

# Report on the coherence between Europe's trade and development policy

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## Table of Contents

Acknowledgements .....	iv
<b>Introduction and overview .....</b>	<b>v</b>
1.EU soft and smart power in aid and trade.....	v
2.EU soft power in the case of the West Africa EPA Development Programme (PAPED).....	vii
3.EU soft power response to Botswana’s domestic EPA implementation priorities.....	viii
<b>Part I: EU: Soft and Smart Power in Aid and Trade? .....</b>	<b>1</b>
1.Introduction .....	1
2.Conceptual Considerations: Soft and Smart Power .....	2
2.1. Definition and definitional issues.....	3
2.2. Measuring soft power .....	3
2.3. Soft power shaping international system.....	4
2.4. Power: hard, soft and smart .....	4
3.Trade and trade-focused aid: moving from soft to smart power .....	6
3.1. Soft and Smart Power in the European Union.....	6
3.2. Data and methodology .....	7
3.3. Aid for Trade: Coherence between Member States and EU institutions.....	8
3.4. Aid and non-trade provisions in EU’s trade agreements.....	14
4.Broader aid policy .....	20
5.Conclusions.....	22
References.....	25
Appendix .....	28
<b>Part II: EU soft power in the case of the West Africa EPA Development Programme (PAPED).....</b>	<b>32</b>
1.Introduction .....	32
1.1. The need for accompanying adjustment support.....	32
1.2. What is the PAPED and why does it matter? .....	33
2.The PAPED: A Complex History .....	34
2.1. Origins and Context: The ‘Development Dimension’ of the EPAs and the WTO Aid for Trade Agenda.....	34
2.2. Towards the PAPED: the West Africa EPA Negotiating Dilemma.....	35
2.3. The Development of the PAPED .....	35
2.4. The EU Response of 2010 and Commitment to the PAPED .....	36

2.5. The 2014 Response and After.....	38
3.What Influence did the PAPED have?.....	38
3.1. What happened to EU Aid for Trade to West Africa? .....	39
3.2. Coherence and Quality of AfT .....	42
3.2. Broader Impact of the PAPED .....	45
4.Conclusions and key lessons .....	46
4.1. Next steps: a PAPED trapped in 2010 as we enter 2020 .....	47
4.2. Alternatives Going Forward? .....	48
4.3. Broader conclusions for EU soft power? .....	48
References.....	50
<b>Part III: EU support to the Botswana EU-SADC EPA Implementation: A case study .....</b>	<b>53</b>
1.Introduction .....	53
2.EU Aid for Trade support to Botswana .....	54
3.Strategic alignment of EU support to Botswana’s implementation of the EU-SADC EPA .....	55
4.What does the EPA Support Programme entail?.....	57
4.1. Increased and diversified exports to the EU and regional markets .....	57
4.2. Enhanced enterprise and product competitiveness along selected value chains .....	57
4.3. Increased FDI in support of the export effort.....	59
5.Other regional EPA support benefiting Botswana.....	59
5.1. Areas of support.....	59
5.2. Challenges.....	62
6.Moving forward.....	63

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## Introduction and overview

Is the European Union (EU) trade policy an effective means for the EU to pursue some of its non-trade policy objectives and exercise its soft and smart power? In particular, has the EU been able to promote development objectives and some of its values, through linking its aid to its trade policy?.

These are the questions addressed in this report. We do so by looking at the ability of the EU to act coherently through its institutions and its Member States to influence attitudes and non-trade policies across the world through soft power and trade-related policies, notably through aid policies.

We find some mixed evidence of coherence and complementarity of EU trade and aid policies, and between EU institutions and member states. We then consider whether a more structured approach linking EU aid to trade-related development needs can enhance this coherence and complementarity. Considering the case of the economic partnership agreement concluded by West Africa with the EU, we find that collective EU aid commitments helped the conclusion of the agreement, as a sign of the EU soft power, but did not contribute in practice to an effective trade-related development programme. This is in contrast to the situation with some other EU partner countries, as in the case of Botswana, where a more consultative and flexible approach seems more promising in terms of complementarity between the EU institutions support and Botswana trade-related needs and priorities.

