution of many of the ACP countries' most pressing problems, they also chart a lasting and deepening relationship between the European Community and its overseas partners.

SECTION VI – A POLICY FOR THE FUTURE

Coherent policies need to measure short-term actions against long-term goals. Accordingly, some of our proposals are for tomorrow rather than for today, though we have tried to combine meeting the needs arising from present crises with creating an altogether stronger, less crisis-ridden world by the year 2000. But crisis itself has helped to make previously unthinkable solutions feasible.

The world in 2000 will be much changed from the one we know today. A legitimate aim of Europe's external policy must be to influence that process of change along with the other parties involved. Development policy to date has sought to promote change at the economic and social level whilst dissociating itself from any political consequences. But it is quite unrealistic to isolate economic development from the political context when political forces are as likely as economic ones to push development plans off course.

In order to build European Community development policy on more rational grounds, its architects must have some idea of the world in which that policy is likely to be implemented. They must also be sure of how they want that world to be shaped by their policies. Without too much speculation, processes already in train can provide some clues as to how the world in 2000 may begin to look.

Structural re-ordering already discernible in the West could be nearing completion by the end of the century. By then, the USA may have been outdistanced industrially by Japan. Europe might have recognised that it has the dimensions of a superpower, and responsibilities of the same weight as those of the United States. Both will feel the continuous challenge of the Newly Industrialising Countries which could easily lead to trade war tensions like those already dogging relations between the United States, the European Community and Japan.

The future of the Soviet Union and China is harder to predict. If present trends continue, both Russia and China could begin also to emerge as industrial rivals to non-communist producers. Politically, both may evolve in a direction which reduces their isolation from the growing trend towards democracy elsewhere.

Among the developing countries, there is likely to be an even sharper distinction between those with economies in the fast lane and those left behind. Attempts to maintain solidarity within the Group of 77 on the grounds that members face a common enemy in the West may well be increasingly unsuccessful, although much of the post-colonial rhetoric is likely to persist. New alliances, already evident within UNCTAD, will tend to emerge between industrialised countries and those fast-lane nations sharing similar economic interests, and they may establish new forums in which to put their case. By the end of the century, the NICs and the latent regional superpowers are likely to have little left in common with today's Least Developed Countries or most of sub-Saharan Africa.

To ensure a safe transition into the 21st century, it will be most important of all to strengthen relationships with the emergent regional leaders, notably China, India, ASEAN, Brazil, Mexico, Egypt and Nigeria. Co-operation agreements which already exist between most of them and the European Community can form the basis for bringing these growing giants into a non-ideological partnership concerned with the management of change. Much as the United Nations was initiated by the handful of countries holding the key to the immediate post-war world, so those countries most likely to influence the evolution of a multipolar world in the early 21st century could begin to plan a suitable framework; and the European Community should play a leading part in this.

A common task

Common ground for such regional initiatives can be found if their aim is to redress some of the imbalances which characterise the current pattern: the gulfs between surplus and scarcity, particularly of food; between need and purchasing power; between those whose power means their decisions are implemented and those others whose lives they affect; between the rule of democracy within a growing number of states and the relative anarchy which governs relations between them.

Redressing that balance requires a holistic approach, so that difficulties in one sector whose causes and effects may lie in others can be dealt with in whole rather than in part. Such a system must be capable of developing coherent policies which, if aimed for example at agricultural production in one region deal at the same time with the implications of that policy on the region's consumer requirements, energy, environment, rural employment, marketing structures, trade barriers, land and water resources, availability of capital and credit. Just as governments aim at integrated political and economic policies to manage domestic problems, so there should be international action to manage global ones.

The Community has itself begun to act over a wide field, embracing agriculture, non-tariff barriers, monetary stability, aid and investment. This report has tried to show how the Member States, acting as a Community, can promote relations in these fields with the developing countries to mutual benefit. To put these instruments to good purpose, they need now to be backed by a strong external policy.

The spread of democracy

The advance of democracy in the past fifty years has been remarkable. During that period, nearly half of the states which now comprise the European Community have turned to democracy from some kind of totalitarian rule. So, more recently, has a similar number of countries in Latin America. New democracies have established themselves and survived from Botswana to Papua New Guinea. Formerly free societies like Sudan and, more spectacularly, the Philippines have managed to reassert themselves with the overthrow of a dictator. These new or reborn democracies have achieved that status with little outside encouragement from those countries in the West which defend democratic principles the loudest. However, many new democracies remain vulnerable because their debt problems oblige them to adopt stringent spending cuts which are politically unpopular. Such countries are in need of material support for their political initiatives as much as for their adjustment policies.

To maintain and defend itself in a rapidly changing and interdependent world, democracy will need to find a new dynamism. A new vision will be needed if we are to subdue the tensions, render harmless the rivalries and concentrate on the peaceful solution to problems of planetary cohabitation.

A new role for democracy

An essential element of such a vision will be to translate democratic principles on to the level of relations between states. This is a role particularly suited to the European Community since its own achievement has been most notable in this field. The Single European Act is a new step towards such democratic procedures: more majority voting within the Council accompanied by a lively voice for the European Parliament.

Democratic procedures within the Community can reinforce another of its strengths: the fact that it is not collectively identified with the policies and history of its Member States. Thus its foreign policy initiatives (increasingly more sure-footed as awareness of its influence grows) may come to be recognised as less partisan and more principled than those of equivalent powers. Europe is already regarded by countries in Central America as capable of exercising a moderating force for resolving the travails of that region. The fact that the twelve Member States have to hammer out policies acceptable to them all is seen as conducive to moderation of extreme positions which could be taken by a unitary state.

That distinctive strength will be vital to Europe's relations with the developing countries in particular, as will the crafting of democratic interstate institutions. And the major political and economic shifts to come will make it imperative to find reliable systems of co-management.

The European Community has already shown itself capable of creating the beginnings of such systems within the Lomé Convention, grouping almost all the world's least developed countries. Greater emphasis should now be given to the dialogue between Europe and the more powerful developing economies where trade rather than aid dominates the relationship.

An appropriate evolution of the Community's relations with the developing countries is attainable so long as the Community is prepared to take some significant steps:

(1) it should develop a coherent foreign policy with respect to the developing world, recognising its own global economic, political and strategic interests;

(2) this policy should take account of the needs and potential of the countries of each of the groups mentioned above, and be based on a partnership with reciprocal rights and obligations arising from underlying common interests; and

(3) it should seek to develop and strengthen procedures for a continuing and joint review of specific problems in mutual relations which are not responsive to once-and-for-all solutions.

The time is ripe to envisage such an evolution of European Community policy for two reasons. First, the emerging regional powers are no longer young states. Most have passed into their second generation of leaders, usually more pragmatic than the group which led them to independence. Secondly, the economic problems of recent years have induced a growing realisation that relations with the rest of the world have to be based on a continuing process of adaptation and negotiation. Nations are therefore more ready to recognise common interests and to assist the growth of partnerships with the Community and among themselves which could facilitate the eventual development of a new, multipolar world economic system.

SECTION VII – HOW THE MEMBER STATES CAN BENEFIT

In order to support a European Community Development Policy wholeheartedly, the present governments of Member States must each be convinced that it is in their immediate national as well as longer-term collective interest to do so. Below, we examine how these national concerns may be satisfied by the action we propose; and we look also at how it could satisfy certain claims of one group of Member States upon another.

