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The Lomé's in economic context : Whither now ?

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*To Plan is to choose
Choose to go forward.
- Julius K. Nyerere*

*a luta continua
(the struggle continues)*

The Lomé (ACP/EEC) Conventions are political economic instrumentalities. Each was negotiated in particular global, ACP and EEC economic contexts which played a major role in shaping them. The 1988-90 negotiations towards 'Lomé IV' take place in an altered context. What does this imply for priorities and possibilities ? This is the subject of Lomé Briefing N° 1, which sets the scene for the other, more specific Briefings.

Before addressing the question directly it may be useful to cast a brief retrospective glance at the contexts and outcomes of the first three Lomé negotiations.

A Convention of the past (from 1974-75 to 1983-85)

In 1974-75 the global economy was passing through a period of high real oil and grain prices preceded by high real prices of other commodities. Both ACP and EEC economies were in recession and the demands for a New International Economic Order (to achieve marginal redistribution of the gains of the 1945-70 International Economic Order) were at their height. EEC states were concerned about market and commodity supply access and ACP about market access, commodity export earnings stability and real resource transfers.

Lomé I sought to address these issues in a formal Convention among equals. It provided fairly free, preferential market access (except for temperate agricultural products), STABEX to smooth commodity export earnings and real resource transfers to the ACP, all within an institutional framework and with 'safeguards' managed by EEC.

By 1977-80 the global economic crisis had subsided (temporarily) as had (terminally) the force of the drive for a New International Economic Order. The EEC was much less concerned about commodity supply or price problems and increasingly viewed

ACP markets as marginal. The ACP, in most cases, had achieved economic recovery (1976-80 was Sub-Saharan Africa's half decade of most rapid growth). Hence, they were not desperate. As a result Lomé II was very little changed from Lomé I formally (although real per capita resource transfers to ACP were reduced by about 40% since Nigeria which had not been a recipient in Lomé I began to draw on Lomé aid).

The 1983-85 Lomé negotiations followed the 1980-83 depression in the North and were shadowed by the continued economic depressions and socio-political crises of most ACP states. The EEC side wished to define economic reform in ACP states and to divert additional ACP production to domestic or intra ACP markets. The ACP side desperately needed additional net resource transfers to loosen the import capacity nooses strangling dozens of their economies (not only in Sub-Saharan Africa). Lomé III has perhaps halted the real per capita resource transfer decline through the European Development Fund (EDF) and has markedly upgraded support for intra-ACP economic cooperation. It reorganised resource allocation to five year sectoral country (and in three cases regional) programming following policy dialogue. In addition, it formally introduced human rights as a serious area of mutual concern - notably in respect to South African apartheid and destructive engagement against ACP members.

Opportunity or disaster : crisis as context

The economic environment in which 'Lomé IV' is being negotiated is very different from that surrounding previous negotiations. The sharp deterioration in the external circumstances of most ACP states calls into question whether the existing Lomé instruments are still relevant to the problems being faced, how-

ver effective they may have been in the past. **What is feasible** given the current economic situation in Europe? And **what is needed** given the state of the ACP?

The **EEC states** have seen consistent, if slow, economic expansion in recent years, and have a large surplus on their collective external trade account. They see a **need to bolster the growth in world trade and to reduce major external imbalances** as key factors in any strategy to sustain their own growth. Hence, they have the means and the desire to introduce into Lomé reforms that could ease the economic plight of many ACP states.

With a handful of exceptions, the **ACP states** all face a series of **profound crises** that have been growing at least since 1980. Whereas Lomé I was signed following a period of rising commodity prices, 'Lomé IV' follows a **profound and continuing collapse in primary product prices** and a **severe worsening of the ACP's terms of trade**. The **imports of Africa**, for example, when expressed in current dollar terms **have fallen every year since 1981**. As a result, Africa's share of total Third World imports has dropped by almost one-third. In 1981 Africa accounted for 14.9% of imports by developing countries; by 1986 this share had fallen to 10.5%.