The report is structured in three parts.

### 1. EU soft and smart power in aid and trade

In Part I, we look at the interrelationship between soft power, trade and trade-related aid, of the EU institutions and the EU Member states. We first discuss the meaning of 'soft power' in detail. We note that for the inventor of the concept, Joseph Nye, soft power referred specifically to a power of attraction that would induce partners to see a country or bloc as an example to be copied. The choice of many countries to imitate the United States during the cold war and the eagerness of countries in Central and Eastern Europe in the 1990s to emulate the EU are exemplars of this. Nye's work stressed that the use of coercion or inducement forms part of a harder form of power while the concept of 'smart power' captures the complementarity between soft and hard power.

The lesson we draw is that trade and trade-related policies, such as trade-focused aid, embody incentives and carry implicit penalties, and as such these policies do not by themselves constitute soft power, but they may create it if the EU action is welcomed. Indeed, the giving of unconditional aid to country A may create a favourable perception in country B, and in so doing generate soft power. On the other hand, conditional trade preferences, or aid donations, may serve to diminish soft power if it is perceived negatively by the recipients. Using a Finger-Kreinin similarity Index, we go on to explore the coherence of trade-focused aid commitments between the EU Institutions and four key Member States (Germany, France, the UK and the Netherlands), to shed light on the extent to which the Member States project the same smart power values as the EU institutions, and the connection between the values espoused by the EU in its trade agreements and the patterns of aid given to its preferential trading partners.

Overall, we find that the correlation between EU Member States and EU institutions' aid allocations are predominantly positive, indicating that the EU and its Member States are to some extent pulling in the same direction. Notwithstanding this, we find the degree of coherence with the EU institutions to vary across the

key Member States. In particular, we find Germany and France to be relatively more aligned with the EU Institutions, and increasingly so over the time period.

Overall, the degree of similarity is found to be lower with respect to the donors' distribution of aid by recipient country compared to the aid by functional category. Indeed, both the UK and the Netherlands are found to display a degree of divergence from the EU Institutions with respect to aid by recipient, where the Netherlands in particular appears more similar to the US than to the EU Institutions.

Further, we find mixed evidence of the complementarity between aid policy and trade policy. The EU institutions appear to focus their trade-related aid particularly on relatively closely integrated countries with the potential of future accession to the EU, but the same pattern is not observed in the aid given by the Member States.

In addition, we find aid to GSP+ countries to be somewhat more focused on the sustainable development objectives than for GSP countries, coherent with the fact that the deeper preferences in the GSP+ scheme are directly conditioned on the partner countries implementing a range of sustainable development provisions. Further, we find the EU institutions' aid to countries with an Economic Partnership Agreements (EPAs) to be particularly focused on the sustainable development objectives, although the same pattern was not visible for the Member States.

Finally, we show some evidence of a positive correlation between the depth of environmental provisions in the EU's trade agreements and the share of aid with an explicit environmental focus. However, overall, we find limited complementarity between the depths of non-trade provisions in the EU's trade agreements and aid with sustainable development objectives, although more rigorous analysis is needed to explore this issue fully.

Our conclusions suggest that the EU needs to develop further its thinking on complementarity among actors. One can imagine a scenario in which EU institutions and Member States simply replicate each other's spending, in which case there would be no point in separate activity. There could also be pure 'negative complementarity' with Member States doing exactly the opposite of what the institutions encourage, e.g. the EU incentivising regional cooperation and certain Member States encouraging unilateral actions. But what we observe in reality is neither of these, instead we see what we might call 'positive complementarity': the EU Institutions and the Member States appear to promote similar but not identical aims. As Nye has suggested this can be linked to soft power in a positive way. Where there is a favourable attitude in a recipient partner to a particular donor or a particular goal it makes sense to link aid from the most favoured source and most acceptable objectives.

Our reading of the GSP and EBA experience is that there is a symbiotic relationship between soft power and smart power, as we have used the term. The existence of soft power means that in certain cases a partner is predisposed to act in a certain way and will respond without hesitation to incentives to act in that way. A successful partnership of this kind, where the donor is perceived as acting in a benign way, actually increases soft power for the future. We give Pakistan as an apparent instance of this. Further, the Cariforum EPA negotiators have reported that they were persuaded by the EU that the incorporation of tighter intellectual property rights was in their own interest.