Individual Member States face direct pressure for flexibility in aid and trade policy from different quarters of the developing world. Britain and France remain politically and economically entwined with ex-colonies. These relationships remain vital for both; but both would benefit from being able to deflect claims and share the cost of investment in their economic development with other Member States of the Community. This has, in part, already been achieved through Lomé and, for example, large-scale European bilateral aid for India.

Britain's aid programme is static, and declining as a percentage of Gross National Product. Britain has laid the burden of transferring additional resources to developing countries on to the private sector. If it wants to avoid criticism in the OECD's Development Assistance Committee, it must be seen to take steps such as those put forward in our proposals to ensure that the private sector performs this role.

Italy has generously responded to domestic pressures to increase its aid; but it is having difficulty in disbursing its larger aid budget effectively and it can be argued that this increased volume of aid would be better administered within a clearer European Community-led framework. Italy's trade/aid ambitions also go geographically well beyond the Lomé countries, as do those of Britain, France and Germany. In short, the measures we advocate for encouraging private sector involvement and new European Community initiatives towards Latin America and Asia must be in line with the general objectives of all the European Community's more powerful older Member States.

The arrival of new Member States will help to widen the geographical extent of Europe's interest. It is already clear that Spain and Portugal will press for closer Community links with Latin America, with Lusophone Africa and possibly parts of Asia such as the Philippines. There is a growing realisation within Europe that its trade and investment in Asia are being dwarfed by Japanese initiatives; despite well-meaning declarations at European Community–ASEAN meetings, nothing has yet happened to redress this. The Member States have not begun to take advantage of the new relationships open to them as a Community, especially in Latin America, as a result of the latest stage of Community enlargement.

Community initiatives in support of SADDC, the Southern Africa Development Co-operation Conference, provide an encouraging example of what can be achieved when the Member States throw their weight behind a combined programme. In SADCC's case, this collective effort has led to mobilisation of additional resources for development from within the European Community, the Scandinavian countries and North America. This investment has had both an economic and political impact in associating the Community and its Member States with constructive support for the Southern African frontline states.

That model for collective action by the Member States could be replicated in areas like Central America, where the Contadora group of states is requesting the European Community to support the regionally agreed peace plan by providing finance for the related infrastructural and development investment programme. In Central America, as in the SADCC region, such a clear commitment would bring both political and economic benefits to all the countries concerned.

Collective initiatives such as these could also help to improve the posture of those Member States being pressed to make a greater contribution to world growth, Germany in particular. But the Federal Republic's commitment to monetary stability and aversion to inflation make it unwilling to take on the task of the world's reflation. At the same time, since Germany is one of the few countries capable of sharing the burden of Western defence with the United States, it is hard for it to put pressure on Washington to reorder its domestic economy.

Germany could help to escape the isolation which exposes it to such pressures through closer identification with the European Community on the one hand, and increased monetary stability through support for the ECU on the other. This move would also bring closer a possible 'restructuring' of the industrialised countries' economies which is one of the prerequisites for a solution to the developing countries' aid, trade and debt dilemma. Leading a European initiative should be more palatable to the Federal Republic than paying for American political inaction.

Within Germany itself, there is substantial cross-party support for LDCs. A growing Green constituency is demanding policies aimed at the protection of the environment. The environmental dimension of the debt proposals in this report should ensure their popularity with the German public and a high priority with the German government.

The above are some of the political suasions which we would expect to operate in favour of our proposals. In addition, there is a series of practical benefits in which economic interest groups within the Member States can share. These derive from the opportunities provided by the proposed promotion of private investment, the Food Charter, the possibility of a European Export Credit Agency and the science and technology compact with the LDCs.

We would see substantial potential for new developments in fields such as biotechnology. Such developments might raise agricultural yields with environmental safety; find alternative crops and new uses for unremun-erative ones; conserve forests on a self-sustaining basis; discover new methods of disease control; develop satellite-based distance training methods and equipment; employ remote sensing techniques for the discovery of oil, mineral and water resources; and create renewable energy systems.

European Community industry and research institutes are eminent in all these fields and their contribution could be decisive for the LDCs. A political inititative to support European Community-LDC co-operation involving them could open up new and lucrative markets as well as wider opportunities for essential research and development. Through such an initiative the old-fashioned commodities-for-machinery relationship between Europe and the LDCs can be progressively transformed into a modern technological partnership.

Lastly, it will be observed that we have formulated our proposals with maximum economy. Costs attached to our most important objectives, such as the European debt-development swap instrument, could be met principally by utilising a portion of unspent EDF funds and from Community-guaranteed borrowing. Where new resources are needed, we have suggested they are raised from the private sector. But although this approach reflects political reality, we believe that the mutual interests of developing countries and the European Community will in the long run require the application of much more substantial resources to development. To realise the benefits and justify the resources it will be vital for the Community to have a clear vision of its global interests and obligations, based less on the legacy of the past than on the imperatives of the future.

APPENDIX A

MEMBERS OF THE FEDERAL TRUST STUDY GROUP

Chairman:	John Leech Federal Trust
Rapporteur:	Gina Campbell formerly *The Economist Development Report*
Members:	
Betsy Baker	Freelance journalist
Guy Barnett MP (until his death in Dec. 1986)	
Dr J. Vincent Cable	Commonwealth Secretariat
Victoria Fleming	Bank of England
Maurice Foley	former Deputy Director-General for Development, European Commission
Cllr. Jonathan Fryer	Freelance journalist and broadcaster
Adrian Hewitt	Deputy Director, Overseas Development Institute
Terry Lacey	Co-operation for Development International Ltd
Michael Lake	Directorate-General for Development, European Commission
The Hon. Christopher Layton	Federal Trust
Lorimer Mackenzie	Directorate-General for Development, European Commission
Dawn Penso	Business in the Community
John Pinder	Federal Trust
Peter Scott	Samuel Montagu & Co Ltd
Bowen Wells MP	
Kaye Whiteman	Editor-in-Chief, *West Africa*
Nicolas Wolfers	Midland Bank

The Group wishes to express its appreciation to the eminent persons who joined its meetings and provided it with highly professional papers for discussions, notably Mr A. J. Fairclough, Christopher Jackson MEP, Professor Susan Strange, Mr David Suratgar and Lord Walston; as well as to those of its own members who did likewise.

The work of the Study Group covered the period May 1986 to July 1987. Its interim report was then submitted to an international conference, held jointly with the Institut d'Études Européennes in Brussels on 23-24 October, 1987. This final report is the result of the review by that conference.

Members of the Study Group as well as the Conference took part in a personal capacity and the views expressed should not be attributed to their organisations. Nor do individual participants necessarily concur with all the views expressed in the report, though they support its general conclusions.

