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Allocation of EU Aid towards ACP-Countries

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List of Acronyms

ACP	African, Caribbean and Pacific States
CCFF	Compensatory and Contingency Financing Facility
CDI	Centre for the Development of Industries
DAC	Development Assistance Committee
EU	European Union, here also used synonymously for the European Community
ECDPM	European Centre for Development Policy Management
EDF	European Development Fund
EIB	European Investment Bank
FDI	Foreign Direct Investment
FMO	Framework of Mutual Obligations
GDP	Gross Domestic Product
GNP	Gross National Product
GSP	Generalized System of Preferences
HDI	Human Development Index
IMF	International Monetary Fund
LLDC	Least Developed Country
NGO	Non-Governmental Organisation
NIP	National Indicative Programmes
OCT	Overseas Countries and Territories
ODI	Overseas Development Institute
OECD	Organization for Economic Development
p.c.	per capita
RIP	Regional Indicative Programmes
SADC	Southern African Development Community
SAF	Structural Adjustment Facility
SAP	Structural Adjustment Programmes
SME	Small and Medium Scale Enterprises
Stabex	Stabilisation of Export Earnings from Agricultural Commodity System
Sysmin	Special Financing Facility for the Mining Sector

UDEAC	Union douanière et économique de l'Afrique Centrale
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organisation

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Abstract

In the renegotiations of the Lomé Convention (1998-2000) not only trade issues but also the aid relationship were under review. A major challenge is induced by the EU's proposal of shifting the aid allocation from needs to merit criteria. Our regression analysis shows, however, that EU aid was not primarily allocated according to the needs and performance of the ACP countries in the past, but to other interests of the EU members. If transfers change now under the new agreement from being an entitlement to being subject to performance criteria, agreement on these criteria has to be reached. A fundamental reform of the Stabex system was also agreed on in the new Suva Convention and will change the allocation of EU aid further. It has proven impossible to support agricultural producers and encourage diversification with the same instrument. To reach the latter goal support for the private sector should be enhanced. Therefore it is also important to analyse further how the allocation and use of aid may increase productive investment.

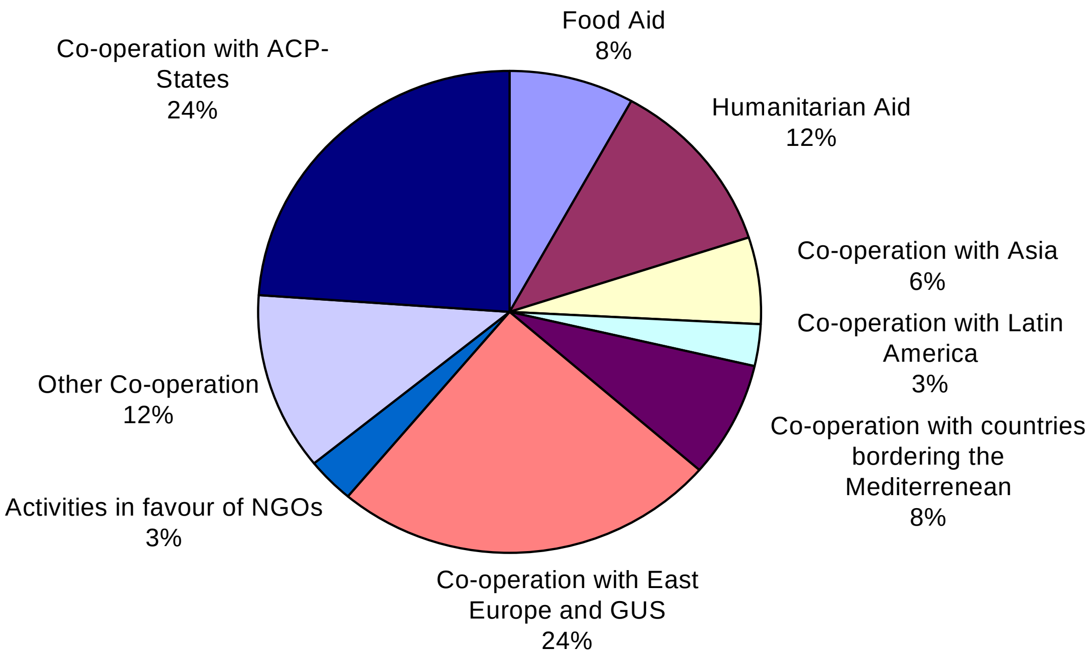
Zusammenfassung

Während der Neuverhandlung des Lomé Abkommens (1998-2000) wurde nicht nur die Ausgestaltung der Handelsregelung, sondern auch die finanzielle Zusammenarbeit überdacht. Der Vorschlag der EU, die Gelder nicht mehr nach dem Grad der Bedürftigkeit sondern nach der Performance zu verteilen, stellt auch für die Implementierung des neuen Suva Abkommens eine große Herausforderung dar. Unsere Regressionsanalyse zeigt jedoch, dass die Hilfen der EU bisher nicht vorrangig gemäß den Bedürfnissen und der Performance der AKP-Staaten verteilt wurden, sondern dass andere Interessen der EU-Mitglieder eine große Bedeutung hatten. Wenn nun die finanziellen Hilfen in Zukunft nicht mehr aufgrund von Ansprüchen sondern aufgrund entsprechender Leistung verteilt werden soll, muss zuerst eine Einigung über diese Leistungskriterien erfolgen. Eine grundlegende Reform des Stabexsystems wurde eingeleitet und wird die Verteilung der EU-Gelder darüber hinaus beeinflussen. Es hat sich als unmöglich herausgestellt, mit dem selbem Instrument sowohl die landwirtschaftlichen Produzenten wie auch die Diversifizierung der Wirtschaft unterstützen zu wollen. Um das zweite Ziel zu erreichen, sollte die Unterstützung des privaten Sektors verbessert werden. Dazu jedoch ist es wichtig, zu untersuchen welche Auswirkungen die Verteilung und Verwendung von Entwicklungshilfe auf produktive Investitionen hat.

1 Introduction

After intensive and highly controversial negotiations finally agreement on a new Convention between the EU and the partner countries in Africa, the Caribbean and the Pacific (ACP) was reached. The new title it will get because the signing ceremony will take place at Fiji should reflect a fresh start for the co-operation. It remains to be seen however, whether the announced overhaul of the aid relationship was successful and whether this relationship, that is often said to be the litmus test for the direction of European aid policy, will increase aid effectiveness.

Figure 1: The Division of EU Development Aid by Programmes, 1997



Source: European Commission: Gazette of the EC 12/2/1999

The European Commission has become the world's fifth largest donor of development aid - and therefore one of the most important - in the 1990's. Together with aid from its member states the EU provides more than 50 % of all aid going to ACP countries. The sources for EU Commission aid are the EU Budget for non-ACP countries, the European Development Fund (EDF) for ACP countries and the European Investment Bank (EIB). An additional but separate amount is provided to the ACP through the EU budget in form of Food and Humanitarian Aid. Figure 1 shows that the ACP countries are no longer the main beneficiaries as in the 70ies and 80ies, but receive only a share of 24 % plus parts of the aid to NGOs and Food and Humanitarian Aid.

As aid volumes to the ACP have increased over the past decade, the ACP programme has lost some of its importance in the overall EU programme (decline from 67 % of total allocable aid disbursements in 1986-90 to 42 % in 1991-95). However, the absolute amount of funds available for the ACP countries increased from Lomé I (3462 m ECU) to Lomé IV bis (14625 m ECU) (see Table 1). During these 25 years the number of ACP states also increased. This development is partly the result of changing policies and large commitments made to the central and eastern European countries. While in 1970-1974 13 of the top 15 aid recipients were ACP countries (all from Sub-Saharan Africa and all but one francophone), in 1994-1995 this had fallen to 7 (only 3 of those 7 highest ranking ACP states being francophone). A recent study (IDC, 1999) has also found that aid levels to the least developed countries (LLCD) have continuously decreased, which is somehow contradictionary to the statement that poverty reduction is the overall aim of EU aid as stated in the Maastricht Treaty.

Table 1: EU Aid - Lomé I - IV

ECU/Euro million

	Lomé I	**Lomé II**	**Lomé III**	**Lomé IV [a]**		**Suva**
	1975-80	**1980-85**	**1985-90**	**1990-95**	**1995-2000**	**2000-2007**
EDF [b]	3072	4724	7400	10800	12967	13500
of which						
Grants	*2150*	*2999*	*4860*	*7995*	*9592*	
Special loans	*446*	*525*	*600*	-	-	
Risk capital	*99*	*284*	*600*	*825*	*1000*	
Stabex	*377*	*634*	*925*	*1500*	*1800*	
Sysmin	-	*282*	*415*	*480*	*575*	
EIB loan resources	390	685	1100	1200	1658	1700
Total [c]	**3462**	**5409**	**8500**	**12000**	**14625**	**15200**

a) The Lomé IV Convention runs 10 years (1990-2000) but the Financial Protocols to the Lomé IV Convention run for two 5-year periods (1990-1995 and 1995-2000). The Suva Convention will run for 20 years and the9th EDF for 7 years. It will be supplemented by the outstanding balances of previous funds.

b) The numbering of EDFs causes confusion. EDFs 1-3 related to the Yaoundé Conventions, EDF 4 to Lomé I, EDF 5 to Lomé II, EDF 6 to Lomé III and EDFs7 and 8 to Lomé IV.

c) Excluding OCT (200 ECU million, of which 165 ECU million through EDF and 35 ECU million through EIB).

Source: EU.

When it was established in 1975 the Lomé-Convention was regarded as a model for North-South relations, mainly because of its contractual nature, where the developing countries in Africa the Caribbean and the Pacific (ACP) entered into negotiations about the design of the co-operation. Among the Lomé treaties‘ three pillars trade co-operation, financial aid, and political dialogue, this paper is going to focus on the determinants for the allocation and management of financial aid, in particular on the allocation of funds under the provisions set forth by the Stabex system. The overall framework of the Lomé treaties is not questioned as in the negotiations of a new co-operation agreement that are going on at the time of writing there is agreement that the partnership “will focus on reducing poverty in a way consistent with the ACP countries’ sustainable development and gradual integration into the world economy” (European Commission, 1999). As the Suva Convention will run for a period of 20 years it has to be assessed whether it provides a solid basis for a future co-operation between EU and ACP countries and how it can be implemented best.

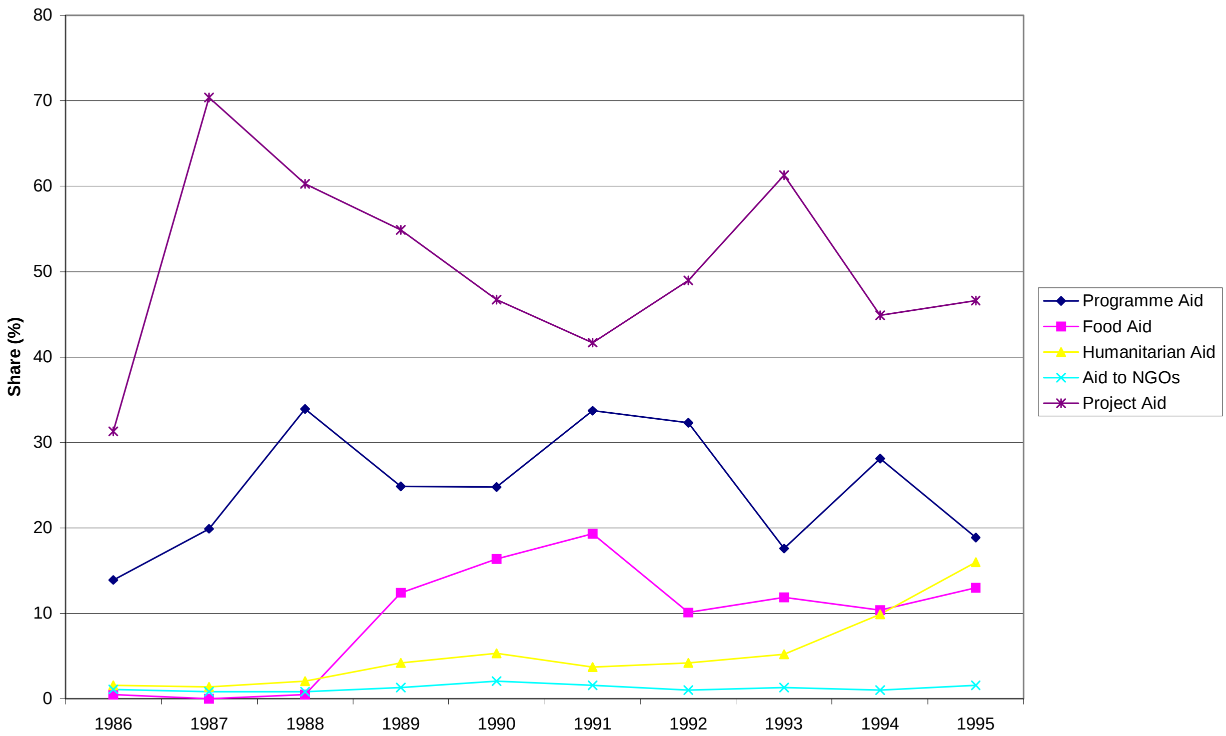
Since 1975 up to the eighth European Development Fund (until 2000) almost 30 billion ECUs have been committed under the Lomé I-IV Conventions to the ACP countries. Despite this investment, 39 of the 71 ACP countries still belong to the group of least developed countries. Therefore one could conclude that the EU has failed to reach its aim of poverty reduction as has been stated in various documents. The challenge for both the EU and the ACP states to use aid more effectively is even higher as the overall amount of EU and other aid is likely to decline at least in real terms because of aid fatigue and new priorities in Eastern Europe. To meet this challenge it is not only crucial to rethink the criteria for aid allocation but also to adopt an integrated approach where the various programmes and projects of development policy are complementary and interlinked and cross-cutting issues such as gender, the environment, institutional development and capacity building are taken serious.