The experience of EU structured approach to EPA support in West Africa (see Part II) generates complex lessons. The EU sought to use a mix of pre-existing soft power via Member State links and its own smart power package. This was partially but not wholly successful. By contrast, it is widely reported that even unconditional commitments by China to some countries in Africa causes resentment.

Looking forward, one approach that the smart power strategy suggests is that the European External Action Service should undertake periodic surveys of the soft power potential of the EU (as opposed to Member States which are the current focus of existing surveys) among trading partners. Such surveys might specifically look for countries that are especially admiring of EU deep integration and trade and aid policy and are therefore likely to be sympathetic to smart power strategies based on aid for trade and non-trade chapters (e.g. environment, labour rights) in trade agreements.

## 2. EU soft power in the case of the West Africa EPA Development Programme (PAPED)

The EPAs between the EU and African, Caribbean and Pacific (ACP) countries have been primarily envisaged as a development tool. Yet, many ACP countries have been reluctant to conclude an EPA, having concerns about the effective development dimension of the EPA. They also asked for more development support from the EU. In an effort to overcome these differences and help the EPA negotiations move forward, and following the impetus of the Aid for Trade (AfT) initiative of the World Trade Organization in 2005 and ensuing joint EU Aid for Trade Strategy in 2007, the EU agreed to collectively seek to provide adequate support measures to accompany the EPAs. To stimulate a coherent and effective approach, the EU has encouraged West Africa to adopt a structured approach based on a comprehensive assessment of its EPA-related needs. This led to the formulation of the West Africa's EPA Development Programme, better known by its French acronym (PAPED), to which the EU promised to respond collectively (i.e. EU institutions and member states).

We seek to identify whether the more structured approach followed by the region to assess its needs, and the ensuing collective response by the EU, has effectively contributed to a better alignment of the EU support to the trade and development objectives of the EPAs, and a more tailored approach to EU EPA-related aid for trade to meet West Africa needs. As such, the PAPED experience represents an interesting case study in the exercise of EU soft power within the specific context of its trade negotiations with one particular region. Fully assessing the PAPED is not easy, not least because, with the West Africa EPA yet to be ratified, the PAPED was never fully operationalised. Nevertheless, the expectation that it had at least some subsequent impact on EU's AfT to West Africa provides the possibility of reviewing its progress, its influence in the EPA process, and the lessons yielded by the experience.

The PAPED approach led to a deeper level of negotiation over AfT allocations, that extended even to efforts on EU aid programming, in particular at the regional level. Yet, while this approach may have made sense in the context of the EPA negotiations at the time, in the final analysis, it yielded few benefits. Despite playing a central part in the EPA negotiations, West Africa did not receive comparatively more AfT than other regions as a result of elaborating the PAPED. In line with elsewhere, West African countries did receive AfT at increased levels (matching levels discussed in the PAPED), but we find no evidence that this is as a result of elaborating the PAPED, when compared to other EPA regions. Overall, we find some evidence that those African countries that have signed and are implementing an EPA do receive more AfT than non-signatories, suggesting some alignment between EU aid and EPA, as indicated in Part I.

There is no clear evidence that the allocation of EU AfT has been affected by the PAPED priorities. The PAPED does not seem to have influenced donor's coordination on the ground, between EU institutions and member states. There is little evidence that the PAPED led to a change in EU Member state priorities, or that it changed the coordination at the level of programming between the European Commission (EC) and EU member states.

The PAPED did not influence the national programming of EU aid, though it had an influence on the design of the regional programming. Unfortunately, the quality of AfT projects may have suffered as a result of the excessive focus on the PAPED. Because the PAPED identified only 'new' or non-funded projects in 2009-2010, there was some debate over whether these were neither the highest priority or 'best quality' projects. Potential multi-donor regional projects that were not part of the PAPED were excluded from discussions. Besides, despite the insistence that PAPED projects were EPA-focused (and therefore required additional funding *by virtue of* a country signing and implementing an EPA), it is likely that most were funded in any case, either by the EU or other donors.