APPENDIX B

FEDERAL TRUST FOR EDUCATION AND RESEARCH INSTITUT D'ÉTUDES EUROPÉENNES

International Conference, Brussels 23 – 24 October 1987

LIST OF PARTICIPANTS

M. O. Abreu	D.G. VIII, European Commission
Mr George Adetuberu	Chargé d'Affaires, Mission of Nigeria to the Community
Mlle Corinne Baptiste	Minister-Counsellor, Mission of Trinidad and Tobago to the Community
M. J.C. Boidin	D.G. VIII, European Commission
Dr Vincent Cable	Special Adviser, Commonwealth Secretariat, Economic Affairs Division; Federal Trust Study Group
Ms Gina Campbell	Rapporteur, Federal Trust Study Group
H.E. Mr Edwin Carrington	Secretary General, ACP Secretariat
Mr Robert Cohen	Member of European Parliament
Ms Joan Corkery	European Centre for Development Policy Management
Ms Evett Cross	Minister-Counsellor, Embassy of Jamaica to the Community
Mme Rika de Backer	MEP; Member of EP Development Committee and Joint EC/ACP Assembly
Snr Juan Eduardo Fleming	Argentine Interest Section, Brazilian Embassy, London
Mr Maurice Foley	Former Deputy Director General, D.G. VIII, European Commission; Federal Trust Study Group
Councillor Jonathan Fryer	Freelance broadcaster and journalist; Federal Trust Study Group
Mr Peter Gakunu	Acting Chief, Trade Cooperation Division, ACP Secretariat
Mr Eduardo Perera Gomez	Chercheur, Centre d'Études sur l'Europe Occidentale
Mr Michael Hammond	Hampden Trust
Mr Adrian Hewitt	Overseas Development Institute; Federal Trust Study Group
Mr K. Junginger-Dittel	D.G. VIII, European Commission
Mr Lars Kaldern	Director General, Swedish National Debt Office
Mr Katsaura	Mission of Zimbabwe to the Community
Ms Judy Keep	Executive Secretary, Federal Trust
Mr Terry Lacey	General Secretary, Co-operation for Development International Ltd; Federal Trust Study Group
Mr Michael Lake	D.G. VIII, European Commission; Federal Trust Study Group
The Hon Christopher Layton	Federal Trust Study Group
Mr John Leech	Chairman, Rural Investment Overseas Ltd; Chairman, Federal Trust Study Group
M Jean-Victor Louis	President, Institut d'Études Européennes, Université Libre de Bruxelles
Mr Lorimer Mackenzie	D.G. VIII, EC Commission; Federal Trust Study Group

Dr Roy E. Mattar	Director, Industrial Development Unit, Commonwealth Secretariat
Mr John Pinder	Chairman, Federal Trust; Federal Trust Study Group
Mr Stanley Please	Consultant, World Bank
Dr Peter Praet	Co-Director, Institut d'Études Européennes, ULB
Dr Roy Pryce	Director, Federal Trust
Mr Bernard Ryelandt	D.G. VIII, European Commission; Trans-European Policy Studies Association
H.E. Dr Salleo	Ambassador of Italy to the OECD
Dr André Sapir	Institut d'Études Européennes, ULB
Mr Rex Speller	Manager, Operations in West Africa and the Caribbean, European Investment Bank
Dr Chris Stevens	Overseas Development Institute
Mr David Suratgar	Director, Morgan Grenfell & Co Ltd; Chairman, West India Committee
Professor M. Tharakan	Centre for Development Studies, University of Antwerp
Mr Dennis Thompson	Former Director, Federal Trust
Professor Jacques Vandamme	President, Trans-European Policy Studies Association
Professor Daniel van den Bulcke	University of Antwerp; Groupe d'Études Politiques Européennes
M Michel Vanden Abeele	Adviser, European Commission; Director, Institut d'Études Européennes, ULB
Dr F.J. van Hoek	Director-General, European Centre for Development Policy Management
H.E. Khun Vitthya Vejjajiva	Ambassador of Thailand to the European Communities; Chairman of the ASEAN Ambassadors
Mr Kaye Whiteman	Editor, *West Africa*; Federal Trust Study Group.
Mr S.O. Willoughby	Counsellor, Mission of Nigeria to the Community
Ms Sarah Williams	Stageaire at the European Commission
H.E. Mr Leslie Wilson	Ambassador, Mission of Jamaica to the Community.

APPENDIX C

TABLE OF ABBREVIATIONS

ACP	African-Caribbean-Pacific - the developing countries signatories of the Lome Convention
ASEAN	Association of South-East Asian Nations
CAP	Common Agricultural Policy
CARICOM	Caribbean Economic Community
CDI	Centre for Development of Industry
ECOWAS	Economic Community of West African States
ECU	European Currency Unit
EDC	European Development Corporation
EDF	European Development Fund
EIB	European Investment Bank
GATT	General Agreement on Tariffs and Trade
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
ITTO	The International Tropical Timber Organisation
LDCs	Less Developed Countries
NICs	Newly Industrialising Countries
OECD	Organisation for Economic Cooperation and Development
SADCC	Southern Africa Development Co-operation Conference
UNCTAD	United Nations Conference on Trade and Development
billion	thousand million (000m)

APPENDIX D

OFFICIAL DEVELOPMENT FLOWS OF THE EUROPEAN COMMUNITY AND ITS MEMBER STATES IN 1986 (US$m)

	European Community		*Member States – Share of Disbursement*											
Heading	Commitments	Disbursements	BEL	DEN	GER	GRE	FRA	IRL	ITA	LUX	NL	UK	SPA	POR
EDF	1,232.07	840.53	48.92	20.76	234.67	11.26	212.32	4.96	95.32	1.68	61.36	149.28	–	–
92 Food aid	658.05	405.54												
93 Non-Associates (Asia & Latin America)	280.60	180.64												
94 NGOs	53.56	36.97												
95 Emergency Aid	34.22	50.60												
96 Mediterranean	133.02	105.11												
98 Delegations	59.95	59.95												
99 Co-opn agreements	7.76	2.84												
30 FEOGA	14.76	14.52												
50 FEDER	54.13	49.21												
60 Social Fund	39.49	122.84												
73 Research & Development	39.31	23.26												
Total Community Budget	1,374.84	1,051.47	46.34	25.06	281.31	19.72	215.60	10.89	147.74	2.03	71.18	211.47	16.89	3.26
Total Community Flow	*2,606.91*	*1,892.00*	*95.26*	*45.82*	*515.98*	*30.98*	*427.92*	*15.85*	*243.06*	*3.71*	*132.54*	*360.75*	*16.89*	*3.26*
DAC reported net disbursements to EC †			85	42	464		385	17	225		134	327		
Non-Community Flows														
World Bank Group			70	50	421		331	13	417		189	214		
Inter-Am. Development Bank			2	1	12		10	–	7		1	4		
Asian Development Bank			7	7	39		56	–	31		22	14		
African Development Fund			11	19	40		41	–	81		16	15		
UN Agencies			9	169	176		109	6	125		182	116		
Other			2	45	37		11	1	31		16	38		
Total Multilateral Flows			*186*	*333*	*1,189*		*943*	*37*	*917*		*560*	*728*		
Total Bilateral Flows			*363*	*362*	*2,643*		*4,162*	*25*	*1,487*		*1,180*	*1,022*		
Total Net Disbursements			*549*	*695*	*3,832*	*NA*	*5,105*	*62*	*2,404*	*NA*	*1,740*	*1,750*	*NA*	*NA*

Sources: Upper table – European Commission
Lower table – Development Assistance Committee (DAC), OECD.

† DAC basis of reporting differs from European Community method of computing contributions.