The sectoral allocation of EU aid differs considerably from year to year and no trend can be observed in recent years (see Figure 2). It can be roughly divided into five categories (Cox et al., 1997):

- Programme Aid (support for structural adjustment, Stabex, Sysmin)
- Food Aid (developmental)
- Humanitarian Aid
- Aid to Non-Governmental Organisations (NGO)
- Project Aid

In the preamble of the Lomé IV bis Convention the aims are defined as follows (European Commission, 1996a): The co-operation between the EU and the ACP states seeks to “reinforce, on the basis of complete equality between partners and in their mutual interest, close and continuing co-operation in a spirit of international solidarity“. A special attention is paid to the adherence and recognition of human rights, democratic principles, the rule of law and good governance (Article 5). The ultimate goal is to “make a contribution to the economic, social, and cultural development of the ACP states and to the greater well being of their populations“ in order to “integrate them into the world economy“ (Article 6) and “establish a new, more just and more balanced world order“. These objectives of the EU-ACP co-operation are looked at in Section 2.1.

Figure 2: Sectoral Allocation of EU Aid to the ACP 1986-95



Source: Cox et al. (1997).

As poverty reduction is the principle objective of EU development aid in previous Lomé Conventions as well as in the Maastricht Treaty, one would assume that poor countries received relatively more aid than richer ones in the past. It can easily be seen that EU aid is distributed very unequally to the different ACP countries. The per capita EU aid ranges from around 10 ECU for the 1990 - 1997 period for Angola, Ethiopia, Kenya, the Dominican Republic and Tanzania to 77 ECU in Mauritania and even more for some islands (Table A3).

However it is not very clear according to what criteria aid is given to the ACP countries. In our empirical analysis in Section 2.2 we first look at the determinants of the current allocation of EU aid, by comparing aid to variables such as gross domestic product (GDP), the human development index (HDI), civil liberties, openness or size of the country. In their analysis of bilateral aid flows Alesina and Dollar (1998) have found these indicators to have an influence on aid allocation across countries. Therefore we want to compare the EU aid with their findings to analyse to what extent it is responding to needs and merits.

As Stabex with 14 % of all payments is of great importance for many of the ACP countries, the reform in this area was especially sensible. Stabex had been set up to provide protection to ACP economies against quantity and price instabilities leading to losses in export earnings. The scheme has covered a set of specific products, on which the beneficiary ACP countries depend. Because of its design, the benefits of Stabex have been distributed very unequally across ACP countries. Furthermore, especially Stabex has sent counterproductive signals to the markets and thus contributed to a negative dynamic impact to the production pattern.

The analysis of the failures and perspectives of Stabex in Section 2.3 includes the question to what extent the uneven distribution of Stabex funds has influenced the overall allocation of EU aid. In recognition of the reasons for its failure in the past the different options for a Stabex reform will be included in our analysis. As the two aims of Stabex - stabilisation of export earnings from primary commodities and diversification - cannot be reached with one aim, alternative instruments to foster diversification are also discussed. The analysis shows that the various problems of the Lomé Conventions cannot be solved in isolation. Therefore the plea to enhance coherence and to concentrate aid towards countries and sectors where it can make a difference remains urgent. The changes that are necessary and partly stated in the Suva Convention are analysed in Chapter 3.

So far the decision on the allocation of aid by country has been made solely by the EU. Although the EU has introduced some conditionality with respect to human rights, democracy and economic reforms, the distribution is still related to long term relationship with EU countries. Also, during the entire life span of the Lomé Convention, the payments were suspended for only some countries like Nigeria. Under the new Convention aid will be allocated according to needs and performance. Aid will no longer be an entitlement but should be higher for countries with good performance. The conclusions we draw in Section 3.1 include proposals for an increase in aid effectiveness through reallocation and improved administration in line with the recommendations made in the World Bank (1998a) publication on Assessing Aid "that aid be allocated on the basis of poverty and economic management". In Section 3.2 we look into the options for a Stabex reform.

Despite the fact that it is likely that two more countries - Cuba and East Timor - will join the ACP group the financial allocation of the 9th EDF (2000-2007) will only be 13.5 billion Euro. That means that in real terms the aid volume will be 3 % less than the 8th EDF. To make a difference it is therefore not sufficient to reallocate aid with respect to countries but also to improve the management and the sectoral allocation of funds. In Section 3.3 we will look at the current problems and room for improvement in detail. This analysis will include capacity on the EU as well as on the ACP side and explore the comparative advantages of EU aid.

To improve aid effectiveness the degree of complementarity and concurrence between the different aims of development co-operation have to be taken into account. The highest priority in the text of the Lomé Convention is given to poverty reduction. However, it is not easy to identify and measure pro-poor aid because of the competition between direct and indirect impacts of programmes and projects. Direct instruments for poverty reduction are geared towards support for basic health programmes, providing food security and social security systems with investment in human resources. Programmes that aim at improving growth through investment could also be beneficial to the poor, but they can also increase inequality. Because aid is not sufficient to significantly reduce poverty the other instruments of co-operation should also contribute to this aim. To overcome these problems not only the allocation of aid matters but a coherent set of aims has to be defined and priorities among these aims have to be shared by all participants in the process of aid allocation.

Furthermore aid will be given only for the use under three financial envelopes: The first long-term financial envelope includes macroeconomic and structural adjustment support, sectoral development programmes, decentralised co-operation, debt relief, humanitarian aid and refugee aid, budget support and traditional project aid and will amount to 10 billion Euro. Assistance in cases of fluctuations in export earnings is also foreseen but Stabex and Sysmin as separate instruments will be phased out, as the shortcomings of these two instruments under Lomé are widely acknowledged (see Collier et al., 1999; Kappel, 1997a; Köhler-Raue, 1999). For the second regional envelope 1.3 billion Euro will be provided. The third envelope includes an investment facility aimed at enterprise development and will amount to 2.2 billion Euro. On top of this comes 1.7 billion Euro in EIB loans (European Commission, 2000). With respect to the sectoral allocation the underlying tone has been to shift to more private initiative, involvement of the private sector, and creating a favourable environment for investment, in order to mobilise domestic investment resources and attract foreign direct investment (FDI). Section 3.4 gives some ideas how to make diversification work.

2 Analysis of the Current EU-ACP Financial Co-operation

There is wide agreement that EU aid towards ACP countries could be spent more effectively. In its Green Paper the European Commission (1996b) already announced that significant chances in the allocation of aid will be undertaken. The ACP mandate talks about "positive differentiation" in this respect that should meet the needs of the least developed as well as landlocked and island countries (ACP Group, 1998, paragraph 27). Although EU aid towards ACP countries which amounts to an annual average of ca. 3 ECU per capita cannot be expected to bring about fundamental changes for the lives of people it should improve living conditions and economic growth. EU programmes have not had much effect overall as far as poverty reduction is concerned (Montes and Migliorisi, 1998, p. 13). That can be attributed among other reasons to the failure to link interventions with policy reform, insufficient assessment of projects and lacking local participation.

However, not all EDF funds have been allocated towards the ACP countries according to country characteristics. Programme Aid which consisted of the three instruments Stabex, Sysmin, and Structural Adjustment Assistance, is not allocated to the particular countries in advance but is allocated according to external factors such as the fluctuation of export earnings by some automatism (see Section 2.3). Therefore, the funds are not fixed or defined for individual countries. These instruments will be discussed in the next section separately. It is mainly Project Aid that is spent through the National and Regional Indicative Programmes (NIP, RIP), which is determined beforehand. Until Lomé IV each country was allocated a certain fixed amount of funds for a five year period. Reviews of the country's performance take place regularly in order to assess if a suspension of payments is necessary in the case of non-compliance to the Framework of Mutual Obligations (FMO).

2.1 Objectives of EU Aid

For the future co-operation consensus can be observed when it comes to the areas and priorities for co-operation: Objectives are poverty eradication, economic development (e.g. support for the private sector, infrastructure, competitiveness, technological innovation, employment), regional co-operation and integration, social development, human and institutional capacity building, reform and modernisation of the state, sustainable development and natural resource management, etc. (ECDPM, 1998). Both mandates "recognise the need for differentiation between ACP countries" (e.g. special treatment of least-developed countries and vulnerable landlocked and island countries). Agreement prevails in the aim to do away with lengthy procedures and administrative bottlenecks by decentralisation of responsibilities to the field and the provision of more decision making powers to local decision makers and the EU delegates (simplification and rationalisation of instruments).

There were, however, fundamental differences in the perception of the aims and underlying principles of development aid. A principle pushed for by the ACP is local ownership of reforms. However, no consequences of the absence of reforms are drawn by the ACP countries. They commit themselves to reforms, but not as a contractual obligation. For the ACP group, development is the primary objective, while the EU seeks an explicit linkage between development and broader political and economic agendas (peace, stability, respect for human rights, democratic principles, the rule of law, and sound and sustainable economic policies). In the new co-operation agreement good governance will be defined as transparent and accountable management of resources and not in the broad sense it is often discussed. Furthermore it will not be an 'essential element' but a 'fundamental principle' which means that it will not lead to the suspension of the Convention. However, in the case of large-scale corruption sanctions are foreseen after consultation.

An important question in this respect is how local ownership can be improved as this has turned out to be crucial for aid effectiveness (see Dollar and Easterly, 1998; Harvey, 1999). The impact of EU aid is determined by the capacity and commitment of ACP institutions. There are cases where the weakness of civil services leads to the acceptance of reform policies by the ACP government that were not feasible and for which no political will existed to fulfil the conditions (Montes and Migliorisi, 1998, pp. 24). The guaranteed flow of funds has discouraged ownership and reduced own efforts by ACP states. Financial co-operation has failed its purpose in mobilising local resources and has instead strengthened a consumption mentality. This has led to aid dependency, and in some countries external aid makes up most of the government budget or even total GDP.

On the EU side there is an obvious desire to reward development performance. Thus it intends to calculate future (5-year) allocations in the light of the countries estimated needs (i.e. size, population, income, structural and geographical vulnerability and whether the country is an LLDC) and an objective and transparent estimate of performance. The EU favours a rolling system of programming (informing individual ACP states on the initial amount they can expect to receive) for allocating resources to countries according to both need and performance, with a regular (two year) evaluation and review of each country’s progress. The EU wants a future partnership to be based on “dialogue, contract rather than conditionality and the fulfilment of mutual obligations“ (European Council, 1998), but still it is not very explicit about its own commitments.

The ACP point out that a true partnership cannot be characterised by conditionalities and political dictation and insist on a more explicit allocation of responsibilities within this partnership. They stress that no unilateral withdrawal of development assistance will be accepted. The ACP would prefer jointly measurable standards (reviews should be based not only on criteria that are transparent, but also quantifiable), that would make aid flows more predictable. The ACP mandate emphasises that new forms of “dialogue between public and private sectors at national level“ and “more direct and easier access to financial resources“, which would lead to the promotion of private enterprise development, are needed, but it is unclear on a practical implementation to make this a reality (ECDPM, 1998).

In the negotiations a compromise has been found with respect to the programming process that hinges on four elements and follows mainly the Commission's proposal (European Commission, 1999):

- “the initial resource allocation to each ACP countries will be indicative and not, as at present, constitute a definite entitlement,
- the indicative amount will be based on a joint assessment of needs and performance using agreed criteria,
- the indicative programme for each ACP State will be subject to review every two years: this review will be carried out jointly and include a fresh evaluation of needs and performance,
- following the two-yearly review, the Community will be in a position to adjust the indicative allocation, thus making sure that the level of resources is regularly adjusted to developments in the country concerned.”

The tension between the desire of the EU to give aid where it is used most efficiently and the wish of the ACP states for predictable aid flows and sovereignty will remain relevant.

2.2 Blurred Criteria for the Current Allocation

To analyse the effects of new rules (for aid distribution) on the allocation of aid the current distribution has to be looked at first. Most of the aid commitments to ACP countries between 1986 and 1995 went to sub-Saharan Africa (78 %), while the Caribbean and the Pacific regions received 6 % and 4 % of all aid respectively.[1] However aid per capita was generally higher towards the small countries in the Caribbean and the Pacific (see Table A3). This means that the current distribution of EU aid is very unequal across ACP countries. From 1968 to 1995 the top 15 recipients got almost half of all aid towards ACP countries (Cox et al., 1997). For many of the ACP countries EU Aid is the most important source of total aid they receive, e.g. Dominica, Mauritania, and Lesotho. On average EU aid provided by the Commission accounts for more than 10 % of total aid (see Table A7 in the Appendix).

[1] The remaining 12 % of EU aid represented regional assistance or were unallocable by country or sub-region (see Cox and Koning, 1997).

There is wide consensus that for the EU as for bilateral donors in general own interests have had a relatively high importance for aid allocation (see for example Alesina and Dollar, 1998; Musonda, 1999; Riddell, 1992). While in the beginnings of the co-operation former French colonies clearly profited more than others, this has now changed in favour of the other countries. This can be interpreted as diminishing influence of national strategic priorities on EU development aid. But there still exists a double-standard concerning the relationship of good governance and development aid. Notably countries with economic importance are likely to be less affected by standards set by the EC, than small relatively unimportant countries, where these criteria are more often enforced. Aid to Nigeria has only recently been suspended after the execution of Ken Saro-Wiwa and other opposition politicians. Given the fact that various studies (see for example Dollar and Easterly, 1998; Burnside and Dollar, 1997) have found a link between good governance and effective development aid, a more consequent stance must be taken.