The opportunity cost of PAPED was that it created an unnecessary and prolonged period of missed opportunity for a more constructive engagement with respect to aid or trade. By creating a strong link between trade negotiations discussions over AfT programming ended up being conducted in a confrontational rather than collaborative setting, turning the programming of AfT into a 'political bargaining chip', and less of an objective response to the trade-related needs of the region. Furthermore, the discussions led to a framework that turned out to be rigid and entrenched, lacking of flexibility to respond quickly to changing AfT needs. It is important to note that this dynamic was created by both the EU and West African side. The EU placed emphasis throughout the negotiations on the 'development dimension' of EPAs yet without fully defining this. West Africa for its unrealistic expectations for additional funding and the focus by trade negotiators on delivering a negotiating 'win' for member states with the PAPED, rather than broader goal making the most effective use of AfT for increasing trade.

While EU efforts to link aid to trade negotiations are commendable, both from a development and negotiation perspective, the overly structured and rigid approach pursued under the PAPED has been time consuming with limited impact on development support, if any. Its main achievement seems to have been to help reach a politically acceptable conclusion of the EPA negotiation with West Africa. In this respect, it has been an expression of EU soft power, linking trade and aid.

### 3. EU soft power response to Botswana's domestic EPA implementation priorities

This Part briefly examines the support strategy from the EU for the EPA implementation by Botswana, one of the six members of the Southern Africa Development Community (SADC) in the 2016 EU-SADC EPA. In contrast to the West Africa experience with PAPED, the EU appears to respond in a flexible manner to the EPA development needs and priorities identified by Botswana itself. It is based on consultative processes, building on domestic strategies and ownership, and anchored in a regional approach. By doing so, the EU seems to have usefully exercised its soft power by linking its aid to trade priorities.

However, there have been some challenges, linked to the national-regional nexus and capacity constraints both financially and human resources. While the EU institutions have aligned their EPA support to domestic processes, the EU has not acted collectively, with most EU member states absent from this effort.

The EPA Support Programme implementable from next year focuses on increasing and diversifying exports; enhancing competitiveness along beef and leather value chains; and increased foreign direct investments in support of the export effort. This requires not only effective domestic implementation but also regional coordination through the SADC EPA Unit. Lessons learned so far emphasise the imperativeness of capacitating both domestic and regional institutions to ensure that the EU-SADC EPA is fully implemented to meet its objective for sustainable development through trade and investment.



## Part I: EU: Soft and Smart Power in Aid and Trade?

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### 1. Introduction

This study explores the ability of the EU to act coherently through its institutions and its Member States to influence attitudes and non-trade policies across the world through soft power and trade-related policies, notably through aid policies. The questions we aim to address include:

- What is “soft power”?
- How is it related to trade and aid policies?
- Do the EU institutions and the Member States project the same values and strive towards the same objectives via trade-related policies? And are these more coherent within the EU than with an outside country such as the US?

Earlier work has shown that the actual degree of regulatory alignment included in EU FTAs, especially with developing countries, is modest and contains a large aspirational element.<sup>2</sup> This work led to the conjecture that the EU strategy might have more long-term aims and effects, perhaps spreading norms, initially through the adoption of voluntary agreements, which would create rules by custom and practice, or indeed through encouraging other countries to adopt EU norms and rules as a result of the EU leading by example, which would be a manifestation of the purest form of soft power.

The first section of this study explores the notion of “soft power”. On close examination, it emerges that the term soft power as originally used by J. Nye has an extremely narrow meaning: “Soft power is the ability to obtain preferred outcomes by attraction rather than coercion or payment” (Nye, 2017). In its original meaning, soft power is not an instrument that can be used, but rather it is a kind of gravitational or reputational force exuded by a country or region whose polity and culture creates admiration and goodwill, and inspires a wish by other countries to imitate.<sup>3</sup> Soft power is therefore not so much exercised as experienced, and in Nye’s view it emanates from civil society even more than government.