This drop in imports has been a result of **poor export performance** and an **external debt that is unmanageable** (as well as being unserviceable through any policies that are consistent with a recovery in per capita economic growth). The result has been a **vicious circle of 'import strangulation'**. Manufacturing **industry** that is dependent upon imported inputs has been working at only a fraction of capacity, and even **agriculture** has been hit badly by shortages of fertilisers, pesticides, fuel and spare parts for transport and for processing, and of goods in the shops to encourage farmers to grow more food for sale. The net result has been a **sharp fall in average household real income, in access to basic services** (leading to a decline in **human investment**) and an **increase in the number of households living in absolute poverty and malnutrition**.

A majority of **ACP states** have launched **major efforts to undertake strategic reconstruction and structural adjustment**. These have required great political courage and determination on the part of governments. Yet few are succeeding and many have collapsed. The **inherent difficulties** in achieving such profound changes in economic structure have been greatly exacerbated by the **deterioration of the external environment** in which structural adjustment has been attempted, not least the decline in terms of trade and stagnation in net resource transfers reducing both total resources and import capacity.

If **'Lomé IV' is to be effective it must address the following key issue**: *How can the European Community (EC) best assist the ACP to overcome the external constraint on their domestic policies required to break out of the vicious circle of economic decline into which they have entered?* An important part of any policies that address this question must be an **increase in the flow of real resources from the EC to the ACP**. This can be achieved both by increasing the size the EDF and by accelerating disbursement, including that of balances from earlier EDFs.

At a time when well-conceived development efforts are being undermined by 'import strangulation' the centrality of the 'project approach' to aid is questionable. If a rural development project cannot operate effectively through an acute shortage of vehicles and fuel, it is clear that a first priority must be to **break the import capacity log jam**.

Article 188 provides the Lomé Convention with a clear mandate to take a lead in easing the import bottleneck. The objective of such aid is specifically 'to contribute to the optimum functioning of the productive sectors of the economy...' and it is specifically intended that the aid should be used to help resolve structural adjustment problems.

In addition, the Lomé framework should be used to **explore an EEC-ACP role in debt relief**. At least half of the ACP states (including one or more in each region) are severely debt distressed. They cannot ever repay (or even pay interest on) their external debt unless they grow rapidly and they cannot grow rapidly (or even slowly) if they do service that debt.

It clearly requires a **greater direct co-ordination between the national indicative programmes (NIP) under Lomé and the reconstruction and structural adjustment programmes of recipient states**. This co-ordination should **extend beyond the EDF to food aid allocations**. It should also make use of the regional dimension of Lomé to **encourage regional solutions** to the problems of structural adjustment.

The external constraint on development will also be loosened by Lomé reforms that **facilitate ACP trade export expansion**. These could include, for example, the simplifying and loosening of rules of origin, more concessions on products covered by the common agricultural policy (CAP), and co-ordination between the EC and ACP in the GATT round.



AGENDA FOR PRIORITY CHANGES IN 'LOMÉ IV'

The following is a possible agenda and one relevant to needs and legitimate concerns of both sides. It is not an easy one because it requires major resource augmentation as well as allocational rethinking.

Resource transfers and economic reconstruction

A. The ACP/EEC relationship has always aspired to be **more than an aid modality plus a trade insurance policy**. To a degree it has succeeded. **But for many ACP states net resource transfers are the single most important aspect** of the Conventions given that their principal exports would also enter the European market duty free without Lomé. This is even more true in today's circumstances than before.

The **minimum priority for 'Lomé IV' is constant per capita real resource transfers under EDF to maintain the impetus of present cooperation** focused on agriculture, transport and other infrastructure. That will require a nominal **increase of the order of 50%** to off-set inflation and population growth.

B. But 'Lomé IV' should respond to the entrenched crises now clutching most ACP states and dragging down their economies. Because one key element is import strangulation, it should include **substantial, additional quick disbursing resources usable as import support for key sectors**. What goods for what sectors need to be mutually identified with ACP countries concerned.

Funding of up to 3,000 million ECUs could be found as of 1990 from *unspent Lomé I-III allocations*. To the extent these were tied to ongoing projects, the projects (if the ACP state concerned desired) could be rolled forward to the 'Lomé IV' country programme (NIP) clearing the balance for economic resuscitation via import support.