More specifically in a good policy environment aid will lead to enhanced growth through various channels. One of them is that in a good policy environment aid crowds in a higher amount of private investment (Dollar and Easterly 1998). Specifically the policies that matter for aid effectiveness are not only macroeconomic and public sector management such as fiscal policy, sustainability of structural reforms and accountability of the public service but also distributional policies and the provision of safety nets (Collier and Dollar, 1998). Another crucial determinant of aid effectiveness is the ownership of reforms, which is closely linked to the fact that a government is elected and how long it has been in power. Dollar and Svenson (1998) investigated these relationships with a large sample of World Bank adjustment loans. They came to the conclusion that successful reform is mostly dependent on institutional-political characteristics of recipient countries and not on variables that are under the control of the donor, such as size of the loan, number of conditions or preparation of the program. However aid effectiveness does not only depend on country characteristics but also on the external environment. Important factors are the terms of trade trend, export instability and climatic shocks. Guillaumont and Chauvet (1998) draw the conclusion that "the worse environment, the higher aid needs and the higher productivity of aid". This argumentation (together with the tautological insight that poverty reduction only can work where poverty is prevalent) leads to the conclusion that aid should be allocated according to needs and performance.

A further important conclusion is that this relationship works in the direction good policies increase aid effectiveness. But conditionality that tries to influence policies through the amount of aid given is likely to fail (Collier et al.; 1997). Lacking capacity of the administration in recipient countries has adversely affected effectiveness of aid. Collier at al. (1997) show that if the intention of introducing criteria for aid allocation is not to induce policy changes but rather to “concentrate aid in good policy environments” and therefore introduce some selectivity. Begley also takes the point of view that aid should not be given merely on a need basis. Giving aid to countries solely according to their per capita income, or rather their lack thereof, establishes a perverse incentive system. If “aid is given to the poor directly it bails out offending governments by negating the cost of their ill-conceived policies“ (Begley, 1996). On the other hand one could argue that the more advantaged ACP countries already benefit to a higher extent from trade preferences under the Lomé Convention and that aid allocation should take this into account (Wolf, 1999).

In the following analysis we will show to what extent the current allocation of EU aid is made according to needs or performance of ACP states. We use data provided by the European Commission for aid flows under the EDF towards all ACP countries. We have aggregated them over two four year periods as fluctuations over the years are significant. These flows are then related to various possible indicators for needs and performance in the beginning of a period. In our analysis we found that EU aid p.c. towards ACP countries is not correlated with GDP p.c. to a significant extent and it is positively correlated to the Human Development Index (HDI), which is a combined index of income, health and education indicators (see Table 2). That means that currently aid is not given according to needs. Partly this result is driven by the fact that small islands (that often have a higher HDI rank) receive relatively big amounts of aid because there is a minimum amount needed to have a reasonable relation between aid and administrative costs for the EU. In fact there is a negative correlation between the total population of an ACP country and the EU aid p.c. it receives (see Table 2). This confirms the findings of Alesina and Dollar (1998), who found the same relationship for bilateral aid flows.

Table 2: Correlations between Aid and Determining Variables, 1994-1997

	Population	GDP p.c.	HDI	Civil Liberties	Openness
EU Aid p.c.	-0.193 0.109 1) *70 2)*	0.126 0.346 *58*	0.293* 0.019 *64*	-0.364** 0.002 *70*	0.303 0.051 *42*
Population		-0.349** 0.007 *58*	-0.337** 0.007 *64*	0.262* 0.029 *70*	-0.220 0.161 *42*
GDP p.c.			0.831** 0.000 *57*	-0.604** 0.000 *58*	0.319* 0.48 *39*
HDI				-0.715** 0.000 *64*	0.337* 0.33 *40*
Civil Liberties					-0.408** 0.007 *42*

Notes: * denotes significance at the 0.05 level, ** at the 0.01 level.
1) level of significance, 2) number of observations

Source: Table A3 and A7, own calculations.

As indicators of performance we look at civil liberties data from Freedom House.[2] As human rights was the first principle that was introduced as a political aspect of the Convention whereas democratic principles, the rule of law and good governance were only introduced in 1995 this seems to be an appropriate measure. The significant negative correlation between civil rights and EU aid p.c. means that freer countries receive relatively more aid. However the effect of a bigger population is much stronger as shown in Figure 3.

Between EU aid p.c. and trade openness measured by the Sachs-Warner index[3] no significant correlation exists. In this respect our results differ from Alesina and Dollar (1998) who found a positive relation between bilateral aid and this broad definition of openness in their regression analysis. However, it has to be considered that only for 42 out of the 70 ACP countries data for openness exist, so the results might be biased.

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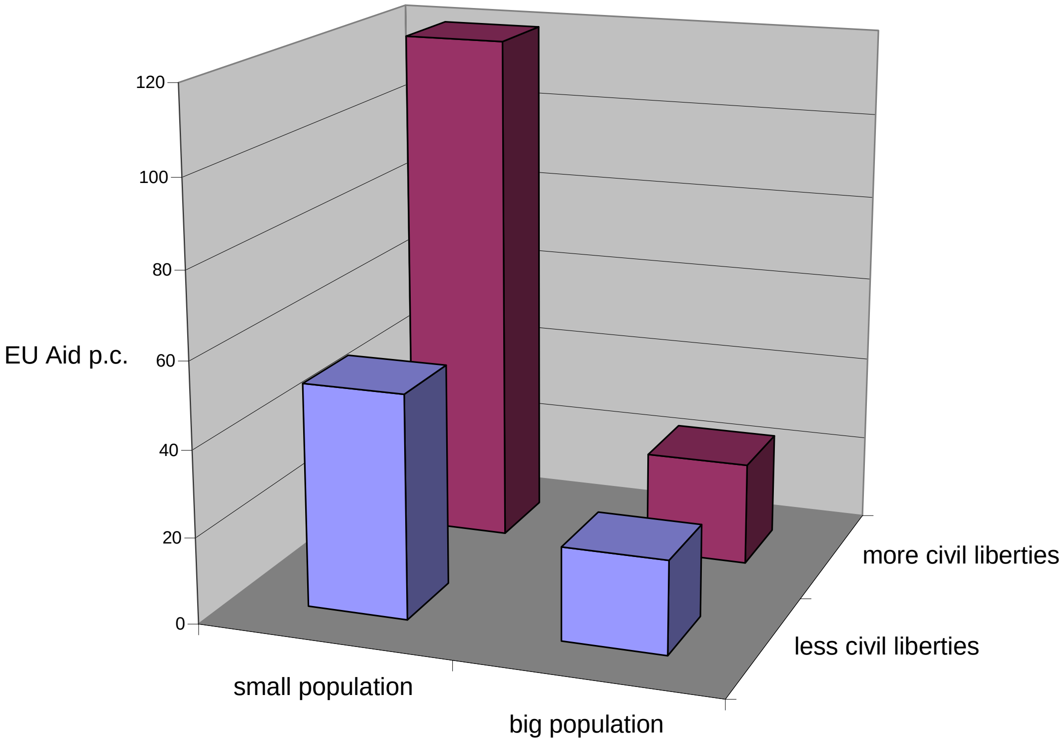
2 1 represents the most free and 7 the least free category.

3 Sachs and Warner (1995) classify a country as open or closed on the basis of data on the black market exchange rate premium, an export marketing index, classification as socialist, coverage of quotas and average tariffs on imports.

Figure 3: EU Aid, population and civil liberties



Source: own calculations.

To look into these relations in more detail we conducted several cross-country regressions on EU aid flows, summarised in Table 3 (the detailed results can be found in Tables A1 and A2). The dependent variable is the log of EU aid p.c. Population enters both linearly and quadratically. Further independent variables are GDP p.c., the Human Development Index, civil liberties and trade openness as described above. The HDI and trade openness are not significant in either of the analysed periods. For the period 1990 to 1993 the most appropriate specification is to choose total population - linear and quadratically, GDP p.c. and civil liberties as independent variables, which are then all significant.[4] With an R-squared of 0.436 the explanatory power of the curve is reasonably high. The values of the coefficients can be interpreted that not only small countries but also large countries receive relatively high aid flows, whereas middle size countries are disadvantaged.[5] The negative coefficient for GDP p.c. implies that richer countries receive less aid. However, the value of the coefficient is very low, so it can be concluded that differences in GDP p.c. don't play a major role in the EU's aid allocation.[6] In contrast the index of civil liberties enters the equation with a relatively high coefficient of -0.32 which means that more liberal countries receive already more aid.

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[4] If one runs the regressions using data for single years no significant relationship can be identified. This is because of high fluctuations of EU aid flows, that are mainly caused by the Commission's bureaucracy (see Section 3.3).

[5] This is because the parameters for linear population and population squared have the opposite sign.

[6] The change in sign from the regression with all parameters to the best specification is due to the fact that more countries are included in the second regression.

Table 3: Regression of ln EU Aid p.c.

Independent Variable	Period 1990-93	Period 1994-97
Constant	4.525 *	4.035 *
Total Population	-0.058	-0.060 *
Total Population (square)	0.0003	0.0003 *
GDP p.c.	-0.00009	0.00005
HDI	-1.044	-1.165
Civil Liberties	-0.252	-0.144
Openness	0.039	0.079

Note: * denotes significance at the 0.05 level.
Source: Tables A1 and A2.

For the period 1994 to 1997 also no major changes can be observed. The main difference is that GDP p.c. is no longer included in the best specification and therefore poverty seems to be even less important for the allocation of EU aid. The explanatory power of the regression is slightly better, but the coefficients are in the same range as in the previous period. In Figure A1 the residuals of this regression are plotted. The outliers on both ends are again mainly small countries, but they don't seem to bias the results too much. How the results are affected if one subtracts the Stabex transfers from total EU aid is reported in the next section.

Instead of the above analysed criteria EU aid could be allocated also complementary to the aid of member states. As aid provided through the Commission and the EU member states together account for more than 50 % of aid on average for all ACP countries (see Table A7) this would be a reasonable approach. There is some evidence that aid by member states is also not allocated according to needs but to historical relationship and geopolitical interests (World Bank, 1998a). Rao developed an equity index of aid giving to rank donors according to the fraction of aid a donor gives to poorer countries (Rao, 1997). His calculations show that only four out of the ten countries that allocate aid equally[7] are EU members and none of the three best performers. If the EU would allocate its resources to compensate for this imbalance no significant relationship between the needs of a country and the aid allocation might be observable.

[7] In his equity index Rao combines horizontal equity (countries with equal GNP p.c. should receive equal amounts of aid p.c.), vertical equity (a shift of aid from a richer to a poorer country should increase the value of the index) and neutrality (the value of the index should be independent of the amount of total aid a donor gives).

However, no such complementary relationship between EU aid provided by the Commission towards a country and total aid by the whole donor community or total aid by EU members can be observed either. There is even a positive relationship between EU aid through the Commission and by member states so that imbalances are increased (see Table A7). Therefore it cannot be said that EU aid is to a lesser extent allocated according to own interests of the member states.

2.3 Problems of Stabex

One of the most contested and controversial provisions of the Lomé Convention, which has been revised fundamentally in the new Suva agreement, is the stabilisation of export earnings scheme Stabex. It was introduced in Lomé I to compensate ACP countries for a shortfall in export earnings for special agricultural commodities. Today it covers 50 commodities including forestry and fishery (see Table A4 in the Appendix). These transfers amount to a significant share of total EU aid for the main beneficiaries. A similar compensatory scheme for minerals is Sysmin, however with less resources. Both have the aim to achieve economic and social progress by safeguarding purchasing power in the countries affected by losses. In the beginning transfers were made in form of loans but meanwhile they are on a grant basis. Under the 8th EDF of the Lomé IV Convention Stabex and Sysmin facilities made up one sixth of total financial resources allocated to ACP countries (see Table 1) and has therefore been one of the major Lomé instruments. The Stabex scheme is characterised by a product to product approach and, as a general rule, transfers are calculated on the basis of losses accrued on exports to the EU only. ACP countries which find themselves in a position which obliges them to sell nearly all of their exports to non-Community countries are granted an all destinations guarantee, if they export 70 % (60 % in the case of the LLCD's) of the total value of products covered by the system to countries outside the Community.

Transfers are made in the form of grants from a fixed allocation in each EDF to ACP governments and they are bound to a framework of mutual obligations. As a result the freedom of utilisation of these funds has become limited for the ACP countries. Available funding consists of any balance remaining from the previous year plus the annual instalment, which is one fifth of the total allocated for a five-year period plus, where necessary, the advance use of up to 25 % of the following year's instalment and interest earned by investment in the financial market of the annual instalment. The system covers only products which account for a significant proportion of a country's export earnings one year before the application year. This dependence threshold is set at 5 % (1 % for the least-developed, landlocked and island states) under Lomé IV (Article 196). The amounts of the transfers are calculated from a reference level derived from average export earnings over four out of the six preceding years excluding extreme years. Transfers will be made if actual export earnings in a given year are lower than the reference level to compensate for that loss, reduced by an amount corresponding to 4.5 % (1 % for LLDC) of the reference level (Article 197).

Stabex has been the most important instrument in programme aid, and the single most important instrument in the past, although a trend of increasing structural adjustment can be observed. Tropical beverages (coffee and cocoa) and cotton exports account for 88 % of the transfers between 1990 and 1993 (Cox et al., 1997),which is even more than the average for the whole period of 1975-1996 where their share was 65 % (see Table A4 in the Appendix). Sub-Saharan Africa is the main recipient of Stabex transfers,[8] while little of the Stabex funds went to the Caribbean in the past, except for 1991, 1994 and 1995 (and continued in 1996/97) due to the banana crisis where they accounted for 14 %, 12 % and 24 % of aid to the Caribbean respectively. Most of these transfers then went to Haiti.

Why Was Stabex Introduced?

There is a general consensus to maintain a mechanism compensating for fluctuations in earnings from basic exports. Still around 50 % of ACP total export earnings come from agricultural commodities and many local and national economies in ACP countries are even more dependent on exports of traditional agricultural commodities. Any dependency due to mono-structured agricultural exports leaves the countries concerned very vulnerable to a number of factors (e.g. price shifts, decline of demand due to low income elasticities and technical progress, terms of trade risks, and economic crises and adverse weather conditions) and greatly affects economic performance. The specific characteristics of commodity markets intensify the problem: Agricultural commodity markets work imperfectly, partly because of discriminate policies in many African countries and subsidies by industrial countries, and they are characterised by large supply disturbances, structural oversupply, notoriously volatile prices and strong competition because of homogeneity (Koehler, 1997). As a result, commodity dependent economies are often characterised by boom-bust cycles.