The most striking example of EU soft power occurred in the early 1990s when there was a rush by Central and Eastern European countries (CEECs) to join the EU after the collapse of communism, although not in any way led by the EU itself. Soft power manifested itself in the wish of countries such as Poland to copy the EU regulatory model. The CEC (1995) White Paper gave the EU’s view on the link between trade and regulation, and spelled out conditions for market access. However, the process was far more one of a spread of EU values leading to both policy harmonisation and trade integration.<sup>4</sup>

However, as we will document in our review of the soft power literature, Nye later acknowledged the limits of the concept of soft power. For Nye, *any* use of coercion or incentives are forms of hard power and any combination of carrots and sticks in a context where there is soft power in place qualifies as *smart power*.<sup>5</sup> Smart power is a package in which soft power supports the use of harder power tools.

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<sup>1</sup> The authors are extremely grateful to Sewek Gasiorek and Anna Szamely for excellent research assistance and to Dr. Hammed Roohani for surveying the IR literature on soft and smart power.

<sup>2</sup> See Horn et al (2010), also Dawar and Holmes (2011).

<sup>3</sup> Soft power as a cultural force is extensively dealt with in Chitty et al (eds) (2016).

<sup>4</sup> This period came at the end of the cold war during which the US possessed a form of soft power, as outlined by Nye.

<sup>5</sup> Interestingly, Nye developed his ideas further in evidence he gave to the UK House of Lords’ study of the UK’s soft power influence. Interestingly, Nye developed his ideas further in evidence he gave to the UK House of Lords study of the UK’s soft power influence.

There is a perception, especially in the United States, that the EU is trying to export its regulatory integration model by demonstrating that integration and regulatory harmonisation are consistent with improved economic welfare. To the extent that other countries spontaneously copy the EU, this is pure soft power, but where the EU gives incentives in the form of trade and aid policies this is better described as “smart power”. The very process of collective action by the EU, as illustrated by the evolution of the EU system, may generate soft power, though to utilise this needs “smart power” as well.

Our study is therefore about the interrelationship of soft power and smart power with trade and aid policy. In the second part of this study we look at the extent to which the EU is able to diffuse its values in a way that might eventually lead to the adoption of similar regulatory norms. We seek to identify the role of “soft power” in trade and trade-related policies and seek to assess how far there is coherence between the EU institutions and the Member States. Clearly, individual Member States do not have separate national trade policies, but they do have their own *trade-related policies*. One of the most important of such related policies is development aid, and the regulatory policy dimension manifests itself in the areas of aid policy where aid is linked to domestic policy goals, which are linked to “soft power”. Recipients are more willing to accept aid from countries with which they feel an affinity. Surprisingly perhaps, this often includes relations with ex-colonies.

In our review of the soft power literature we found a number of references to aid and trade policies as soft power, an issue we discuss in the next section, before moving on to our empirical work. Here, we explore the degree of similarity in the values projected through the EU’s trade-focussed aid (notably Aid for Trade) and the interrelationship between the non-trade objectives embodied in the EU’s trade policy and aid programs of the EU Institutions and the Member States.

As a final note we should observe that Nye (2017) insists that his concept was not intended to have normative implications. Any organisation or person who attracts followers willing to obey their principles and act accordingly enjoys soft power. Moral authority confers soft power. But so too do other forms of charismatic leadership, such as even Osama bin Laden, who might be able to induce followers to commit egregious acts, whilst on the other hand one might sometimes approve of the use of military force to eliminate a brutal and aggressive regime.

## 2. Conceptual Considerations: Soft and Smart Power

We start this study with a discussion of ‘soft power’ and ‘smart power’, and the way in which trade and aid incentives can be used by a country to leverage the soft power it already has. We look at the interactions of soft and smart power in the field of trade and trade-related policies. We were drawn into a rather specialised literature by what we realised was an ambiguity in the thinking of economists, including ourselves, about how soft power manifests itself. It is clear that soft power, as usually defined, does not include giving trade preferences and probably does not include the giving of aid in the expectation of anything being given in return.