C. Production by poor people (both agricultural and urban informal production – especially by women) and **access to basic services** (primary health care, education, water – also of special value to women) are among the areas hardest hit by the crises and **least well served by standard 'stabilisation and structural adjustment' programmes**. But a concern either with economic efficiency present and future or with human rights requires giving **priority to both**. That was clearly demonstrated in the recent UN system 'Human Dimension' Conference in Khartoum and affirmed in its closing declaration.

The key to unlocking Africa's hunger pattern lies in empowering poor rural households to grow enough to eat and poor urban households to earn enough to buy food. Because it is need – for food, for fuel, for cash – which is the dominant cause of environmental degradation in most ACP states, environmental protection requires that poor peasant households be enabled to produce less damagingly and that soil, water and tree conservation and reclamation economically be made viable for them. Similarly, historically, **falling infant mortality, rising female education, and improving nutritional standards are all preconditions without which any population growth policy fails** (unless based on brute force).

The existing human resources available to implement Lomé on both the EC and ACP sides are not necessarily the most appropriate for a strategy based on these objectives. Projects relevant to poor people's production and cost-effective access to basic services exist in significant numbers, but their design and implementation requires different skills than used in many conventional, large-scale infrastructure projects. To overcome such problems the **EC and ACP should call upon the good offices of those organizations that do have experience in such an area** to help articulate and implement more poverty-oriented programmes. These include a certain number of ACP states which do have experience in this area together with UNICEF, IFAD, and ILO/JASPA and some EC and ACP NGOs.

D. Food aid – now linked to DG VIII – should be more closely co-ordinated with reconstruction and development (as well as, at present, with **emergency and survival**) **aspects of country programmes**. Monetised food aid can provide counterpart local currency to complement EDF import component finance in present indicative programmes and especially to above (C.) proposed production by poor people/access to basic services focus. It shares this characteristic with the sectoral import support focus proposed above (B.) in which – e.g. – fertiliser sale proceeds could help local costs of – e.g. – rural roads and small scale irrigation schemes.

E. The EEC/ACP needs to **address the central problem** of at least half its membership that is not able to **repay its external debt and grow rapidly at the same time**. To be a serious contribution, there must be a **dialogue** that goes **beyond retrospective and prospective adjustments to European Investment Bank lending** to debt distressed ACP. The dialogue should also provide a **real forum**, preferably a framework jointly agreed by EEC and ACP members, **for seeking guidelines and co-ordinated actions for EC member state debt renegotiation and burden reduction with ACP states**. It could usefully begin from proposals of the UN's Wass Report and the OUA's 'common position'.

Elements should include:

- rescheduling with extended grace and repayment periods plus reduced (say 2% to 4%) interest on the balances not written off;
- substantial writeoffs both of bilateral loans and guaranteed export credits to debt distressed ACP states;
- cooperation in creative schemes to retire or refinance commercial bank debt at prices comparable to its real (secondary market) value rather than its unreal face amount.

F. How should the Lomé Convention relate to the dialogue between many ACP states and the IMF/World Bank? This ques-

tion is clearly of central importance for 'Lomé IV' since the **IMF/World Bank will be pushing**, and some ACP states will be adopting, **economic policies that determine the environment within which Lomé aid activities will be implemented**. Hence, if Lomé aid is to be successful it must **take account in its design of the implications of the incorporation** in national strategies of IMF/World Bank-approved policies.

Co-ordination between the EC, ACP and IMF/World Bank is therefore **necessary**; but this does **not mean that the EC should adopt within the Lomé context identical positions** to those taken up by the Bretton Woods institutions. This would represent a serious misallocation of EDF's resources, and a waste of Lomé's acquired strengths. The **strength and vocation of the Lomé framework lie in its distinctive country and region focus** and in the extent to which the Convention has been able to live up the rhetoric of a **'partnership'**. **National and regional indicative programme co-ordination** in respect to EDF should be **primarily with recipient states and their regional organizations** and only secondarily with other external sources of finance or purveyors of advice.