In particular, fluctuations in export earnings due to commodity price volatility are a major source of instability and uncertainty for commodity producers. Volatility can adversely affect income distribution and raise poverty rates. There are various disruptive effects triggered by fluctuations in export earnings (European Commission, 1997b): They cause problems in the investment planning process, the erosion of their incomes can prevent producers from producing export commodities, leading to national export earnings falling even further; the balance of payment suffers (possibility of increasing external as well as internal), and they result in negative effects on the productivity of capital (misallocation of resources, impact on the rate of domestic savings, disturbance of the internal balance of public finances) (Koehler, 1997). One has to bear in mind that quantities of products exported fluctuate as well as prices and contribute to the overall problem. The reason why compensation is provided for by product irrespectible of the development of other products is that in ACP countries agricultural producers are usually poor households that have no access to risk insurance against bad weather conditions or price falls and

8 The main recipients of Stabex are: Côte d'Ivoire, Cameroon, Ethiopia, Papua New Guinea, Sudan, Kenya, Uganda and Senegal.

therefore have to cut down their consumption and investment expenditures in case of declining world market prices. These phenomena therefore affect their standards of living dramatically.

However the Stabex funds are not given directly to affected farmers but to the governments. The aim of these mechanisms is to contribute significantly to the establishment of a sounder economic base in the beneficiary countries and to contribute to the economic and social progress of the populations of those countries by helping them to safeguard their purchasing power. As both the producers and the state via export and other taxes is negatively affected by a fall in export earnings it is reasonable that both are compensated. So far funds are allocated through the government either to the sector where the loss occurred or to diversification, e.g. the processing of raw materials. The flexibility of the system allows for various uses such as measures to improve the competitiveness of agricultural sectors but also general macroeconomic reforms, improving rural infrastructure, projects in the field of telecommunications and electricity supply and even food and refugee aid (see Table A5 in the Appendix). This reflects also the fundamental changes in the Lomé IV Convention as in the first five year period of Lomé IV the Stabex funds were used for import programmes, support for structural adjustment programs (SAP), infrastructural programmes, marketing activities, support for marketing boards and price stabilisation, and support for diversification activities (Köhler-Raue, 1999, pp. 20).

Criticism of Stabex

With regard to developmental impact concerns the record of the Stabex scheme appears weak since it has major limitations:

1. *Slowness of disbursement*: Although Stabex was intended as a quick-disbursing instrument, the Framework of Mutual Obligations (FMO) and its attached conditions required a considerable planning effort and have increased negotiating time. Considerable delays in transfers caused by cross-checking of statistics and lengthy negotiations, long drafting and implementation periods, complex mechanisms and procedures of transferring funds are among the main reasons for criticism. In addition, a slow acceptance of the FMO, the suspension of payments in case of non-adherence to suspension clauses, and slowness of some countries to open foreign currency accounts have contributed to the problem. There is evidence that the time between signing the transfer agreement and disbursement has steadily increased. Between the calculation of losses and the disbursement more than two years can be needed in extreme cases (Köhler-Raue, 1999, pp. 20, 23).

2. *Little effects with regard to the stabilisation goal*: Due to its product-by-product approach and delays in disbursement Stabex becomes an imperfect counter-cyclical instrument, therefore limiting its effectiveness. Studies suggest that stabilisation effects were in no cases larger than 10 %, and in some cases they even had a destabilising effect, due to long

and increasing time lags between decrease in export earnings and disbursement (Herrmann et al., 1993). Furthermore, the number of products included in the scheme is limited and processed agricultural goods (in particular those that fall under the EU's common agricultural policy) are not included.

3. *Lack of funds:* Extreme falls in prices cannot be compensated, because of limited funding (inadequacy of funds allocated for the Stabex scheme), and a long term decline of commodity prices is not compensated for. The lack of funds, especially in the 1980‘s has been one of the main reasons for criticism in the past, although this trend has recently been stopped. Since 1995, for three years in a row, eligible Stabex claims could be covered in their entirety from the resources available for the respective years, something that had never happened since the entry into force of the fourth Lomé Convention. However it should be noted that this was mostly the result of high commodity prices during this time, and might not last long.

4. *Obstruction of diversification and reforms*: Stabex impedes a long-term securing of export earnings, e.g. by diversification of exports or formation of local markets. The fixing of dependency thresholds however, results in reluctance to engage in necessary diversification efforts. It discriminates against activities that are not supported by Stabex, e.g. processing of raw materials, with the result, that the benefiting countries concentrate even further on the production of Stabex-goods instead of trying to reorganise their economic structure to other sectors. Kappel (1997a) frequently criticised that this leads to a further manifestation of monocultural structures and a distortion of the allocation of resources in favour of an incoherent economic structure. He concludes that Stabex has in fact contributed to a commodity dependent export structure.

5. *Distorting incentives*: As the calculation of Stabex payments in principle only takes into account the exports of a certain good towards the EU trade with the other regions is distorted.[9] To use Stabex as an insurance against falls in export earnings these exports have to be concentrated to the EU, to make sure the basis for the calculation of losses is high. On the other hand if no fall in the world market price is expected in the near future there is an incentive to redirect exports to other countries. If this trade is not reported (e.g. informal trade to neighbouring countries) a country could benefit from Stabex payments although no loss occurred.

6. *Utilisation of funds*: A lack of institutional capacity by the EU to monitor the implementation of Stabex utilisation, and the fact that utilisation of funds is in the hands of government bureaucracy, have resulted in the undesired effect that the producers of commodities often are not the beneficiaries of the transfers. Although the use is agreed in the FMO because of the fungibility of aid the resources could be spent by the government

[9] There are some excemptions for this rule but they are subject to tight restrictions and complicated procedures (Article 189).

for other purposes. As this usually raises the demand for domestically produced goods such as construction or transport it will lead to an increase in prices relative to the export goods. Therefore the farmers can be worse of as they also have to pay more for their demand, especially when they receive only a little fraction of the compensation funds (Collier et al.; 1999). By stabilising the foreign exchange situations of ACP countries Stabex, however, had an indirect impact in promoting the capacity of these states to implement their structural adjustment programmes.

7. *Imbalance of distribution*: There is a tendency to favour middle- and high-income countries in the allocation of funds. As a result Stabex has little impact in terms of redistribution. The reason for this imbalance is, that Stabex is based on trade and export goods and not on criteria for underdevelopment (Kappel, 1997b). If one considers only those countries that receive Stabex payments a positive correlation between the per capita income an per capita Stabex payments can be found. However if all ACP countries are included this correlation disappears (Michaelowa and Naini, 1995). Efficient distribution policies are therefore not fostered by the Stabex mechanism.

The regressions run for the analysis in Section 2.2 on the determinants of EU aid in the periods 1990-93 and 1994-97 show that Stabex has only little influence on the overall distribution of EU aid. Surprisingly the results don't change much when one subtracts Stabex transfers from EU aid p.c. The Stabex transfers are in principle made according to "objective" criteria and not influenced by political decisions. The main beneficiaries are countries with a relatively high GDP p.c. compared to the ACP average. However, neither the value, nor the significance of coefficients change very much in comparison to the regressions run with total EU aid (see Table A2), so that the limited influence of poverty on aid allocation cannot be explained with Stabex transfers. If one looks at the results after subtracting Stabex transfers in the best specification of the period 1994 to 1997 the coefficients decline somewhat especially for the index of civil liberties. That would mean that without Stabex civil liberties play a minor role in the decision making process of the EU which is again the opposite of what one would expect.

Sysmin has not been able to compensate for long-term falls in (export) earnings, too. Similarly to Stabex it has rather given incentives for increasing the production of Sysmin-goods and hindered diversification. Kappel sees Sysmin as a subsidy to low productivity and non-competitive mining projects, enabling the EU to import minerals below world market price. A number of countries are benefiting over-proportionally, as four countries receive 2/3 of available funds (Kappel, 1997b). The 1998 DAC review found also “little evidence that Sysmin has made a positive impact on the ACP countries generally” (p. 91).

Alternative Measures Have Shortcomings Too

It has to be noted that other measures to reduce the adverse effects of commodity price volatility have shortcomings, too. Most of the earlier attempts concentrated in trying to stabilise prices through the use mainly of buffer stocks, buffer funds, government intervention in commodity markets, and international commodity agreements (Larson, 1998):

- Buffer stocks buy commodities when prices are low and sell them when prices are high to keep the price within the upper and lower limit. However, they are susceptible to either large accumulations or stock-outs and run a deficit due their construction. Therefore there is an incentive for governments that are not major producers to free ride, which undermines the functioning of the system (Hasse and Weitz, 1978). Therefore most international commodity agreements have been suspended.
- Buffer funds have proven largely ineffective and have gone bankrupt, since they require impracticably large lines of credit in order to be successful. Even with hedging, commodity price movements will eventually bankrupt stabilisation schemes (Larson, 1998).
- Government intervention in commodity markets with the objective to stabilise prices has been costly and mostly ineffective, as well. The collapse of such schemes like price controls is usually followed by large negative effects on both micro- and macroeconomic level.

In general the attempt to reduce price fluctuations can put the automatic profit stabilisation mechanism out of operation. For those countries with a significant market share whose changes in quantity cause changes in the world market price, export earnings remain roughly constant even when prices change. A stabilisation of prices can therefore even increase the destabilisation of profits (Michaelowa and Naini, 1995).

The traditional solution for export earnings shortfalls has been to engage in new borrowings either from capital markets or from donor programmes like the IMF's Compensatory and Contingency Financing Facility (CCFF), which works similar than the Stabex scheme but on a loan basis. However, developing countries are usually already highly indebted, so that increased borrowing may not be considered an option, in particular if binding arrangements limit new borrowings.

Larson (1998) discusses the development of commodity price risk markets as a promising, market-based policy alternative. He sees risk management at the heart of efforts to promote development. In contrast to other measures, risk-management instruments rely on private capital and payouts are automatic. Furthermore the cost of managing risk can be estimated ex ante, comparable to insurance coverage. According to Larson, policies that promote efficient domestic markets through market liberalisation, investments in infrastructure, and dissemination of market information also support markets for risk management instruments. He claims that the academic literature has shown benefits in using market based risk management instruments to reduce commodity price uncertainty as opposed to stabilising prices. To make this a real option the functioning of the capital markets in most ACP countries has to be improved. Very few of them have been involved in futures market trading so far. Not only well developed financial and legal systems are needed but also education and training to allow informed and efficient trading to take place. Furthermore institutions like sellers co-operatives have to be strengthened that enable farmers to pool their resources to create a critical mass in terms of credit availability and volume of output. For middle-income countries future markets might be a viable options thus but LLDCs need at least for the short to medium term other instruments (Morgan et al., 1999). Therefore the decision whether Stabex should be abolished or reformed cannot be made without taking into account complementary measures.

3 Reforming the EU-ACP Financial Co-operation

In the Suva Convention that will replace the Lomé Convention major reform steps have been undertaken. Not only have the criteria for aid allocation changed and the Stabex system was overhauled but also changes in the administration and use of funds have been agreed. However a lot of details of the implementation still remain open and some provisions might need further redesigning in the future.

3.1 Changing Criteria for Aid Allocation

In Section 2.2 we showed that currently EU aid is only to a very limited extent allocated according to needs and merit. In the Suva Convention these principles will be stressed more. If the EU would allocate aid according to needs - measured by GDP p.c. - and performance - measured by civil liberties and openness - fundamental shifts between countries would occur. For example Ghana, Malawi and Uganda who receive relatively low transfers at the moment but have a relatively low per capita income and a good political performance would certainly gain. On the other hand the countries that receive high aid p.c. are mostly small islands and therefore the overall amount of aid allocated to them is rather small. Therefore countries like Mauritania with a low per capita income but a poor record of civil rights and Mauritius with opposite features have to expect cuts in their aid allocation.

A change in the criteria for EU aid would change the allocation considerably as it is currently only to a limited extent allocated to performance and even less to needs. If aid is allocated based on performance, the period for which the contract applies has to be shortened as indicated by the EU's proposal of rolling programming. This, however, creates new problems as the recipient countries need some planning security for longer term projects. Lensik and Morrissey (1999) show that the uncertainty of aid flows has a crucial impact on the effectiveness of aid. They find that "aid, controlling for uncertainty, has a positive impact on growth that operates through investment but also additional to investment (the so-called efficiency effect)." This is due to the fact that aid is regarded by recipients as part of government revenue and when it goes down it is the easiest to cut down public investment. There is also evidence that aid instability tends to lead to adjustments to deficits, which worsens the macroeconomic conditions. Therefore the new criteria for allocation of EU aid should be introduced gradually on the basis of the current allocation. However, it should also be made clear that the EU is serious in changing the allocation.

This is closely linked to the problem of limited donor credibility. The penalty for not meeting the performance criteria has to correspond with the policy failure. It wouldn't be adequate if all aid was suspended because one out of several criteria was not met. Furthermore the suspension of aid would have negative effects on the donor itself, because purchases in his country would go down and the ability of the recipient to repay debts might be undermined (Collier et al., 1997). The EU mandate could be interpreted in the sense that aid will partly remain an entitlement but will partly be subject to performance criteria in the future. This would provide a basis for a compromise between the need of long-term planning and the setting of incentives for using aid effectively.