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

file

DATE: November 24, 1987

TO: Mrs. Marianne Haug, EXC

FROM: Philip Birnbaum, Cofinancing Advisor, AFRVP

EXT.: 34625

SUBJECT: Response from Mr. L. Natali, Vice President, Commission of the European Communities

The attached response from Mr. Natali indicating that the EC will participate in the Bank's meeting on the Special Program of Assistance for low-income debt-distressed countries in sub-Saharan Africa on December 3rd and 4th in Paris, has been brought to the attention of Messrs. Qureshi and Jaycox. In addition, Mr. Dieter Frisch, Director General for Development, visited the Bank last week and reviewed with the Bank the EC's position for this meeting.

As we discussed, no response to Mr. Natali is deemed necessary.

Enclosure

cc: Messrs. Qureshi. SVPOP
Jaycox, AFRVP

24004
11/12
(1)
Orig: Mr. Jaycox
11/13 ARxxP

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDANCE DATE : 87/11/12 DUE DATE : 00/00/00
LOG NUMBER : 871112009 FROM : L. Natali
SUBJECT : Re: Multidonor meeting to be held in Paris on Dec. 3-4.

OFFICE ASSIGNED TO FOR ACTION : Mr. M. Qureshi (E-1241)

Mr. Humphreys - to handle

ACTION:

	APPROVED
✓	PLEASE HANDLE
	FOR YOUR INFORMATION
	FOR YOUR REVIEW AND RECOMMENDATION
	FOR THE FILES
	PLEASE DISCUSS WITH ______
	PLEASE PREPARE RESPONSE FOR ______ SIGNATURE
	AS WE DISCUSSED
	RETURN TO ______

COMMENTS : Attention: Mr. C. Humphreys

NOV.12 '87 14:36 BRUX DG8 KI117 FAX:32-2-2352992 P.01

COMMISSION DES COMMUNAUTÉS EUROPÉENNES

Direction générale du Développement

Bruxelles, le 12.11.87

VIII-Secrétariat/
/Cellule Informatique/

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1987 NOV 12 AM 9:02

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Renseignements-Informations
n. tél. 235...

Exe

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Mr. CONABLE

EXPEDITEUR - SENDER : M. NATALI CCE

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REMARQUES/NOTES :

SIGNATURE :
Ud 2y

A REMPLIR EN CARACTERES D'IMPRIMERIE S V P

Lorenzo Natali
Vice-Presidente della Commissione delle
Comunità Europee

Brussels, 0032275 12.11.87

Dear Mr Conable,

I would like to thank you for your invitation dated October 28 to the special multidonor meeting organized by your institution in Paris on December 3-4, 1987. Arrangements are beeing made for the EC Commission to be represented at the appropriate level and to be prepared to discuss items proposed in your letter and in the attached memo. I believe too, as you do, this meeting is an important step in adressing the problem of low-income debt distressed sub-saharian countries and I can assure you of our institution's active participation.

Sincerely,

Natali

Mr Barber B. CONABLE
President
The World Bank
Washington
USA

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDANCE DATE : 87/11/18   DUE DATE : 00/00/00
LOG NUMBER : 871119001   FROM : A. Shakow (thru DH)
SUBJECT : BRIEF FOR: Breakfast Meeting with Dr. Dieter Frisch of the EEC on Friday, November 20.
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

- ________ APPROVED
- ________ PLEASE HANDLE
- ________ FOR YOUR INFORMATION
- ________ FOR YOUR REVIEW AND RECOMMENDATION
- ________ FOR THE FILES
- ________ PLEASE DISCUSS WITH ________________
- ________ PLEASE PREPARE RESPONSE FOR ____________ SIGNATURE
- ________ AS WE DISCUSSED
- ________ RETURN TO ________________

COMMENTS : Jenny - original for BBC's follow file.
cc: Marianne for information.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: November 18, 1987

TO: Mr. Barber B. Conable
(through Mr. W. David Hopper) W.D.H.

FROM: Alexander Shakow, Director, SPR Alex

EXTENSION: 34697

SUBJECT: **Briefing for your Breakfast Meeting**
with Mr. Dieter Frisch of the EEC on November 20

As you know, Mr. Frisch heads DG8, the Development Directorate of the EEC. He is, therefore, the senior civil servant at the EEC on development matters. We understand that the main purpose of his visit to the Bank is to continue earlier high-level discussions of coordination between EEC and Bank development activities, particularly in Africa, where much of EEC aid is focussed.

In meetings today and tomorrow with Messrs. Stern, Qureshi and Jaycox, and no doubt at his meeting with you, Mr. Frisch will be announcing some important developments in EEC aid to the debt-distressed countries of Africa. We understand that at a meeting of the Council of Ministers at the beginning of last week, it was decided that the following new resources would be made available over the next three years to African countries experiencing debt-servicing problems:

(1) 100 million ECU [1] from funds left over from Lome I and II and from loan repayments;

(2) 200 million ECU already allocated to individual debt-distressed countries under Lome III whose disbursements will be accelerated; and

(3) 200 million ECU from Lome III, hitherto unallocated, which will also be allocated to debt-distressed countries.

Strictly speaking, only about 60 million ECU of these amounts, representing loan repayments, are additional, in the sense that they involve an additional net call on EEC Member States. However, overall, the result is likely to be a significant increase in resources available to the individual debt-distressed countries concerned. Even more importantly, these resources will be used to support both sectoral and overall adjustment programmes. The amounts provided under (2) and (3) above can only be used for sectoral adjustment operations, but for the first time in the EEC aid programme, the amount allocated under (1) above may be used to finance general import requirements under a structural adjustment programme. This represents a major departure from past EEC practice, in which the amount of financing provided to an individual country was

---

1/ (1 ECU = $1.2 approx.)

negotiated under the Lome Convention and was therefore scarcely linked to its own adjustment efforts.

For all the reasons above, you should warmly welcome the news which Mr. Frisch is bringing. We understand that the EEC will be keen to coordinate with the Bank in the programming of this additional assistance, and accepts the leading role of the Bank and the Fund in helping Governments prepare and implement adjustment programmes. It thus represents a major step in our efforts to secure cofinancing for adjustment lending for which, as you know, a donors meeting is scheduled in Paris on December 3 and 4. You should underline our appreciation for the EEC's pragmatic approach, and our willingness to continue to strengthen our working level collaboration with the EEC.

Preparation of Lome IV will begin shortly. You may like to ask Mr. Frisch about the possible implications of last week's Ministerial decision for Lome IV; i.e. is it likely that the move towards greater focus of EEC aid or support to adjustment efforts which was decided on last week will continue under Lome IV?

You may wish to ask Messrs. Stern and Qureshi to brief you on the outcome of their meetings with Mr. Frisch before your own meeting.

cc: Messrs. Stern, Qureshi

MCarter/ww

~~MH~~
(EEC) JU
(follow file)

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDANCE DATE : 87/08/17 DUE DATE : 00/00/00
LOG NUMBER : 870820004 FROM : Mr. R. Denman
SUBJECT : Visit to Wash. of members of the Dele. of the Commission of the European Communities.
OFFICE ASSIGNED TO FOR ACTION : Mr. Hopper (D-1202)

ACTION:

- ____ APPROVED
- ____ PLEASE HANDLE
- ✓ FOR YOUR INFORMATION
- ____ FOR YOUR REVIEW AND RECOMMENDATION
- ____ FOR THE FILES
- ____ PLEASE DISCUSS WITH ____
- ____ PLEASE PREPARE RESPONSE FOR ____ SIGNATURE
- ____ AS WE DISCUSSED
- ____ RETURN TO ____

COMMENTS : Note: Appointment is scheduled for September 24 at ~~11:30 am~~ 9AM fo 1 hour. Please provide briefing.