Trade – access and development

G. Rules of origin remain complex, opaque and somewhat erratic in results, especially for Caribbean and Pacific ACP states for whom the EEC is not a natural raw material product source. Similarly the unlimited, basically unconstrained **safeguard provisions** (providing only for consultation with affected ACP states) **do create uncertainty and deter investment**.

Both areas deserve serious attention because specific, case by case **improvements** cumulatively of real value to many ACP economies should, with mutual goodwill, be attainable.

STABEX needs reconsideration. It was an innovation but one directed to fluctuating commodity earnings not to the context of steadily declining commodity terms of trade and sluggish volume growth which has characterised 1980-87. One improvement would be **to cover processed as well as raw forms of the commodities**. Another would be **greater EEC commitment** to developing ways to **halt terms of trade declines**. This could include, but not be limited to, easing CAP barriers to access, to halting sugar, beef and other commodity dumping as part of CAP reform, and to a more creative approach to commodity agreements in selected products.

Assuming the **present GATT round** is successful from a South (including ACP) perspective, it will somewhat erode the value of preferential EEC market access to the ACP. That is a fact, but it does not mean that increasing the value of 'Lomé IV' and reducing general access barriers to South exports should be assumed to be contradictory.

Rather, the EEC should undertake to consult with its ACP partners as to their priorities for access improvement in OECD markets generally **and to take these into account in its negotiating priorities within GATT**. ACP states do not export solely to the EEC – nor would the EEC wish them to! – thus EEC support for their priorities in GATT can be worth more in general access gains than its cost in reduced EEC market preferences.

H. Support for regional cooperation among ACP states has been one of the Lomé Convention's distinctive and growth areas. Since Lomé III three EEC/ACP **regional indicative programmes** analogous to national ones have been negotiated **for ACP regional organizations**, i.e. for the SADCC, CARICOM and Pacific Forum states. This approach should be institutionalised in 'Lomé IV' and – to the extent possible – generalised to the Western, Central and Eastern African regions.

Further, 'Lomé IV' could usefully include **additional regional resource allocations** to support **intra-regional trade expansion**. These could finance pre-export import content finance and other revolving credit funds to facilitate getting such trade moving and to make the initial foreign exchange costs of expanding it more manageable.

The ACP states have consistently sought to build inter-regional cooperation. More recently they have identified concrete technical assistance and joint training programmes most effectively implementable at ACP level. **An ACP inter-regional cooperation fund (and subsequently an indicative programme for its use)** should therefore form a part of (and a new initiative in) 'Lomé IV'.

ACP enlargement can perhaps best be considered in a regional context. If the states of an ACP member regional organization desire a broader cooperation frame, and the EEC is willing to expand Lomé resources to maintain their real per capita level, expansion may be desirable. The precedent is the agreement by the EEC on the initiative of the Southern African ACP members that Namibia, on independence, would be eligible for ACP membership. On that basis the Maldives (if the Indian Ocean ACP members so desired) and Haiti, the Dominican Republic and – perhaps – mainland Central America (on CARICOM initiative) would be eligible. But ACP regional grouping support should be a precondition for all enlargement.

Human Rights: confronting apartheid aggression

Lomé III represents agreement on two principles: that human rights are a legitimate part of an economic cooperation Convention and that they must include the concerns of ACP states as well as those of EEC states. The clearest exemplification of the second principle are the provisions in respect to South Africa.

How 'Lomé IV' can go further on the general topic is not clear. The EEC is not the ideal arbiter of performance under the African Charter on Human and People's Rights. EEC states are not notably willing to accept an ACP/EEC role in reviewing human rights aspects of their immigration, resident alien and migrant worker policies or practices nor of racism in Europe more generally. Cases of gross abuse in ACP states – e.g. Bokassa, Macias Nguema, Amin – could and would lead to action; in less clearcut cases neither the EEC nor the ACP is likely to agree on a common course of action. Exploration of common ground is worthwhile, but major procedural breakthroughs over 1988-90 are by no means certain.

1. The area of opportunity is South Africa. It is a state founded on the denial of human rights. It illegally occupies what would otherwise be an ACP state – Namibia. Its actions cost ACP states thousands of millions of ECU's and scores of thousands of human lives annually. Gross abuse and damage to the goals of ACP/EEC cooperation are nakedly evident.