Even if agreement could be reached to introduce some criteria for aid allocation the question remains which criteria are operational and objective. The EU and ACP states could either chose policy decisions directly, such as the budget deficit, the trade policy etc. In the EU's mandate the criteria are stated rather vague (European Council, 1998): "They will cover in particular the development of general and sector level policies, the commitment to the objectives of sustainable development and poverty eradication, the quality of macroeconomic and public sector management, progress with political and institutional reforms and changes in the level of utilisation of aid resources". To specify such policy measures would however not be feasible from a political point of view as ownership and sovereignty would be undermined as well as credibility of the ACP governments. To come to some objective and observable criteria the parties have to agree on outcome indicators. Collier et al. (1997) propose to relate the indicator to the regional average (e.g. of GNP growth) to take into account the environment in which a government operates. However, even this relative performance is not fully under the control of the government. Therefore the indicators have to be corrected for by location, variations in terms of trade etc., which would take into account vulnerability as the ACP countries demand.[10] To facilitate the measurement of these indicators the EU should support the improvement of data collection, which is necessary for designing economic policy. However, as enhancing GNP growth is also the aim of aid the performance of a country will also depend on the amount of aid it received. To separate this effect from the results of economic policy might be difficult in practise.

Foreign aid can also create problems in the sense that it impairs the international economic position of the recipients by driving up the exchange rate, helping to maintain an overvalued currency or to increase the money supply. Many third world nations put some of what they receive in aid in their foreign reserves. These increased reserves, as well as the increased ability to repay investors, increases the demand for the currency on world markets. As a result the currency’s value increases relative to other currencies, with the effect to make the price of their exports more expensive and the price of imports cheaper. This could lead to an increase of an already existing trade deficit. Therefore it can be counterproductive to allocate too much aid relative to GNP to one country (see Elbadawi, 1999). As aid accounts on average for almost 12 % of GNP for the ACP countries and for more than 25 % for several of them like Cape

[10] The vulnerability to external shocks is also discussed with respect to future trade provisions and the planned reform of the EU's GSP.

Verde, Guinea-Bissau, Mauritania, Mozambique and Rwanda the problem of aid dependency is very relevant (see Table A7).

3.2 Options for a Stabex Reform

Stabex has been an instrument designed to work together with the other Lomé instruments. Thus many of the shortcomings of the Stabex system can be attributed to the absence of a complementary global approach and lack of accompanying measures, rather than from its inherent deficiencies. The automatic functioning was a precondition for quick disbursement and thus its counter-cyclical stabilising function. The system has to be regarded as exemplary for North-South co-operation and has proven that it can adapt its mechanisms to changing conditions (Koehler, 1997). It was originally designed to simply inject funds which would normally have come from the market. This aspect is still considered in the Suva Convention.

Past experience has shown that the instrument of Stabex could not reach the two aims of benefiting poor farmers that grow export commodities and fostering diversification, which is an important aim of Article 70, at the same time. Any conditions, that Stabex funds be used exclusively in the sector where losses occurred, are contra-productive to the aim of diversification, because they impede innovation and the reorientation into new sectors of production by artificially strengthening a loss-making sector and as a result distorting market mechanisms. On the other hand the goal of poverty reduction can only be reached if poor farmers have a solid base for earnings as pointed out in Section 2.3.

A radical change in the use of Stabex funds would therefore be the establishment of an insurance scheme against the risk of price drops, which is proposed by Collier et al. (1998 and 1999) and which could also be established independent of Stabex. The funds would be used to subsidise an insurance that is targeted especially to small-scale farmers. As they are most vulnerable by price volatility but usually can't afford an insurance that is entirely commercial the self-selection would lead to the desirable outcome that this insurance is targeted to those who need it most. However a moral hazard problem could occur, as the government could raise its taxation either through increase in export tax rates or by overvaluation of the currency. These taxes would then be borne not by the farmers which produce export crops but by the EU who subsidises the insurance. Therefore a contract with the government has to be set up to prevent this behaviour before establishing such a scheme. The administration could be carried out by a local option-selling contractor. If transaction cost are made relatively high speculative purchasing of contracts could be widely prevented. However a general result of such a policy is that small farmers are encouraged to produce export crops and therefore the supply will be enhanced. This will contribute to the further fall in world market prices. On the other hand there are few alternatives for people in rural areas to earn a living and the production of export crops has an advantage over mere subsistence agriculture. However the proposed insurance scheme can only provide security against price volatility not against a drop in output because of a drought etc. It is not possible to distinguish between a fall in production because of external influences or variations in inputs - like fertilisers or labour. In the latter case moral hazard would be a severe problem.

In the Suva Convention Stabex is no longer a separate instrument but the stabilisation of export earnings is enclosed in the NIP funds. With regard to the basis for compensation the range of products has been widened. Extending its sphere of influence to secondary goods, could be an incentive to diversify trade patterns and not cling to the guaranteed-price sector of primary goods. However a decline in the price of one good might be offset by the rising price of another one. In this case the negatively affected producers of the first good would not be compensated. This problem has to be taken into account when looking at the use of funds.

Since most of the ACP countries are exporting mainly commodities anyway, in the short run the broadening of the range of products even to total export earnings would hardly make a difference in the application. In the long run it could serve diversification purposes. The less complicated calculation method and the fact that, with a consideration of net-export-earnings only, portfolio effects would automatically be taken into account, make up two additional advantages.

In the EU mandate (European Council, 1998) it is stated that "additional support where short-term fluctuations in earnings from basic products jeopardise successful implementation of a country's macro-economic reforms (...) or sectoral reforms and policies" will be provided. The agreement in the Suva Convention can be interpreted in the way that the amounts of aid allocated to a country may be supplemented if a country heavily dependent on commodity exports suffers a big (10 %) shortfall over three to four years or if the public sector deficit detoriates significantly relative to forecast. Unfortunately data on the government revenue are not easily accessible for all ACP countries. However for those countries where data are available huge fluctuations in the current value (in local currency) are observable (see Table A6 in the Appendix). Even in a stable country like Botswana government revenue can drop by 25 % from one year to another. As the proposed Regional Economic Partnership Agreements, that will be negotiated between EU and ACP state with the aim to create North-South free trade areas, will further lower government revenues due to tariff reductions by the ACP countries for EU imports a stabilisation of total revenues could ease some of the adjustment costs (see Wolf, 1999). On the other hand could such a scheme also reduce the incentives for a reform of the tax system as the risk of declining revenues can be partly shifted to the EU.

A broadening of the basis for Stabex transfers will also mean an end to discrimination within the ACP states, where some are receiving large amounts of funds and others none at all because they don't export any of the products in the list (see Table A4 in the Appendix). If furthermore the data on total export earnings and public sector deficit are available and accountable and agreement can be reached that the Stabex funds should be used for structural adjustment programmes with a focus on diversification, the disbursement of payments could speed up considerably. Whether this will come true depends crucially on the aid management by both the EU Commission and the ACP governments.

3.3 Improving the Use and Management of Aid

Although it is hard to evaluate the exact impact of EU's aid granted under the Convention of Lomé, it seems that poverty and inequality in many ACP countries have increased in spite of the help being granted. Some reasons for this outcome are lengthy procedures and a system of financial co-operation, where 60 to 80 percent of the resources return to Europe through consultancies and procurement. Furthermore the EU is perceived to have a tendency to over-control and run procurement systems, which in fact exclude private ACP companies and are characterised by a government to government approach to partnership (Eurostep, 1998). The DAC review (OECD-DAC, 1998, pp. 16) has expressed concerns in the last years especially because of the proliferation of budget lines and ad hoc regulations.

In the course of time the aims and instruments of the EU development aid have been extended more and more, especially those of the Lomé Conventions. Because of this it has become more difficult to identify the priorities. One step to overcome these problems could be to replace project aid by direct budgetary aid. The extensive and time consuming administrative and financial controls, the high demand for administrative work and for political dialog as well as the co-ordination with other donors, that should be improved, puts a heavy burden on the capacity of the Commission. The budget is not sufficient to employ enough staff to control the costs or for delegations which carry out a decentralised co-ordination. In particular there is a demand for qualified experts in the fields of institutional development and poverty reduction. Therefore the "overhaul of the old Convention's instruments and procedures, internal reform within the Commission ..." (European Commission, 2000) must be a priority for the implementation of the Suva convention.

Capacity of EU and ACP Institutions

The EU aid is criticised often, because it overemphasises procedures what leads to bureaucratic delays and inefficiencies. Weakness at the project design, project granting and quality control lead to limited learning effects and gaps in the institutional memory. The selection of projects is done with too little care and consultation as well as there are insufficient clarity and realism in the building up. During the implementation, limited accountability for results because of a weak system of monitoring adds to the management problems (Montes and Migliorisi, 1998). The main issues affecting EU aid management are summarised in Figure 4.

Figure 4: Main issues affecting EU aid management

PREPARATION	IMPLEMENTATION	EVALUATION
• Rigour and consultation in project identification • Clarity and realism in design • Incorporation of priority objectives into project design • Quality support	• Delays • Financial and administrative controls • On-going project monitoring • Management of technical assistance	• *Ex post* evaluations, and internalisations

Source: Montes and Migliorisi, 1998

The following problem areas of aid management are pointed out in several studies (Box et al., 1999; Menck, 1999a; Montes and Migliorisi, 1998; OECD-DAC, 1998):

- *Too many goals – lack of capacity of the Commission*. If priorities are not clear, responsibility and accountability are also insufficient. Extensive and time-consuming administrative and financial controls, high needs for administrative activity, political consultations and co-ordination with other donors go beyond the capacity of the Commission. A multitude of regulations overstrains administrations in the EU and in the ACP states. There is a lack of operational flexibility and a lack of control over performance of development aid as to the desired effects.

- *Lacking transparency and blurred responsibility*. Policy units and organisational units work independently and are separated. Dependency on external consultants in the evaluation of projects leads to a loss of knowledge and limits a learning effect. The activities are checked by different EU institutions, but not systematically enough. While the quality of the evaluations is different, there are first signs at the project design to learn from the mistakes. The distribution of the evaluations has been improved, but is still limited. Also the information about the EU aid which are open to the public remain insufficient. A contribution to the improvement of the transparency can be achieved with the involvement of the whole EU development aid into the EU budget, which is controlled by budget the European Parliament. Still the European Development Fond (EDF), which contains the main part of the financial resources for the ACP states, is controlled only by the national parliaments of the member states.

- *Operational flexibility not sufficient.* Especially for the use of the financial resources it should be given more decision making powers to the Commission. It follows from that the intensified necessity to control the effectiveness of the European aid. This is not been done sufficient up to now by the political protagonists.

- *Delays in disbursements*. As far as the ACP are concerned, the ratio of disbursements to commitments has improved over time – from 46 % in 1986- 90 to 64 % in 1991-95, partly due to the introduction of fast-disbursing structural adjustment assistance (Cox et al., 1997, p. 47). Political instability, economic conditions in countries, the complexities of the joint management of funds, management and absorption capacity within the ACP countries, as well as the capacity of the Commission bureaucracy and long negotiation periods - due to the conditionality principle - have an impact on the disbursement ratio, which is still rather low. For the implementation of the Suva Convention the Commission has promised to ensure "a significant increase in disbursements for the ACP states" (European Commission, 2000).

To enhance aid effectiveness first of all it has to be asked for the amount of aims before the instruments can be discussed properly. With the selection of the instruments of co-operation should be taken into account that one needs as many instruments as targets. It is not the amount of instruments which is incorrect, but the design. However, as the problems discussed imply the implementation procedures of EU ACP co-operation should be simplified. By the reduction of the budget lines the flexibility shall be increased as well.

Comparative Advantage of EU Aid

One conclusion from these problems should be to streamline EU development policy. In line with the provisions of the Maastricht Treaty the Commission should concentrate its activities to enhance complementarity (Box et al., 1999). One of the areas where the EU has long-term experience is clearly regional integration, which so far has not figured very prominently in the aid budget. Although the performance was relatively weak in the past due to weak commitment of ACP countries to regional organisations this should remain a priority of EU policy. The new focus on staff training, institution-building and technical assistance leads already to promising results (Montes and Migliorisi, 1998, p. 23).

So far the funds for Regional Indicative Programmes (RIP), that were established in Lomé III, are available for seven geographic regions and one linguistic grouping (for Portuguese-speaking countries). Their share in total programmable aid increased slightly in Lomé IV and will further increase to 9.6 % of the total sum of the 9th EDF (2000-2007). The Lomé IV RIP for the Southern African Development Community (SADC) comprises 128.9 million ECU and focuses primarily on transport and communications, human resources development and food security and natural resources. In Central Africa the RIP funds provide financing benefiting regional transit traffic routes defined within the UDEAC's (Union douanière et économique de l'Afrique Centrale) Regional Reforms Programme. The Horn of Africa and the East African Co-operation are one region under the RIP, which funds are spent mainly for improving the transport infrastructure serving the landlocked countries. For the Sahelian and coastal Western African Countries 228 million ECU were available under the first half of Lomé IV. The RIP focuses on health, training and food security. The main objective of the RIP for the Caribbean is the promotion of regional co-operation and integration. Programmes are implemented in the areas of trade, tourism, agriculture, telecommunications and transport, human resources development and environmental protection. The RIP for the Indian Ocean Countries concentrates on the environment and external trade. In the Pacific the use of RIP funds was extended to environmental protection and human resources development after it had been used mainly for alleviating problems resulting from the huge distance between the countries in that region (European Commission, 1998c). In general however, the regional funds are allocated to programmes with a regional intention but are executed national. The co-operation of several countries leads to lengthier and more complex procedures in comparison to national projects. Especially the support of establishing and running regional institutions has proved difficult, because ownership by governments is weak and the programmes are not sustainable (Montes and Migliorisi, 1998).

Regional integration is not a goal in itself but could contribute to increased investment and growth (Wolf, 2000). Regional integration frameworks offer a possibility to overcome the constraint of economic size and small national markets. They support market growth and political stability and are therefore expected to lead to more FDI. There are cluster effects and externalities arising from having successful neighbours. In addition, trade arrangements provide access to the markets of developed countries and they can catalyse the creation of the necessary infrastructure and facilities to serve the region.