(SHAKOW INFORMED)

***IMPORTANT**

43 People + WB staff.
Conference Room needed.
clare
C1006.
Donna Clarke
form 2161.

DELEGATION OF THE COMMISSION OF THE EUROPEAN COMMUNITIES

The Head of the Delegation

17 August 1987

Mr. Barber B. Conable
World Bank
Room E1227
701 19th Street, N.W.
Washington, D.C. 20433

Dear Barber

I am writing on the behalf of Mr. Klaus Haensch, Chairman of the European Parliament's Standing Delegation to the United States, to ask if you would kindly agree to meet members of the Delegation during their visit to Washington in September for the 29th interparliamentary meeting with the US House of Representatives. Given the important impact of debt and development problems on the world economy and especially on trade, the Delegation would very much like to hear your views on the prospects for solving them.

May I suggest a meeting on the morning of Thursday, 24 September. Breakfast or immediately thereafter would best suit the Delegation's preliminary schedule, but we can be flexible if a different time would be better for you.

I enclose for your information a list of the Members of the Delegation and of three political group Presidents, including Mrs. Simone Veil, former President of the European Parliament, who will accompany them.

Lord Plumb, the current President of the European Parliament will be visiting Washington at the same time as the Standing Delegation. I am writing to you separately to request a meeting for Lord Plumb.

My staff remain available to provide any more information you may require. To confirm this appointment or to discuss alternative scheduling, your office should please call Susan Binns (862-9533) or Robert Whiteman (862-9550).

Rob't Whiteman.
notified C1006.

Sincerely

Roy

Roy Denman

2100 M Street NW 7th Floor Washington DC 20037 / telephone: (202) 862-9500 / telex: 64215 EURCOM UW

EUROPEAN PARLIAMENT

DELEGATION FOR RELATIONS WITH THE UNITED STATES

29th Meeting of Delegations
Washington, DC and Seattle, Wash.
21 - 29 September 1987

List of Members

Mr Klaus HÄNSCH, Chairman	SOC, Germany
Mrs Magdeleine ANGLADE, 1st Vice-Chairman	RDE, France
Mr René PIQUET, 2nd Vice-Chairman	COM, France
Mr Enrique BARON CRESPO	SOC, Spain
The Lord BETHELL	ED, United Kingdom
Mr Erik BLUMENFELD	PPE, Germany
Mr Ioannis BOUTOS	RDE, Greece
Mr Elmar BROK	PPE, Germany
Sir Fred CATHERWOOD	ED, United Kingdom
Mr Karel DE GUCHT	LDR, Belgium
Mr Vasco GARCIA	LDR, Portugal
Mr Vincenzo GIUMMARRA	PPE, Italy
Mr Ernest GLINNE	SOC, Belgium
Mr José Maria LAFUENTE LOPEZ	ED, Spain
Mr Leonidas LAGAKOS	SOC, Greece
Mr Jean-Marie LE CHEVALLIER	DR, France
Mr Bram van der LEK	ARC, Netherlands
Mr Didier MOTCHANE	SOC, France
Mr Jean PENDERS	PPE, Netherlands
Mr Luis PLANAS PUCHADES	SOC, Spain
Mr Thomas RAFTERY	PPE, Ireland
Mr Barry SEAL	SOC, United Kingdom
Mr Sergio SEGRE	COM, Italy
Mr Ioannis TZOUNIS	PPE, Greece
Mr Eisso WOLTJER	SOC, Netherlands
Mr Mario ZAGARI	SOC, Italy

Also participating:

Mr Christopher PROUT, Chairman of the European Democratic Group (United Kingdom)
Mrs Simone VEIL, Chairman of the Liberal and Democratic Reformist Group (France)
Mr Jean-Marie LE PEN, Chairman of the Group of the European Right (France)

EEC

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDANCE DATE : 87/06/30 DUE DATE : 00/00/00
LOG NUMBER : 870630034 FROM : A. Shakow
SUBJECT : BRIEF FOR: Meeting with Sir Roy Denman on Wednesday, July 1 at 2:30 pm.
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

__________ APPROVED
__________ PLEASE HANDLE
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__________ FOR YOUR REVIEW AND RECOMMENDATION
__________ FOR THE FILES
__________ PLEASE DISCUSS WITH ____________________
__________ PLEASE PREPARE RESPONSE FOR _______________ SIGNATURE
__________ AS WE DISCUSSED
__________ RETURN TO ____________________

COMMENTS : Jenny - original for BBC's follow file.
Marianne - for information.

FORM NO. 75
(6–83)

THE WORLD BANK/IFC

ROUTING SLIP	DATE: June 30/87

NAME	ROOM NO.
Mr. Barber B. Conable	
(through Mr. V. Rajagopalan)	

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	CLEARANCE		PER OUR CONVERSATION
	COMMENT		PER YOUR REQUEST
	FOR ACTION		PREPARE REPLY
X	INFORMATION		RECOMMENDATION
	INITIAL		SIGNATURE
	NOTE AND FILE		URGENT

REMARKS:

FROM:	ROOM NO.:	EXTENSION:
A. Shakow, Director, SPRD	E812	78812

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: June 30, 1987

TO: Mr. Barber B. Conable

FROM: Alexander Shakow, Director, SPRD
through Mr. V. Rajagopalan, Acting SVP/PPR

EXTENSION: 72218

SUBJECT: Your Meeting with Sir Roy Denman, Wednesday, July 1 at 2.30 pm

1. Sir Roy Denman, Head of the Delegation of the Commission of the European Communities in Washington, will come to visit you in your office (bio data attached). Sir Roy apparently considers this visit primarily an opportunity for a conversation on matters of common interest between two people who have known each other for many years. He has no specific issues in mind to discuss with you, nor does he have instructions from Brussels to raise any particular points. He will be accompanied by Marc Pierini, the official at the EC Washington Delegation in charge of EC relations with the Bank; I will also participate. Half an hour or a maximum of 45 minutes, should be sufficient for the meeting.

2. One question Sir Roy is likely to ask is why the EC was not invited to the Bank-Fund July 10 meeting in Paris on the African debt problem. Although the Bank had been inclined to include the EC in view of its major role as a donor in Africa, it was finally agreed, at the Fund's suggestion, to limit the invitations to this meeting to the representatives of the G-10 governments which were participating in the OECD meeting around which this special session was arranged. You may wish to point out that we consider this to be only the first in a series of such meetings, that we are anxious to work closely with the EC in implementing the program, and that we welcome the opportunity to arrange meetings with the EC on this topic. We are especially pleased that early in June the Commission of the European Communities announced its intention to step up the level of its quick-disbursing sectoral operations especially for debt-distressed countries.

3. Another possible question is whether and how the Bank's reorganization will affect relations with the EC and its member governments. Sir Roy will have heard the views of the EC-country Executive Directors who meet under the auspices of the EC Delegation once a month; their most recent meeting took place last Friday, June 26. You may want to emphasize that the stronger country focus of the Regions' work should result in a process of even closer consultation and cooperation, particularly in Africa. Apart from operational collaboration, which we believe is working quite satisfactorily, there is always room for improvement in the area of consultation on such major development policy problems as different approaches to

adjustment or trade issues in connection with the GATT Uruguay Round. In this area, the creation of PPR and, inter alia, the Strategic Planning and Review Department should help make contacts more systematic and fruitful.