Soft power as a concept was introduced - in fact re-introduced as the idea had been around for a long time - in the 1990's by Joseph Nye in a series of contributions, and Nye has remained the main reference for the concept ever since. The basic idea is that, rather than coercing, soft power co-opts; the thesis is that once a country is admired for its values, or for its general success, other countries will want to follow it and such a desire has a meaningful effect on the outcomes. To Nye, soft power is the ‘power of attraction’, the influence of example, as opposed to the influence derived from harder forms of power that include coercion or inducement (such as military force, economic sanctions and even

economic aid). That is, soft power is the power to seduce others to follow you because of the magnetism exerted by your culture, political values or foreign policies (Nye, 2004: 11)

Nye argues that both hard power and soft power are important – for instance in the war on terrorism - but attraction is much cheaper than coercion, and an asset that needs to be nourished (Nye, 2004). However, as Lawson (2015:105) has noted, Nye warned that arrogance can turn attraction to repulsion, the consequences of which are very significant for a country's influence and security.

Nye's analysis was focused on the United States, but his work draws on an earlier strand of ideas which focused on the EU: Francois Duchêne's notion of the EU as a "Civilian Power" (Duchêne, 1972,1973)

## 2.1. Definition and definitional issues

It is hard to define soft power, and it is even harder to explicitly delineate its dimensions and the conditions under which it manifests itself (see for instance, Dunn, 2009:41; Commuri, 2012:43). Even though the concept is frequently used in academic as well as policy circles, as noted by Commuri, (2012:43) it is a term that defies generalization. Scholars are puzzled by the processes through which soft power unfolds and its impact on bringing about desired policy change. Intuitively we understand that soft power must exist and does exist, and yet attempts to grasp it gives only limited clarity.

According to Nye (2008b) "Soft power is the ability to affect others to obtain the outcomes one wants through attraction rather than coercion or payment. A country's soft power rests on its resources of culture, values, and policies." Soft power is a hybrid concept, in the sense that it combines elements of attribute power – where a country is admired because of its institutions, sporting achievements, educational resources or whatever – and structural power – where the suggestion is that soft power shapes agendas in ways akin to Mann (2012)'s concept of ideological power.

## 2.2. Measuring soft power

Many political scientists believe that soft power, like other demonstrations of power, are abstract concepts that cannot be measured objectively and precisely. Power –in general- is a contested concept in political science (Badie, et al. 2011).

For the same reason, one cannot readily measure the extent to which the soft power exercised by the individual EU Member States contradicts or enhances the EU's soft power as a solidarity unit. The annual Softpower30 reports<sup>6</sup> are an attempt to quantify soft power by worldwide polling and the use of digital indicators of influence. The report ranks countries of the world based on six components: digital, cultural, enterprise, engagement, education, government. This index includes factors such as the reputation of universities, tourist attractions, internet connectivity and attitude surveys. In all years since 2015, three out of the top five countries have been EU Member States (the UK, France and Germany). In 2019 four out of the top five were EU countries, as Sweden was scored at number 4. In 2017, France held the first place, in great deal due to its diplomatic network and engagement in multilateral and international organisations, but also boosted by the election of President Macron. In 2018, the UK overtook France for the top spot, but was subsequently overtaken by France again in 2019.

Studies have identified a number of factors that may decrease or increase a country's soft power. The use of hard power may, for example, diminish an actor's soft power. Indeed, the EU has hoped to be

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<sup>6</sup> <https://softpower30.com/blog/>

able to benefit from its “non-threatening” attitude towards its neighbours to induce them to adopt its norms even if it is hesitant about accepting them as members.<sup>7 8</sup>

Some studies also suggest that the rise of soft power of one actor may decrease the soft power of another. In a Wall Street Journal Commentary, Nye (2005) highlights that China pursues its interests through dialogue and cooperation based on accepted norms of culture, political values, and diplomacy, rather than through unilateral action. China’s increasing adherence to soft power has increased its regional dominance at the expense of the US and Japan. By engaging in a variety of multilateral settings, China claims its own status as a great power. It participates in multilateral forums such as “ASEAN+1” where Beijing is capable of playing a leadership role and garnering “soft power” through the provision of collective goods such as market access, development funding, and common security through secure frontiers and common opposition to separatism (Kavalski, 2009: 54). China would gain soft power in this context by making unilateral concessions to others and generating goodwill.