Another field where the EU should strengthen its activities is the reform of the tax system. In this field regional co-operation will be an advantage, too. As the legal system and the administration of many former colonies are derived from those in Europe technical co-operation in this field will have a comparative advantage. To reduce aid dependency and to compensate for lower aid budgets in the industrial countries the ACP countries have to improve their revenue base. The decline of tariff revenue due to the implementation of reciprocal free trade with the EU that was also agreed in principle in the new Convention also makes a change in the tax system necessary. The reform must ensure equal treatment of all citizens and enterprises, should not overburden the poor and work with transparent procedures. Especially the consequences for economic activities and distribution have to be analysed before implementation (Menck, 1999b).

In principle there is agreement between the EU and the ACP side that support for the private sector should get a higher priority (ACP Group, 1998; European Council, 1998). To stimulate growth and export performance, supply and therefore investment domestic as well as FDI have to increase in the ACP countries. The ACP mandate states that "The central role of the private sector in the development process is now fully recognised. As a matter of fact the private sector plays a leading role in generating growth, diversification, employment and wealth. In this context, the role of governments consists in putting in place the political, macro-economic, regulatory and infrastructural framework for ensuring the full participation of the private sector in development." (ACP Group, 1998, Paragraph 77)

However, this area is a good example how the different levels of co-operation are interlinked. Harvey points out that the credibility of macroeconomic stability for such countries, that are heavily dependent on aid is linked with the expected level of external support in the future (Harvey, 1999). As the EU is one of the biggest donors for many of the African countries in this category it has (besides the Worldbank and the IMF) a substantial impact on this credibility. Conditionality can thus make investment more risky as bad policies will not only affect investment conditions directly but also indirectly through reduced aid, which might lead to decreased infrastructure or less access to needed imports.

In Lomé IV (Article 111) already a number of measures for investment support are possible, like:

- “support for the improvement of the legal and fiscal framework for business, and development of a greater role for professional organisations and chambers of commerce in the process of enterprise development;
- direct assistance for the creation and the development of business (specialised business start-up services; assistance for the redeployment of ex public sector employees; assistance for technology transfer and development; management services and market research);
- the development of services in support of the enterprise sector so as to provide enterprises with advisory services in the legal, technical and managerial fields;
- specific programmes to training and developing the capacity of individual entrepreneurs, particularly in the small-scale and informal sectors.“

However, if the macroeconomic and political environment is not stable enough and investors face a high risk, direct investment support measures are of little use. The same holds true to some extent with respect to the future EU-ACP trade relations. The EU should reduce its trade barriers further which are still prevalent through rules of origin. Without secured market access to the European market it is difficult for ACP industries to sell their products and therefore investment incentives are restricted.

3.4 Making Diversification Work

As has been discussed in Section 2.3 diversification of an economy to a certain extend will reduce the vulnerability to external shocks, reduce the risk for potential investors and therefore lead to higher growth (see Berthélemy and Söderling, 1999). To increase diversification new investments are also a crucial precondition. As there is asymmetric information about investment opportunities and investors tend to stick to the countries where they are already operating, an active marketing of the advantages a country has could lead to social benefits. On the other hand direct support for special industries through subsidies, tax holidays etc. seem to have only limited impact. In any case developing countries will not be able to compete with industrial countries in terms of subsidies for foreign investors. Therefore they should rather promote the limitation of the use of these subsidies in the WTO (see Moran, 1998). As the resources of most ACP countries are limited, indirect support for investment, domestic and foreign, should be provided by the donors. Interlinkages between financial aid and trade regulations should be taken more into account by the EU.

The current investment support by the EU is already quite substantial, but could be further improved. Guiding principles in designing a new policy for private sector development and possible further measures to attract greater investor interest should extend the current approach but also include some new focal points:

1. Reduction and *simplification of administrative procedures* and increasing bureaucratic efficiency will contribute to maintaining a market friendly business environment. The ACP Business Forum remarks that new modes of effective and direct “fast-track“ support to the private sector (fast track approval process for foreign investors) as well as easy access to financial resources are pre-requisite for operational effectiveness, but are hard to reconcile with centralised and bureaucratic systems of management. The challenge is to institutionalise “hands-off“ decentralised management approaches, based on dialogue, direct assistance and result oriented monitoring. This requires accepting the “logic of the private sector“ in managing funds for private sector development, which means to delegate responsibilities to formulate and manage private sector development programmes to the private sector actors themselves. The role of central agencies would then shift to an ex-post control (ACP Business Forum, 1999).

2. *Investment promotion* efforts and *information dissemination* through investment promotion agencies (maybe on regional basis because of the cost intensity) should promote the image of the host country as a safe, modern, business-like and investor-friendly place, and facilitate investment. Potential investors have to be provided with correct and balanced information as regards the opportunities and risks of investment. Business facilitation measures are becoming more important in the context of greater similarity of investment policies at all levels and therefore increased competition for FDI. They include investment promotion, financial and fiscal incentives, after-investment

services, improvements in amenities and measures that reduce the bureaucratic and administrative activity to a minimum (UNCTAD, 1998b).

3. The focus on *capacity building* to assist in ongoing policy analysis and policy formulation, especially in industrial policy-making and macroeconomic policy making is a step into the right direction (Bheenick, 1997). Private actors need institutional development to create truly representative intermediary organisations at national, regional and global levels, and to strengthen their "demand-making capacity" (ACP Business Forum, 1999).

4. *Regional integration:* Reinforce regional co-operation to enhance the attraction potential of many ACP countries. As discussed in the previous chapter the enlargement of markets and the benefits of economic and political co-operation for greater stability are essential for increasing investment.

5. EU assistance to *infrastructure* can help create the right preconditions for investment (e.g. activities of the EIB in supporting private infrastructure projects, power supply, telecommunications, airports, hotels, financing construction equipment). So far, however, only few projects are set up at a regional level. This number should be increased as meaningful investment promotion can only take place on a regional level.

6. Support of the *informal sector*, local financial institutions and micro-finance, small and medium sized enterprises (SME) and micro - enterprises could contribute substantially to the objective of poverty reduction through job market effects.

7. Support for *human resource development*: Training of a competitive labour force with the type and level of skills required to complement the capital resources from FDI should be supported. It will be important that ACP countries invest in vocational training schemes and labour market reforms as well as to ensure that labour and wage legislation support the adjustment capacity of the economy. Raising the skill level also includes to take a liberal approach to work permits for foreign nationals (Bheenick, 1997). EU-ACP co-operation can play a vital role in this respect (ACP Business Forum, 1999).

8. *Reciprocity in private sector commitments*. The transparent use of public aid resources, participation in different activities on a cost-sharing basis (the principle of additionality) and setting up of truly representative and competent private sector institutions will be the contribution of the private sector in a two-way partnership engagement. Leading role for the government, with added-value of private sector (ACP Business Forum, 1999).

9. The ACP Business Forum demands that a comprehensive and *integrated strategy* for private sector development, including measures to create an environment that attracts investment, measures to enhance competitiveness, to promote dialogue between

governments and the private sector, measures to improve institutional capacity, and to strengthen existing private sector support institutions such as the Centre for the Development of Industry (CDI) or the EIB be adopted. The special private sector chapter in the Suva Convention makes it visible that private sector support is a primary objective, and bring the existing provision in a more coherent and refined framework. At the EU level one should harmonise and integrate the various FDI support facilities and adopt a one-stop shop approach.

All in all there are a number of possibilities for enhanced investment support in the Suva Convention. But on the EU as well as on the ACP side the implementation of support measures and the improvement of investment conditions is still a big task. One step into that direction is the inclusion of new actors into the negotiations and implementation (see Box et al., 1999). The ACP countries will have to carry out major institutional and policy reforms to enable more investment. But the EU side still has to prove that they are willing to reduce incompatibilities between trade and development policies. In this respect the speeding up of Common Agricultural Policy reforms and the opening for services exports from the ACP are crucial.

4 Conclusion

The Suva Convention that was agreed after one and a half years of negotiations in early February 2000 clearly will improve the EU-ACP relationship. However, some of the shortcomings of Lomé haven't been tackled yet, as already the negotiating mandates of both parties side stepped important issues. Although the next Convention will run over 20 years, it provides some flexibility for further improvements.

For example the allocation of aid towards the ACP countries will be decided on in shorter periods. However, during Lomé IV no major changes in aid allocation according to meaningful criteria could be observed. As our regression results in Chapter 2 show, smaller countries still get relatively more aid. The performance of a country in terms of civil liberties plays only a minor role in the EU's aid allocation and factors like openness and the Human Development Index play no significant role at all. GDP p.c. has also no significant influence on EU aid in the second period under review, only in the 1990-93 period countries with lower GDP receive slightly more aid. A shift towards need and merit criteria as stated in the new convention would mean that some countries like Mauritania and Mauritius will get less aid whereas other countries like Ghana, Malawi and Uganda will get more. However, for this aid reallocation it should also be borne in mind that a high aid to GDP ratio can also have negative effects on the economy and that sudden changes can cause adjustment problems.

Equally important is it therefore to improve the use of aid. To increase effectiveness the interlinkages between the various instruments and especially between aid, trade and investment issues have to be taken more into account. For example, aid for private sector development will be more effective, if the opportunities of private enterprises are also enhanced by favourable and secure trade provisions. The offer to maintain the current tariff preferences until new deals will be settled in 2008 is therefore a step into the right direction. It is also crucial that new actors are involved in the practice of co-operation, such as the ACP Business Forum and civil society. In the Suva Convention this is foreseen in the form of information and consultation on development strategies and policies, access to some of the financing, involvement in the implementation of development projects and programmes, and capacity building. More involvement of the civil society in the various facets of the partnership (political, social, economic and trade) should ensure that their capacities are strengthened.

The example of Stabex shows, that the attempt to reach two aims with one instrument is likely to fail. It remains to be seen how the additional resources in the framework of country allocations to deal with the financial impact of drops in export earnings from commodities and unexpected government deficits are allocated and used. Therefore a clear setting of priorities is needed for the future co-operation. One of these priorities for the EU should be the fostering of regional co-operation because of its own experience. Regional integration is not only a means to enhance supply capacity in the ACP countries and foster investment but could also contribute to peace in a region. In this respect it can also contribute to the political dimension of the Convention, as respect for human rights, democratic principles and the rule of law have become essential elements of the Agreement.

Appendix

Box: The Compensatory and Contingency Financing Facility (CCFF)

The IMF's Compensatory and Contingency Financing Facility (CCFF) was established in 1988, succeeding the 1963 Compensatory Financing Facility (CFF).

It provides *compensatory financing* to IMF members which are hit by balance of payments difficulties caused by temporary falls (beyond the member's control) in export earnings below their medium trends. It covers merchandise, earnings from tourism and worker's remittances and, since 1990, all services where adequate data are available, but also helps to alleviate problems arising from excesses in cereal import costs.

Contingency financing is supporting structural adjustment processes and programs in member countries by protecting them from unexpected external influences (e.g. sudden falls in export earnings, and increases in import prices and international interest rates) through coverage of part of the net effect on member's external current account. The contingency mechanism is triggered once cumulative deviations exceed a threshold level.

Because the CCFF is based on net export earnings, rather than a limited set of commodities, it takes advantage of any natural portfolio effect that might arise from diversified exports and imports (Larson, 1998). According to Hewitt (1993) the IMF's programme functioned fairly well early, but became expensive and was laden with conditionalities by the mid-1980's. Since 1983 the use of the CCFF has been steadily declining to insignificant levels. In the 1997/98 fiscal year no funds were disbursed under the CCFF, in July 1998 Russia received 2.16 billion to buffer a shortfall in export earnings resulting from a decline in crude oil prices. The reason why poorer countries could not make use of it are the relatively short repayment period and high interest rate but mainly the strict rules for eligibility. Even for those countries who received CCFF loans instabilities in export earnings where not reduced because of the time lag of the payments (Finger and DeRosa, 1980; Herrmann, Burger and Smitt, 1993).