4. In the context of the Uruguay Round, it is expected that the discussion of agricultural trade will intensify in the fall when the U.S. will present a new proposal at the GATT. You might wish to enquire whether any new developments have taken place at the semi-annual EC summit which started in Brussels on Monday. Heads of EC governments were supposed to review such urgent matters as the reform of the common agricultural policies which have become financially unsustainable. Was there any progress?

5. Still in the GATT context, as Sir Roy knows, the Bank would appreciate full EC support in its request to be admitted as observer to the Trade Negotiations Committee and its subordinate bodies, the various Negotiating Groups. While the U.S. has provided consistent support in all Groups, and despite earlier support from the EC, last Friday the EC reversed its position and proposed to exclude the Bank from one of the key bodies, the Group on Agriculture, where the Bank's presence would be of particular importance in view of the interests of our borrowers. You might indicate your dismay at this action and ask Sir Roy what can be done to reverse once again the EC position.

6. Your most recent meetings with members of the EC Commission were with Lorenzo Natali on November 19, 1986, in your office, and with Claude Cheysson, on December 2, 1986, in Brasilia. Sir Roy may ask you about your travel plans and renew suggestions made by Mr. Natali for you to visit the EC Commission at their headquarters in Brussels. No such visit is currently included in your travel plans, but you may want to say that once the reorganization is completed, and some urgent travel commitments to major LDCs and the Annual Meetings are behind you, a fresh look at the possibilities of a Brussels visit should be taken.

HMKoelle:sk

cc: Messrs. de la Renaudiere, Birnbaum (SOA), Koelle (IRD)
Carter, Petersmann (EURO), Siebeck (Geneva)

Attachment

SIR ROY DENMAN
HEAD OF THE DELEGATION OF THE COMMISSION OF THE EUROPEAN COMMUNITIES TO THE UNITED STATES

Sir Roy Denman, K.C.B., C.M.G.*, is Head of the Delegation of the Commission of the European Communities to the United States.

Sir Roy was born in 1924 in Liverpool, England, and educated at Harrow Grammar School and St. John's College, Cambridge. From 1943 to 1946, he served in the British Army as a Major in the Royal Signals Corps.

He joined the United Kingdom's Board of Trade in 1948 and was Assistant Private Secretary to successive presidents of the Board of Trade from 1950 to 1952. From 1957 to 1960, he was First Secretary at the British Embassy in Bonn in the Federal Republic of Germany. From 1960 to 1961, he was a member of the British Delegation to the United Nations in Geneva, later serving there as Counselor from 1965 to 1967. He was a member of the United Kingdom delegation in both the Dillon and Kennedy Rounds of Multilateral Trade Negotiations.

In 1967, Sir Roy became Under-Secretary at the Board of Trade. He was appointed Deputy Secretary of the Department of Trade and Industry in 1970 and served in that position until 1975.

From 1970 to 1972, he was a member of the United Kingdom delegation which negotiated his country's entry into the European Communities. He subsequently became a member of the British Overseas Trade Board, on which he served from 1972 to 1975. He then became Second Permanent Secretary of the British Cabinet Office.

In 1977, Sir Roy moved to Brussels to become Director General for External Relations in the EC Commission. In this position, he was responsible for the European Community's external policies and for all trade negotiations. He was the European Community's chief negotiator in the Tokyo Round of Multilateral Trade Negotiations which were completed in 1979.

Sir Roy became Head of the Delegation of the Commission of the European Communities in September 1982 and now lives in Washington, DC, with his wife, Moya. Sir Roy and Lady Denman have two children, James, aged 14 and Julia, aged 11.

*Knight Commander of the Order of the Bath
Companion of the Order of St. Michael and St. George

October 1982

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Date: November 17, 1986

To: Mr. Barber B. Conable, President

From: Ernest Stern, SVPOP ES.

Ext.: 72004

Subject: Meeting with Mr. Lorenzo Natali, Vice President of the Commission of European Communities, Wednesday, November 19, 1986 at 2.30 p.m.

I. Introduction

Mr. Natali is in charge of the EC's Development and Cooperation portfolio. His curriculum vitae is attached. He will be accompanied by Mr. Klaus von Hilldorff, a member of Natali's Cabinet, Mr. Marc Pierini, Head of the Washington office of the Commission of European Communities, and Mr. Fox, Translator. Messrs. Jaycox, Thalwitz, Burki, de la Renaudiere and I will also participate in your meeting.

II. Background Information on Third Lome Convention 1985/89

On December 8, 1985, the European Community (EC) signed the "Lome 3" Convention, which is the third five-year convention with 66 developing countries which are known as the ACP members -- 45 African countries, 13 Caribbean countries and 8 countries in the Pacific, . The Convention encompasses aid, trade and investment provisions, which are briefly described below.

Aid

European Development Fund (EDF) provides grants and soft loans	7.4 billion ECU */

Investment

European Investment Bank (EIB) provides loans on non-concessional terms, similar to IBRD terms, from funds borrowed in capital markets	1.1 billion ECU
Total	8.5 billion ECU

*/ ECU translates into European Currency Unit and 1 ECU = 1 U.S. dollar.

Under "Lomé 3", the amount of resources is up by 60% in nominal terms and by 10% in real terms, as compared to "Lomé 2" (1980-84).

Trade Provisions

Duty-free access is provided for most ACP exports to the European Community as well as trade preferences for those products not covered by the duty-free provisions. In addition, there is a system of compensation, STABEX, to cover fluctuations in the export earnings of ACP countries. Under "Lomé 3", up to 925 million ECU from the EDF are earmarked for STABEX payments.

III. Changes in Country Programming under "Lomé 3"

"Lomé 3" introduced major innovations in country programming, in particular, an emphasis on policy-based operations, which is described in items (iii) through (v) below.

(i) Country allocations continue to be made on the basis of "technical criteria" such as population, GNP *per capita*;

(ii) country allocations are called indicative programs and are known to recipient country from the outset of the Convention's life --thus providing a high degree of predictability.

(iii) Whereas under the previous Convention, the EDF financed primarily projects in various sectors, "Lome 3", in an effort to improve the effectiveness of EC assistantance, has the recipient country focus on a key sector. (In Africa, it is almost exclusively the agriculture and the rural sector.)

(iv) EC Programming Missions are sent to each country to negotiate sector objectives; identify the policy measures to be taken, and to fix funding allocations, all of which is incorporated into an agreement signed with the country. Many of the EC programming missions held prior consultations with Bank staff and make use of the Bank's Country Economic Memoranda and sector papers. The EC policy frameworks usually do not include quantified measures or conditions but more general commitments -- for example, "the Government undertakes to maintain producer prices at a remunerative level to farmers."

(v) In support of these sector programs the EC is now financing non-project assistance in the form of sectoral loans and commodity import programs, as well as maintenance and rehabilitation operations.

IV. Suggested Topics to be Discussed with Mr. Natali

We understand that Mr. Natali wants to focus on the economic problems of sub-Saharan Africa.

A. EC experience with the new Sector Approach and Policy-Based Lending in Sub-Saharan Africa

We suggest that you ask Natali how implementation of this new approach is progressing? How much non-project assistance has the EC committed in support of policy-based operations?

Natali, we understand, will ask about the Bank's plans in sub-Saharan Africa under IDA8 -- particularly with regard to policy-based lending.