Having strong scientific institutions such as top universities also boosts soft power. According to Archibugi and Filippetti (2015: 64), there has been a proliferation of academic rankings of world universities in recent years, but their importance has gone beyond the interests of students and university administrators and has caught the attention of policymakers. Having top universities will secure global “soft power” in the sense of “knowledge is power”. The attraction and retention of international talent by top universities subsequently feeds back into their host countries’ knowledge system by boosting its innovation capacity.

The concept of soft power has been applied in many areas: political, economic and social. The concept appears in conjunction with terms such as culture, communication, international cooperation.

### 2.3. Soft power shaping international system

The studies on soft power suggests that the soft power of the West has helped reduce tensions and bring harmony into the international system. It is particularly so for developed-developing tensions in the international system. Baylis, et al. (2017:158) assert that the third world that had previously challenged the Western order (especially in their demands of the 1970s for a New International Economic Order) would now become increasingly enmeshed, socialized, and integrated. The nature and dynamics of power were changing. Soft power would outstrip hard coercive power in importance, and concentrations of liberal power would attract rather than repel or threaten. Just as the example of a liberal and successful European Union had created powerful incentives on the part of weaker and neighbouring states towards emulation, and a desire for membership, so, on a larger scale and over a longer period, a similar pattern would be observed in the case of the liberal, developed world as a whole.

### 2.4. Power: hard, soft and smart

Power is addressed in different guises; hard power, soft power, smart power, structural power, sticky power and so on. The relationship between these types of power is complicated and multidimensional.

As far as hard power and soft power are concerned, the main question is whether they are substitutes or complementary. The answer is affirmative to both questions. As expressed earlier, the two can be

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<sup>7</sup> <https://europe.unc.edu/iron-curtain/power-and-politics-the-prisoners-dilemma/the-eu-and-soft-power/>

<sup>8</sup> Monocle, <https://monocle.com/film/affairs/soft-power-survey-2016-17/>, carried out its survey in late 2016 and had the USA at the top of the table, while surely correctly anticipating that the election of President Trump was likely to change that (Brown, 2019:132).

substitutes because the more an actor exercises its hard power the less will be its soft power. However, not everyone agrees on this point. Soft power is dependent on hard power and its resources. In the many contributions on the issue, soft power is often seen as adjacent to hard power, in the way that only those with hard power may have soft power, and soft power does not seem to have an existence of its own independent from hard power and its resources. For example, Jarvis (2011: 252-282) argues that the distribution of most forms of soft power correlates to some extent with the distribution of economic and military resources. Jarvis (2011: 256) reasons that soft power matters, but by itself cannot establish or alter the international hierarchy. Some middle powers such as Canada are widely admired, but it is unclear whether this redounds to their benefit in some way or helps spread their values. But note that Canada has exercised significant convening power in 2019 on the topic of reform of the WTO at a time when major trade powers and notably the US and China have been distracted by trade wars. Although states that lose economic and military strength often like to think that they can have a disproportionate role by virtue of their culture, traditions, and ideas, this is rarely the case. Intellectual and cultural strength can feed economic growth and perhaps bolster the confidence required for a state to play a leading role on the world stage, but material capabilities also tend to make the state's ideas and culture attractive.

The concept of 'smart power' captures the complementarity between soft and hard power. According to Nye (2009), smart power involves an intelligent combination of the two, to advance an actor's strategic purposes. Bjola and Kornprobst (2018:192) similarly state that smart power brings together hard and soft power via the strategic and simultaneous use of coercion and co-option. In other words, smart power is the capacity of an actor to combine elements of hard power with the impact of soft power in ways that are mutually reinforcing, such that the actor's purposes are advanced effectively and efficiently (Wilson, 2008:110).