Lomé III made a start on which 'Lomé IV' should build. Some building blocks include:

- restatement of the present commitments to ending South African aggression, occupation of Namibia, and apartheid;
- enhanced support to the Southern African ACP states priority programme for reduced dependence on and vulnerability to South Africa as set out in the SADCC (Southern African Development Coordination Conference) Programme of Action;
- special assistance – including but not limited to massive food aid to Angola and Mozambique – to help offset the ravages of the South African armed forces and its proxies, and a clamp-down on European manifestations of these proxy forces – notably the so-called Renamo and UNITA – which are by normal definition terrorist bands and little else;
- enhanced support to Malawi to cope with the needs of the 500,000 Mozambican refugees forced across its borders by proxy force terrorism;
- material support for Southern African ACP state national and collective action to increase their security against the South African military and proxy forces;
- enhanced material support to the refugee rehabilitation, educational and other nation building activities in exile of SWAPO and the ANC and – if possible – support for democratic organizations in Namibia and in South Africa committed to genuine independence and to the end of apartheid;
- actions to raise the costs to South Africa of continued regional aggression, illegal occupation of Namibia and maintenance of apartheid.

Duration and negotiating format

J. That 'Lomé IV' is likely to have direct descendants is presumably universally accepted. That the Lomé II and III negotiations spent most of their time debating and re-adopting articles to which negligible substantive changes were made is well known to those involved in the negotiating processes. However, the pro-

posal that 'Lomé IV' consist of a Convention with indefinite (continuing) duration plus protocols (including EDF and other resource allocations) of five years duration poses real juridical and political problems for many ACP states.

How can one proceed on the agreed points while by-passing the formulation which causes problems? One step would be a three way division of the Convention:

- a. **main articles** on all topics including institutional, trade, resource transfers, intra-ACP cooperation, etc.
- b. **basic protocols** providing for implementation of trade and resource transfer articles and of special emphases such as debt relief, food aid co-ordination with EDF indicative programmes, protection against South Africa;
- c. **special protocols** subsidiary to articles or basic protocols, e.g. rules of origin, sugar, beef.

These could all be of **five years duration**, albeit for the **main articles 10 or 20 years** might be more reasonable. As of 1990 the Lomé series will have lasted 15 years.

What matters is that there be **procedural agreement that:**

- a. **main articles** will be renegotiated only to the extent that there are substantive proposals for change backed by a significant number of parties – otherwise they will be re-adopted undebated;
- b. **basic protocols** will need negotiation on numbers and – more frequently than articles – on programmatic or institutional substance. Additions and deletions are likely – albeit if the basic trade and resource transfer ones could not be agreed, the main articles would become dead letters;
- c. **special protocols** are for this purpose analogous to basic ones.

Such an approach would **concentrate negotiating attention and time on key issues of continuing or new programme levels, priorities and modalities**. That, not the exact duration of the next Convention, is the priority goal and on that goal there is a common ACP/EEC interest.

Choose to go forward

The Lomé negotiating process should respond to changed contexts, needs and possibilities. But it should do so creatively **building on the achieved strengths and uniquenesses of the ACP/EEC relationship and moving to develop new programmes of its own**. It should not seek to become an identikit piece of approaches designed by others. The **strategies and programmes** to which it should primarily relate and with which it should be coordinated are **those of the ACP partner states**.

That means greater co-ordination of EDF and food aid; specific attention to production by and access to basic services of poor people; furthering intra-ACP cooperation regionally and intra-regionally. It also means broader trade liberalisation and development plus the sharpening and enhancing of the human rights/economic protection focus with respect to South Africa. Institutional and negotiating changes should serve those substantive ends.

Achieving these priorities will require a **doubling of resources** – perhaps one half from a 50% increase in the new EDF and half from use of unspent balances plus additional food aid. Neither the **programmes nor the funding will be easy to negotiate** but they are **both needed and possible** and, therefore, well worth struggling for.

Author Note

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The bold type letters should allow quick readers to know the essence of the Lomé Briefing by reading only the phrases in bold type.