With regard to the Bank's experience, in FY86-87, over twenty sub-Saharan countries will be implementing policy reform programs supported by IDA and the Special Facility for Africa (SFA) Credits and adjustment-related operations will equal about 50% of total IDA and SFA lending in these countries. Furthermore, total Bank commitments and disbursements in these countries in FY 1986-87 will be about 3 times their 1982 levels. Under IDA8, the Bank plans to continue to give high priority to sub-Saharan Africa by providing it with at least 45% of IDA8 resources and will continue to provide a very high percentage of adjustment-related lending to those countries implementing effective reform programs.

B. Cooperation Between EC and the Bank - Cofinancing

In general, cooperation between the Bank and EC is good. EDF and the Bank are engaged in a very considerable amount of cofinancing, which is showing a positive growth trend, totaling $142 million in FY 1986. So far the EDF has been engaged in cofinancing with the Bank's project operations, primarily in African countries. Now that the EDC is financing non-project operations, this could open up a broader area of cofinancing with the Bank in support of structural adjustment and sector loans in sub-Saharan Africa. However, we should recognize that sector lending is a new dimension for the EC and they will probably want to gain some experience and recognition before joining the Bank's programs in this area.

C. Aid Coordination

The work load in support of aid coordination in sub-Saharan Africa is rapidly increasing, with some 30 Consultative Groups and Round Tables, either in existence or planned in the near future, and with the number of sector and local aid coordination meetings increasing sharply.

Despite budgetary constraints, the Bank is allocating increasing levels of staff time to macro-economic and sector analysis and for the organizational efforts and consultation required for effective aid coordination.

There is a need for greater sharing of responsibility and costs of aid coordination work. In this connection, you might ask if the EC, as one of the largest donors in SSA 1/, is willing to take the lead to organize and finance the preparatory/analytical work for certain sector aid coordination meetings? On previous occasions, however, the EC replied that they do not have sufficient technical staff to do this type of work.

D. Food Security and Food Aid

The EC and the Bank have some different views with regard to the efficacy of government-supported food storage facilities as well as the role of food aid in improving food security in sub-Saharan Africa. In Ghana, for example, the EC is providing support to a government corporation to build storage facilities and to stock large food reserves as part of a nationwide food security program; whereas the Bank supports greater reliance on the local private traders and the market place.

E. Desertification in Sub-Saharan Africa

The EC is developing a comprehensive approach to counter desertification and increase conservation activities in Africa. Mr. Natali would like to be informed of the Bank's position on this issue.

Attached at TAB A is the summary and conclusions of the Bank's paper on desertification in the Sahelian and Sudanian Zones of West Africa. The Bank's approach is holistic -- desertification has demographic, social, technical and economic dimensions which must be addressed. Furthermore, to succeed, antidesertification actions have to be decentralized and have the full participation of local communities and people.

F. Other Issues

-- Mr. Natali may ask about the status of the EC's request for observer status at the Development Committee's restricted sessions. Mr. Botafogo has made a proposal on this subject in a memorandum to you

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1/ After IDA, the EC is the largest aid donor in sub-Saharan Africa. Average annual levels of aid for 1986-89 are projected at $1.4 billion from EDF and $240 million in non-emergency food aid.

dated October 28, 1986. If the subject arises, we suggest you indicate that you are currently exploring the issue and hope it will be possible for the Troika to make a decision soon.

-- Mr. Natali may also mention EC President Delors' interest (expressed in his congratulatory letter to you) in expanding the relationship between the EC and the Bank "over and above the natural link between two donor agencies" to include trade issues, adjustment and growth issues where the EC can play a role with its member states, the long-term future of sub-Saharan Africa, etc. You indicated in your response to Mr. Delors that you welcomed his suggestions: staff are currently exploring how these contacts might best be developed.

Attachments

cc: Messrs. E. Jaycox, ESAVP
W. Thalwitz, WANVP
S. Burki, IRDDR
A. Shakow, IRDIE
C. Blanchi, AGRDR
X. de la Renaudière, SOA
Ms. P. Donovan, SVPOP

PBirnbaum/rh

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Withdrawn by	Date
Chandra Kumar	Aug 13, 2014

TAB A

Desertification in the Sahelian and Sudanian Zones of West Africa

The World Bank
Washington, D.C., U.S.A.

SUMMARY AND CONCLUSIONS

1. Desertification is a process of sustained decline of the biological productivity of arid and semi-arid land; the end-result is desert, or skeletal soil that is irrecuperable. This process is now at work in many parts of the West African Sahelian and Sudanian Zones (SSZ). Whether desertification is caused mainly by droughts and increasing aridity, or by resource abuse by the resident population, is hotly debated. But this debate has little operational consequence, since rainfall patterns cannot as yet be modified nor even predicted, whereas human behavior can be changed. The desertification problem is nonetheless severe, since it is an example of conflict between the public interest in long-term resource use, and private short-term resource abuse. If there is no effective reconciliation between these two interests, the desertification process will continue; while the process can be arrested, the end-result is irreversible.

2. Behavior in the SSZ is conditioned by two fundamental environmental features: rainfall is variable, and decreases in amount and predictability from south to north across the SSZ; and soils are of low fertility, particularly in phosphates and nitrogen, and structurally fragile. The traditional production systems described in Chapter II developed as responses to these conditions and included techniques, as well as enforceable rules, for assuring sustained-yield use of the modest and fragile resource base. The traditional production techniques employed in these systems imply limited carrying capacities, but varying by climatic zone. In all zones, however, the carrying capacity of the natural forest cover is lower than that for crops and livestock: the natural forest cover is therefore the most vulnerable part of the ecosystem. The traditional production systems have increasingly been disrupted, above all by rapid population growth; other pressures include changing social institutions, centralized political authority, and urban-biased economic policies.

3. As measured by the comparison between actual populations and carrying capacities (with traditional production techniques), it is in the Sahelo-Sudanian zone (350-600 mm per year) that resources are being most seriously over-exploited. This is also a zone where the available intensive production techniques - that could increase the carrying capacity - have not proven sufficiently remunerative for wide adoption, despite the pressure on the land. Desertification has set in, and crop yields are falling in many areas. Instead of a phenomenon of desert spread originating in the Saharan and Sahelo-Saharan zones, desertification is most threatening in the central Sahelo-Sudanian zone and the adjacent Sudanian and Sahelian zones, or the SSZ heartland. The principal task is not simply one of "stopping the desert", except where specific infrastructure is to be protected, but the more subtle one of arresting and if possible reversing the desertification process in the SSZ heartland.

4. Past development efforts (Chapter III) have largely focussed on promoting productivity improvements in a single sector - crops or livestock or forestry - without paying much attention to the contexts in which traditional production systems developed. While this cutting-edge approach has produced results in wetter, more fertile areas, it has proven inadequate in the SSZ. The new techniques were not much more productive than existing practices, nor were they designed to fit into production systems based on local rainfall and

soils. While some successes have been achieved, overall results have been disappointing. In irrigation, where there is tremendous physical potential that could dramatically change the carrying capacity of parts of the Sahelo-Sudanian zone, the record has also been disappointing.