Table A1: Regression Results - All Variables

Dependent Variable: ln EU aid p.c. 1990-93	**R-square: 0.297**	**F-Value:2.11**	**N=37**
Independent Variable	**Coefficient**	**Standard Error**	**Significance**
Constant	4.525	1.283	0.001
Total Population	-0.058	0.031	0.066
Total Population (square)	0.0003	0.000	0.306
GDP p.c.	-0.00009	0.000	0.560
HDI	-1.044	1.782	0.562
Civil Liberties	-0.252	0.200	0.216
Openness	0.039	0.447	0.929

Dependent Variable: ln EU aid p.c. 1994-97	**R-square: 0.732**	**F-Value:14.113**	**N=38**
Independent Variable	**Coefficient**	**Standard Error**	**Significance**
Constant	4.035	0.567	0.000
Total Population	-0.060	0.013	0.000
Total Population (square)	0.0003	0.000	0.029
GDP p.c.	0.00005	0.000	0.457
HDI	-1.165	0.890	0.200
Civil Liberties	-0.144	0.088	0.113
Openness	0.079	0.181	0.664

Table A2: Regression Results - Best Specification

Dependent Variable: **ln EU aid p.c. 1990-93**	**R-square: 0.436**	**F-Value: 9.842**	**N=56**
Independent Variable	**Coefficient**	**Standard Error**	**Significance**
Constant	4.809	0.499	0.000
Total Population	-0.078	0.026	0.004
Total Population (square)	0.0005	0.000	0.075
GDP p.c.	-0.0002	0.000	0.017
Civil Liberties	-0.318	0.110	0.006

Dependent Variable: **ln EU aid - Stabex p.c. 1990-93**	**R-square: 0.509**	**F-Value: 13.223**	**N=56**
Independent Variable	**Coefficient**	**Standard Error**	**Significance**
Constant	4.721	0.455	0.000
Total Population	-0.088	0.023	0.000
Total Population (square)	0.0006	0.000	0.018
GDP p.c.	-0.0002	0.000	0.010
Civil Liberties	-0.324	0.100	0.002

Dependent Variable: **ln EU aid p.c. 1994-97**	**R-square: 0.57**	**F-Value: 29.178**	**N=70**
Independent Variable	**Coefficient**	**Standard Error**	**Significance**
Constant	4.355	0.248	0.000
Total Population	-0.081	0.017	0.000
Total Population (square)	0.0005	0.000	0.011
Civil Liberties	-0.234	0.070	0.001

Dependent Variable: **ln EU aid - Stabex p.c. 1994-97**	**R-square: 0.603**	**F-Value: 33.387**	**N=70**
Independent Variable	**Coefficient**	**Standard Error**	**Significance**
Constant	3.853	o.210	0.000
Total Population	-0.078	0.014	0.000
Total Population (square)	0.0005	0.000	0.003
Civil Liberties	-0.180	0.059	0.003

Table A3: Allocation of EU Aid by Country and Programme, 1990-1997 – Part I

Country	Stabex	SAF	NIP	Various	Total	EU Aid p.c.
	EU Aid in millions ECU 1990-1997					ECU
Angola	0.00	0.00	87.00	55.40	142.40	12.17
Antigua and Barbuda	0.00	0.00	5.40	1.40	6.80	103.03
Bahamas	0.00	0.00	5.70	1.20	6.90	23.88
Barbados	0.00	0.00	5.80	4.20	10.00	37.74
Belize	0.00	0.00	17.80	9.50	27.30	118.70
Benin	1.80	48.50	102.30	17.90	170.50	29.40
Botswana	0.00	0.00	27.70	31.70	59.40	39.60
Burkina Faso	18.26	82.80	195.70	15.70	312.46	29.76
Burundi	44.50	3.90	140.80	29.10	218.30	34.11
Cameroon	322.90	33.80	150.80	6.80	514.30	37.00
Cape Verde	1.12	0.00	40.90	14.80	56.82	141.70
Central African Republic	22.50	13.10	66.20	8.50	110.30	32.44
Chad	18.20	22.30	118.30	7.60	166.40	23.11
Comoros	6.76	6.50	32.40	4.50	50.16	96.83
Congo D.R.	0.00	0.00	80.60	52.60	133.20	2.85
Congo Rep.	0.00	6.60	51.60	6.90	65.10	24.11
Côte d'Ivoire	366.10	83.00	158.70	34.90	642.70	45.26
Djibouti	0.00	2.20	21.60	3.10	26.90	42.30
Dominica	42.07	2.14	1.90	19.35	65.46	884.59
Dominican Republic	0.00	22.82	30.70	14.90	68.42	8.45

Table A3 (continued): Allocation of EU Aid by Country and Programme, 1990-1997 – Part II

Country	Stabex	SAF	NIP	Various	Total	EU Aid p.c.
	EU Aid in millions ECU 1990-1997					ECU
Equatorial Guinea	10.76	0.00	8.80	1.22	20.78	49.48
Eritrea	0.00	0.00	13.80	6.80	20.60	5.42
Ethiopia	193.30	79.70	195.80	60.00	528.80	8.84
Fiji	0.00	0.00	29.50	5.90	35.40	43.44
Gabon	0.00	6.80	32.00	11.00	49.80	41.50
Gambia	1.50	4.20	32.30	10.21	48.21	40.18
Ghana	57.50	104.10	88.60	41.30	291.50	16.19
Grenada	11.38	1.92	7.20	2.50	23.00	239.58
Guinea	0.00	23.40	180.60	103.60	307.60	44.58
Guinea-Bissau	1.70	4.50	36.20	12.90	55.30	50.27
Guyana	0.00	8.80	41.30	39.90	90.00	106.13
Haiti	33.00	10.00	60.20	7.30	110.50	14.73
Jamaica	0.00	5.00	62.90	42.20	110.10	42.35
Kenya	91.60	0.00	102.10	69.30	263.00	9.20
Kiribati	0.60	0.00	10.00	0.54	11.14	134.22
Lesotho	5.40	20.90	62.60	21.40	110.30	55.15
Liberia	0.00	0.00	13.40	34.90	48.30	16.66
Madagascar	52.90	0.00	128.80	43.00	224.70	15.94
Malawi	39.30	40.40	105.10	66.50	251.30	24.40
Mali	0.90	55.80	221.40	46.70	324.80	31.53

Table A3 (continued): Allocation of EU Aid by Country and Programme, 1990-1997 – Part III

Country	Stabex	SAF	NIP	Various	Total	EU Aid p.c.
	EU Aid in millions ECU 1990-1997					ECU
Mauritania	15.50	29.10	106.90	40.70	192.20	76.88
Mauritius	0.00	0.00	42.30	14.00	56.30	51.18
Mozambique	3.74	25.30	171.80	82.70	283.54	17.08
Namibia	0.00	0.00	31.80	31.40	63.20	39.50
Niger	0.00	19.30	185.30	65.60	270.20	27.57
Nigeria	0.00	0.00	268.90	31.20	300.10	2.55
Papua-New Guinea	113.10	17.20	57.30	24.80	212.40	47.20
Rwanda	74.20	0.00	106.10	32.90	213.20	26.99
Saint Lucia	62.60	0.00	5.45	1.60	69.65	438.05
Saint Vincent and Grenadines	59.00	0.00	5.74	3.34	68.08	607.86
Samoa	6.08	0.00	11.10	6.52	23.70	136.21
Sao Tomé	3.20	1.48	8.10	2.52	15.30	110.87
Senegal	40.60	36.30	166.90	29.10	272.90	31.01
Seychelles	0.00	0.00	9.90	2.30	12.20	156.41
Sierra Leone	5.80	13.40	89.00	28.80	137.00	29.15
Solomon Islands	10.30	0.00	21.80	3.50	35.60	88.34
Somalia	0.00	0.00	96.90	25.10	122.00	13.86
St Kitts and Nevis	0.00	0.00	3.36	0.30	3.66	89.27
Sudan	0.00	0.00	39.10	90.30	129.40	4.67
Suriname	0.00	0.00	32.70	6.80	39.50	95.87

Table A3 (continued): Allocation of EU Aid by Country and Programme, 1990-1997 – Part IV

Country	Stabex	SAF	NIP	Various	Total	EU Aid p.c.
	EU Aid in millions ECU 1990-1997					ECU
Swaziland	0.00	0.00	39.70	16.50	56.20	58.66
Tanzania	54.20	95.10	193.50	42.80	385.60	12.32
Togo	35.60	0.00	62.60	9.50	107.70	25.05
Tonga	2.50	0.00	6.80	1.20	10.50	107.14
Trinidad and Tobago	0.00	5.20	15.50	22.00	42.70	32.85
Tuvalu	0.05	0.00	2.77	0.60	3.42	263.08
Uganda	144.30	45.40	171.00	50.60	411.30	20.26
Vanuatu	5.64	0.00	11.90	0.90	18.44	104.18
Zambia	0.00	96.44	154.50	102.00	352.94	37.55
Zimbabwe	57.50	30.00	110.10	44.20	241.80	21.03

Table A4: Allocation of Stabex Funds towards Products. 1975-1996 – Part I

Product	Transfers in ECU	Transfers in %
Raw or roasted coffee; Extracts. essences and concentrates of coffee	1.869.585.092	42.83
Cocoa beans; Cocoa husks. shells and skins and other waste; Cocoa paste; Cocoa butter; Cocoa powder	643.098.937	14.73
Groundnuts in shell or shelled; Groundnut oil	486.015.171	11.13
Cotton not carded or combed; Cotton linters	318.929.514	7.31
Fresh bananas; Dried bananas	165.889.792	3.79
Coconuts; Coconut oil; Copra	164.359.001	3.76
Wood in the rough and squared wood; Sawn wood	159.028.825	3.64
Palm oil; Palm kernel oil; Palm nuts and kernels	103.018.666	2.36
Tea	81.182.722	1.86
Oil cake	55.380.982	1.26
Raw Sisal	33.182.083	0.76
Gum Arabic Rubber	30627.146	0.70
Beans	24.702.177	0.57
Vanilla	20.664.259	0.47
Cloves	19.822.764	0.45
Squid. octopus and cuttlefish	16.149.839	0.37
Cashew nuts and kernels	15.962.125	0.37
Sesame seed	11.663.583	0.27
Shea nuts Shea nut oil	8.765.620	0.20
Nutmeg and mace	7.379.211	0.17

Table A4 (continued): Allocation of Stabex Funds towards Products. 1975-1996 – Part II

Product	Transfers in ECU	Transfers in %
Fine animal hair of Angora goat – Mohair	6.679.164	0.15
Essential oils	4.238.332	0.10
Wool not carded or combed	2.681.461	0.06
Shrimps and prawns	1.567.739	0.04
Pyrethrum; saps and extracts of pyrethrum	1.417.673	0.03
Cotton seed	37.780	0.001
Pepper	n.a.	n.a.
Peas	n.a.	n.a.
Lentils	n.a.	n.a.
Mangoes	n.a.	n.a.
Karakul Skins	n.a.	n.a.

Source: European Commission (1997d).

Table A5: The use of Stabex and Sysmin funds under Lomé IV – Part I

Country	Stabex	Sysmin	Use of Stabex/Sysmin
Benin	X		
Botswana		X	Rehabilitation copper/nickel mine, smelter/concentrator, socio-economic activities for miners
Burkina Faso		X	Geological mapping, rehabilitation of mines
	X		Continuation of reforms and increased competitiveness in cotton production
Burundi	X		
Cape Verde	X		
Cameroon	X		Support cocoa and coffee industry, boost agricultural production
Central African Republic	X		Stabilising the coffee and cotton industries and improving their competitiveness
Comoros	X		
Congo Dem. Rep.		X	Suspended, infrastructure, agriculture, mining, energy and education
Côte d'Ivoire	X		Reform coffee and cocoa sector, to diversify agriculture, various rural development programmes
Dominica	X		restruction of banana industry, agricultural and economic diversification, social safety net, poverty alleviation
Ethiopia	X		Macroeconomic reforms
Fiji	X		Compensate for shortfalls in export earnings from coconut oil
Gabon		X	Uranium and manganese production, promote diversification
Gambia	X		
Ghana	X		Reforms in cocoa sector, support to smallholder farmers, rural transportation (feeder roads)
Grenada	X		Agricultural diversification, wider economic diversification
Guinea Bissau	X		
Equatorial Guinea	X		Revamp cocoa production for the benefit of the parcelistas

Table A5 (continued): The use of Stabex and Sysmin funds under Lomé IV – Part II

Country	Stabex	Sysmin	Use of Stabex/Sysmin
Guinea		X	Economic diversification programme, modernising the mining industry
Guyana		X	Help bauxite mining enterprise maintain its production capacity
Haiti	X		Modernisation of cocoa and coffee industries, budgetary support to agriculture, rural roads, infrastructure
Jamaica		X	Economic diversification, strengthening private sector
Kenya	X		agricultural and rural development in the coffee sector
Kiribati	X		Improve copra production and marketing
Lesotho	X		
Liberia			Suspended
Madagascar	X		Provide access to remote areas, restruction of vanilla/coffee production
Malawi	X		Food aid and refugee aid
Mali	X		
Mauretania	X	X	Mining
Mozambique	X		
Namibia		X	
Niger		X	road infrastructure
Nigeria			Suspended
Papua-New Guinea	X		
		X	road rehabilitation
Dominican Republic		X	geological and mining development programme
Rwanda	X		Rehabilitation programmes (tea and coffee sector)
St. Lucia	X		Restructing of the banana industry, agricultural diversification and economic diversification

Table A5 (continued): The use of Stabex and Sysmin funds under Lomé IV – Part III

Country	Stabex	Sysmin	Use of Stabex/Sysmin
St. Vincent	X		Restructing of the banana industry, agricultural and economic diversification, social safety net
Samoa	X		
Sao Tomé & Principe	X		Improve living conditions, upgrade production facilities on the cocoa plantations, rural tracks
Senegal	X	X	Restructure and redevelopment of the groundnut industry, Support the phosphate sector
Sierra Leone	X		Humanitarian aid
Solomon Islands	X		Programmes in agriculture, mainly cocoa
Somalia			Suspended
Sudan			Suspended
Suriname		X	Projects in fields of telecommunications and electricity supply
Swaziland	X		
Tanzania	X		Assistance to agriculture, mainly for coffee sector
Chad	X		Improve cotton production infrastructure, provide support for the Sectoral Transport Programme (STP)
Togo	X	X	Togolese Phosphates Boards ,Suspended
Tonga	X		Agricultural export diversification
Tuvalu	X		
Uganda	X		Serve improving harvested export crops, money-generating activities in the rural sector
Vanuatu	X		
Zambia		X	Government's economic recovery programme
Zimbabwe	X		Research in coffee and cotton sector, loan repayments by coffee growers, drought relief

Source: European Commission (1997).

Table A6: Annual growth of current government revenue in local currency. 1985-1997 – Part I

Country	85/86	86/87	87/88	88/89	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
Ethiopia	26.57	11.19	16.59	7.74	-21.45	-24.52	-25.06	..	..	..	..	..
Botswana	10.24	9.49	22.71	-6.18	28.26	-1.03	6.90	3.06	-25.83	13.43	..	..
Burkina Faso	20.91	11.94	-14.73	-6.50	5.07	68.37	-28.35	40.99	..	..	..	..
Côte d'Ivoire	19.16	-8.34	11.37	-14.06	0.18	..	..	..	..	..	..	..
Congo. Dem. Rep.	-8.42	5.28	-4.94	15.81	-16.83	-54.57	-39.65	15.48	-36.24	79.65	..	..
Cameroon	2.06	-18.08	-15.96	-1.40	-15.19	0.54	-9.84	-11.26	-19.75	20.53	..	..
Kenya	7.20	8.42	5.66	8.32	7.02	12.57	-11.49	-6.85	27.94	8.42	9.33	..
Lesotho	-1.04	1.16	1.19	25.34	4.57	27.62	10.88	9.72	10.48	11.67	14.17	-24.84
Malawi	-0.67	-0.63	3.12	7.99	-1.15	..	..	..	..	..	..	..
Mauritius	5.54	14.78	11.45	6.35	5.78	5.36	7.06	0.29	7.46	-1.44	-4.97	19.31
Namibia	..	-0.14	-1.69	15.49	-13.45	31.20	0.91	-5.76	..	..	..	..
Zambia	6.69	-11.22	-6.07	2.17	10.52	-4.33	1.35	-3.68	17.50	-11.81	-0.94	..
Sierra Leone	-25.00	43.08	20.20	-2.92	-21.98	69.07	21.73	20.13	3.48	-29.59	5.09	13.01
Zimbabwe	4.90	11.27	0.66	0.88	6.45	-5.89	3.27	-1.15	..	..	..	..
South Africa	-2.09	-0.40	7.86	14.84	-8.66	-2.24	-8.24	7.81	1.52	5.63	7.32	4.27
Swaziland	-7.65	34.58	2.84	23.19	22.15	-0.42	..	..	..	..	..	..
Chad	..	16.35	12.78	16.66	5.06	-3.48	..	..	..	..	..	..
Dominican Republic	19.87	19.43	7.65	6.29	-20.82	-6.25	56.42	7.93	-0.76	4.25	0.78	..
St. Kitts and Nevis	6.07	5.74	6.87	13.51	3.67	-2.24	5.72	15.02	5.11	..	..	..
St. Lucia	10.87	6.19	15.93	7.97	0.23	6.33	..	..	..	..	..	..

Table A6 (continued): **Annual growth of current government revenue in local currency. 1985-1997 – Part II**

Country	85/86	86/87	87/88	88/89	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
St. Vincent/Grenadines	4.58	0.12	7.62	4.11	3.44	16.14	3.16	1.65	-0.94	4.88	4.78	..
Fiji	-2.51	-9.19	6.21	18.13	3.67	-11.83	12.16	4.42	7.12	0.62	-1.02	..
Papua New Guinea	9.72	6.56	3.46	14.81	-7.09	..	..	23.98	5.76	..	..	..
Tonga	1.89	0.09	4.83	-8.63	8.62	16.88	..	..	..	..	..	..
Vanuatu	-1.03	8.28	..	..	..	..	..	..	..	..	..	..

Source: World Bank (1999)

Table A7: Economic and Social Indicators for the ACP Countries – Part I

Country	Population 1997 (Mio.)	HDI 1995	GDP p.c. US$ 1997	Civil Liberties 1998	Openness 1994	Aid % of GNP[a] 1996	EU Aid/Total Aid[b] (%) 1996	Member Aid/Total Aid[c] (%) 1996
Angola	11.70	0.344	654.87	6	0	13.26	17.33	42.03
Antigua and Barbuda	0.07	0.895	7606.06	3		2.55	7.78	9.04
Bahamas	0.29	0.893	1297.58	2		..		
Barbados	0.27	0.909	6577.36	1	1	..	125.11	19.38
Belize	0.23	0.807	2821.74	1		3.47	4.42	42.55
Benin	5.80	0.378	369.14	2	1	13.44	8.88	32.39
Botswana	1.50	0.678	338.00	2	1	1.67	3.30	43.65
Burkina Faso	10.50	0.219	228.10	4	0	16.72	11.68	52.80
Burundi	6.40	0.241	149.53	6	0	22.99	4.85	25.73
Cameroon	13.90	0.481	655.76	5	1	4.86	11.56	62.90
Cape Verde	0.40	0.591	1059.85	2		28.74	13.33	51.60
Central African Republic	3.40	0.347	299.71	4	0	15.95	9.19	52.38
Chad	7.20	0.318	222.64	4	0	19.01	13.95	36.58
Comoros	0.52	0.411	374.52	4		18.77	15.57	53.97
Congo D.R.	46.70	0.383	130.64	6	0	3.26	16.59	87.82
Congo Rep.	2.70	0.519	851.11	5	0	22.67	2.38	52.58
Côte d'Ivoire	14.20	0.368	721.90	4	0	9.89	10.76	36.50
Djibouti	0.64	0.324	786.16	6		20.23	5.19	54.12

Table A7 (continued): **Economic and Social Indicators for the ACP Countries – Part II**

Country	Population 1997 (Mio.)	HDI 1995	GDP p.c. US$ 1997	Civil Liberties 1998	Openness 1994	Aid % of GNP[a] 1996	EU Aid/Total Aid[b] (%) 1996	Member Aid/Total Aid[c] (%) 1996
Dominica	0.07	0.879	3283.78	1		20.01	41.50	42.08
Dominican Republic	8.10	0.720	1856.67	3	1	0.83	15.15	29.68
Equatorial Guinea	0.42	0.465	1159.52	7		13.62	4.99	73.50
Eritrea	3.80	0.275	172.37	4		21.04	5.08	51.16
Ethiopia	59.80	0.252	106.71	4	0	14.29	6.10	34.01
Fiji	0.82	0.896	2577.91	3		2.28	6.40	3.51
Gabon	1.20	0.568	4294.17	4	0	2.64	9.36	85.00
Gambia	1.20	0.291	339.17	5	1	10.18	6.39	32.22
Ghana	18.00	0.473	382.44	3	1	9.66	11.28	28.37
Grenada	0.10	0.851	3072.92	2		4.03	1.99	22.37
Guinea	6.90	0.277	241.82	5	1	7.98	7.59	26.92
Guinea-Bissau	1.10	0.295	563.48	5	1	72.53	20.81	58.95
Guyana	0.85	0.670	922.17	2	1	22.21	8.18	9.87
Haiti	7.50	0.340	375.33	5	0	12.73	17.95	11.70
Jamaica	2.60	0.735	1590.38	2	1	1.52	88.76	46.44
Kenya	28.60	0.463	358.04	5	1	6.81	6.74	37.58
Kiribati	0.08		662.65	1		16.95	6.62	1.22
Lesotho	2.00	0.469	475.00	4		8.40	21.69	32.79
Liberia	2.90			5		..	5.33	45.04

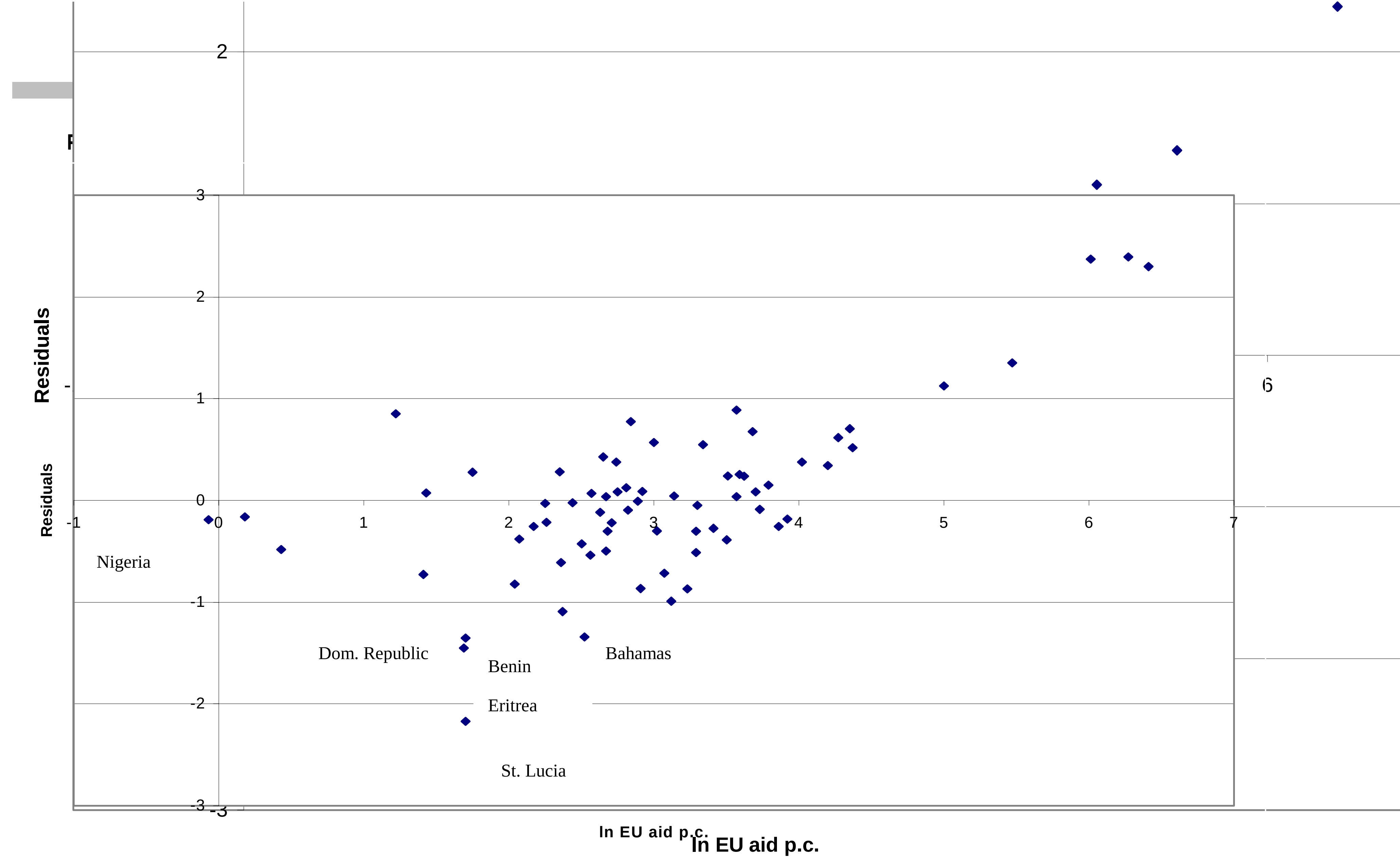
Table A7 (continued): **Economic and Social Indicators for the ACP Countries – Part III**

Country	Population 1997 (Mio.)	HDI 1995	GDP p.c. US$ 1997	Civil Liberties 1998	Openness 1994	Aid % of GNP[a] 1996	EU Aid/Total Aid[b] (%) 1996	Member Aid/Total Aid[c] (%) 1996
Madagascar	14.10	0.348	251.49	4	0	9.50	11.20	34.39
Malawi	10.30	0.334	244.56	3	0	22.42	8.62	30.84
Mali	10.30	0.236	245.83	3	1	19.45	11.76	44.49
Mauritania	2.50	0.361	438.80	5	1	26.38	39.18	23.79
Mauritius	1.10	0.833	3998.18	2	1	0.47	102.70	148.34
Mozambique	16.60	0.281	165.84	4	0	43.25	6.72	40.92
Namibia	1.60	0.644	2050.00	3		5.78	19.41	55.22
Niger	9.80	0.207	189.29	5	0	13.24	14.94	52.52
Nigeria	117.90	0.391	338.05	4	0	0.58		21.31
Papua-New Guinea	4.50	0.507	1030.89	3	0	7.87	5.52	0.96
Rwanda	7.90		235.82	6	0	48.80	8.22	25.72
Saint Lucia	0.16	0.839	1114.94	3		7.12	1.15	31.95
Saint Vincent and Grenadines	0.11	0.845	318.84	2		10.31	65.28	4.56
Samoa	0.17	0.694	516.14	4	0	18.44	1.66	1.72
Sao Tomé	0.14	0.563	6910.26	3		117.23	5.66	54.26
Senegal	8.80	0.342	175.11	5	0	12.46	7.24	44.47
Seychelles	0.08	0.845	928.04	2		3.84	35.67	29.19
Sierra Leone	4.70	0.185		7	0	21.56	10.53	26.69

Table A7 (continued): **Economic and Social Indicators for the ACP Countries – Part IV**

Country	**Population 1997 (Mio.)**	**HDI 1995**	**GDP p.c. US$ 1997**	**Civil Liberties 1998**	**Openness 1994**	**Aid % of GNP[a] 1996**	**EU Aid/Total Aid[b] (%) 1996**	**Member Aid/Total Aid[c] (%) 1996**
Solomon Islands	0.40	0.560	6024.39	2		12.02	8.81	4.57
Somalia	8.80		3761.01	2			23.61	29.85
St Kitts and Nevis	0.04	0.854	2455.36	1		3.16	60.43	22.83
Sudan	27.70	0.343	369.10	7		3.20	10.21	28.53
Suriname	0.41	0.796	813.11	3		17.86	4.66	89.70
Swaziland	0.96	0.597	1370.56	4		2.50	27.82	53.08
Tanzania	31.30	0.358	221.09	4	0	13.72	4.96	45.40
Togo	4.30	0.380	343.02	5	0	11.58	5.25	40.86
Tonga	0.10		1908.16	3		17.73	3.53	1.53
Trinidad and Tobago	1.30	0.880	4532.31	2	0	0.33	92.47	38.32
Tuvalu	0.01			1			9.68	0.58
Uganda	20.30	0.340	324.24	4	1	11.27	8.41	42.24
Vanuatu	0.18	0.559	1423.73	3		13.45	9.56	29.01
Zambia	9.40	0.378	411.17	4	1	19.87	6.04	40.95
Zimbabwe	11.50	0.507	774.43	5	0	4.54	16.11	48.27
Average	*8.57*	*0.516*	*385.30*			*11.70*	*10.79*	*39.34*

Source: Worldbank (1998c + 1999), UNDP (1998), Freedom House (1999), Sachs/Warner (1995), OECD-DAC (1998).
Notes: a - Total Aid according to World Bank figures, b - EU Aid provided through the Comission in relation to total aid according to OECD figures,
c - Aid provided by EU members in relation to total aid according to OECD figures



Source: own Calculations.

Note: The residuals are calculated from the regression of total EU Aid 1994-97 with population. population p.c. and civil liberties.

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