5. In order to address the desertification problem, certain elements of a strategy are clear (Chapter IV):

(a) in general, the design approach should be holistic, based on probable instead of average outcomes, and based on popular participation. These observations may appear elementary but in practice it is their neglect, not their application, that is striking;

(b) actions should be determined on the basis of the ratio of actual population to carrying capacity in any given area, although action programs will have to be site-specific: people's interests, aspirations and readiness for collective action are not identical and the physical conditions, even in apparently homogeneous areas, are not uniform. Three types of relation are examined in Chapter IV: those where population does not exceed carrying capacity, those where it slightly exceeds it, and those where it greatly exceeds it. Promising actions can be envisaged in all three types of areas to avoid further deterioration in land productivity. There is not yet sufficient evidence, however, to suggest that any set of actions can do much to increase carrying capacity without a major technological breakthrough. The one exception is the Sudano-Guinean zone, where actual population is far short of carrying capacity and proven intensive production techniques are available. People are already moving into this zone from the more densely-populated parts of the SSZ heartland, where on-site solutions have been lacking and will be long in coming. A key element in anti-desertification strategy must therefore be further to encourage resettlement from the SSZ heartland into the Sudanian-Guinean zone, but by taking into account the difficulties encountered in this zone, notably human and animal diseases unknown in the heartland. The challenge is to find answers to the questions: (i) what sorts of readily enforceable land-use regulations should be put in place to promote sustainable settlement, and (ii) what further role, if any, can the public sector play in encouraging settlement?

(c) research should be focussed on more drought-resistant, high-yielding millet and sorghum and on more fast-growing, drought-resistant multipurpose tree/shrub/bush species. Research of a multi-disciplinary nature and training should focus on site-specific anti-desertification action programs. For this relatively new work, institutional changes are warranted and an agrosylvopastoral unit and a forestry unit with regional mandates should be set up in the SSZ;

(d) demand will have to be reduced, in general, by starting to reduce population growth rates; in the short term, demand for wood must be reduced by increasing permit fees. Although there is some, but not yet conclusive, scope for increasing the efficiency of fuelwood use, there is little scope for rapid substitution by other fuels, except perhaps kerosene and gas in urban areas;

(e) the policy environment can be improved, but not as much as often supposed. The main area for improvement is legal, where present land law does not sufficiently promote conservation. With the notable exception of wood permit fees, where substantial increases are warranted, the link between pricing policy and desertification is indirect; it works through the incentive to intensify production methods. Over the last decade, the trend in input and output prices has clearly been in favor of intensification. This trend will have to be sustained and the market displacement effects of food aid will have to be even further reduced.

6. The implications for action of the foregoing elements of a strategy are listed in Chapter V, for CILSS, governments, financiers in general, and the Bank Group in particular. The listings are succinct and not repeated here. One point deserves emphasis, however: desertification has not only demographic, social, technical and economic dimensions, it also has a political dimension. Since solutions will have to be sought principally by a participatory approach to better resource management, this will require the political will to: (a) delegate authority from central government to local decision-making bodies, and (b) change laws, regulations, policies and prices to increase the incentives for better resource management.

7. In conclusion, within the SSZ heartland, no significant change in carrying capacities is possible without a technological breakthrough. Locally, however, the desertification threat may be arrested by selecting appropriate anti-desertification actions and working with communities that are interested, and empowered, to use their land in a sustained-yield manner. Reducing the continued rapid growth of population is crucial, and current population pressures in the heartland need to be alleviated by further encouraging the existing spontaneous movement of people to the under-populated, high-potential Sudano-Guinean zone.

July 24, 1986

Dear Mr. President:

Thank you very much for your generous and thoughtful letter of July 7. As I begin my tenure at the World Bank and learn more about the major issues we must address, it is comforting to know that we can continue to rely on your strong support and collaboration.

I have heard from Mr. Ernest Stern of the increasing depth and strength of EC-Bank cooperation in our operations, especially in Africa; you can be sure I will do all I can to further strengthen and expand this relationship. Aid coordination in Sub-Saharan Africa is an area of particular importance.

I also welcome your suggestion that Bank-EC relations be broadened into other areas as well. The topics you suggest are important and deserving of close consultation between us. I am asking the Bank's Vice President for External Relations, Mr. Jose Botafogo G., to consult with other vice-presidents and then follow-up with your colleagues over the next few months. This should permit the arrangement of discussions between appropriate EC and Bank officials on these and other important topics of common interest.

I greatly appreciate your invitation to visit Brussels. I intend to take advantage of your kind offer, but my travel plans are still in flux. I will be back in touch with you when the opportunity to visit Brussels can be arranged. Similarly, please let me know when you will be able to visit the Bank for I would welcome the opportunity to see you here as well.

Once again, my thanks for your warm greetings and helpful suggestions. I look forward to meeting you in the not too distant future.

Sincerely,

(Signed) Barber B. Conable

Ref. letter #872
cc: Mr. Stern
AShakow:gc

Mr. Jacques Delors
President
Commission of the European Communities
200 Rue de la Loi
1049 Brussels
Belgium

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FORM NO. 89
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THE WORLD BANK

ROUTING SLIP	Date July 10, 1986

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. Botafogo	E823
Mr. Burki	
(not seen JBG)	

	To Handle		Note and File
	Appropriate Disposition		Prepare Reply
	Approval		Per Our Conversation
	Information		Recommendation

Remarks

Please prepare a response for
Mr. Conable's signature.

Due date: July 18, 1986

Bill Stanton

From

COMMISSION
OF THE
EUROPEAN COMMUNITIES

The President

200 RUE DE LA LOI
1049 BRUSSELS

TEL: (02) 235 11 11

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7 July 1986

Dear Mr. President,

On behalf of my fellow Commissioners and myself, I would like to offer you our best wishes for a successful presidency of the World Bank. You take over at a critical time. Economic recovery in industrial countries is levelling out. Many LDCs are plagued by overindebtedness and the poorest countries are experiencing unsuccessful development policies. Consolidation of progress made so far in dealing with growth and adjustment in developing countries will demand an increasingly central role for the bank. The tasks ahead will require your wisdom and vision and the innovative ability that the bank has shown in recent years as well as enhanced financial strength of your institution. Relations between the World Bank and the EC Commission go back more than two decades with exchanges of information, co-financing of operations and more recently consultations on our respective policy dialogues in countries of mutual interest. Our institutions have an especially strong relationship on sub-Saharan Africa where we are the two main providers of concessional assistance, and also in the Mediterranean region which is of prime political and strategic importance for the EC, and South Asia where the EC and the bank have some of the main recipients of their assistance.

My view, and my hope, is that we can further develop this relationship, over and above the natural link between two donor agencies, to reach areas where our institutions, because of their past and present involvement and because of their specific responsibilities, can be vehicles of innovation. I am thinking in particular of the long-term future of sub-Saharan Africa, the evolution of agricultural and food policies worldwide, trade issues where a new Round of MTNs is about to start, and adjustment and growth issues where the EC Commission can play an important role vis-à-vis EC Member States. I am convinced that both our institutions would greatly benefit from closer exchanges on these and other subjects.

./.

Mr. Barber B. CONABLE,
President,
The World Bank.

I trust that we can count on your cooperation to build up the relationship between the European Community and the World Bank and that we will have an early opportunity to discuss this. I would of course be delighted to welcome you in Brussels as soon as you have the opportunity, as would my colleagues Lorenzo NATALI and Claude CHEYSSON, who are the most directly involved with your institution.

Again our best wishes.

Yours sincerely,

Jacques DELORS