This represents not a repudiation of realist premises but, rather, a combination of realist and liberal perspectives in what its proponents see as a more efficacious way forward for actors' foreign policy in the contemporary period (Lawson, 2015: 106). This conceptualisation is driven by the Liberal approach that observes the international scene, in which the logic of confrontation does not disappear to the benefit of the logic of influence, but is integrated into a continuum which deeply renews diplomatic action. On this matter Bjola and Kornprobst (2018) explains that the reasoning behind smart power is that, by combining hard and soft power, the limitations of each could be offset by the strengths of the other. The way to achieve this is by making sure that the elements of hard power (military intervention, legal sanctions, economic conditionality) and soft power (for example public diplomacy, educational exchange.) of a diplomatic strategy reinforce rather than undermine each other.

Smart power is very much used in conjunction with diplomacy, both inter-state and public diplomacy. As noted by Ruffini (2017:13-14) smart power as a concept in the field of diplomacy of foreign and security policy was defended by US former Secretary of State Hillary Clinton in the Senate's Foreign Relations Committee: "We must use what has been called "smart power", the full range of tools at our disposal—diplomatic, economic, military, political, legal, and cultural—picking the right tool, or combination of tools, for each situation". This approach is also central to the foreign policy of emerging countries like Brazil, China and India.<sup>9</sup> (Foucher 2013, p. 10).

For many, smart power is less an issue of catalysing diplomatic transformations in various regions of strategic interest, but rather one of pragmatically building alliances by investing in the production and delivery of global public goods. As pointed out by Nye and Armitage in their report on smart power, "states and non-state actors who improve their ability to draw in allies will gain competitive advantages

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<sup>9</sup> See Foucher 2013, Ruffini (2017).

in today's environment. Those who alienate potential friends will stand at greater risk" (Armitage et al., 2007: 10). The upshot of this argument is that, similar to soft power, smart power requires a broader time horizon to yield results, but like hard power, it requires significant material resources to create, deliver and sustain global public goods.

### 3. Trade and trade-focused aid: moving from soft to smart power

#### 3.1. Soft and Smart Power in the European Union

The theoretical review in the previous section has interesting implications for EU trade and aid policy. In a country over which the EU has soft power, i.e. a country which has goodwill towards the EU, the amount of suasion that is needed by the EU to achieve a certain outcome is lessened. In an extreme case, the partner will have internalised EU norms so much that it voluntarily does what the EU would wish it to do in a spirit of emulation. For example, the cold war era, in which countries wished to copy the US example was followed in the 1990s by an era in which the neighbours of the EU sought to adopt the EU's social and economic model and values in their entirety.<sup>10</sup>

***The lesson from our reading is that trade and trade-related policies, such as trade-focused aid, while not coercive, embody incentives and carry implicit penalties, and as such these policies do not by themselves constitute soft power, but they may create it if the EU action is welcomed.***

For example, in Pakistan the government (the Attorney General) reported that the conditions in the EU's GSP+ scheme were ones which it aspired to comply with, and having them as conditions in a trade arrangement was helpful to the country (Development Solutions, 2017). Similarly, the giving of unconditional aid to country A may create a favourable perception in country B, and in so doing generate soft power. On the other hand, conditional trade preferences, or aid donations, may serve to diminish soft power if it is perceived negatively by the recipients. This move has been criticised by some UK aid experts as likely to weaken UK influence.<sup>11</sup>

For simplicity we will conflate soft and smart power (though the reader should be aware of the underlying distinction). In the next section of the study we seek to explore the way that the EU collectively, and as individual Member States, try to achieve what could, very loosely, be described as their soft power objectives (the values it aims to instil in other countries). We do not have a precise index of soft power, or a way to measure its link to policies. Therefore, our analysis is necessarily indirect, and we infer the soft power objectives of the EU institutions and the Member States by looking at the values that are promoted through its trade and trade-related policies. More precisely, we aim to explore whether the institutions of the EU, and the Member States, appear to support the same goals and project the same values.

Since trade policy is uniform across Member States, we focus on an area where Member States have autonomy over their own policies. Trade-focused aid (such as Aid for Trade) is particularly interesting

<sup>10</sup> Critics might argue that it was local elites doing this. A small example would be Kosovo's introduction of a public smoking ban. <https://balkaninsight.com/2013/04/05/kosovo-bans-smoking-in-public-areas/>

<sup>11</sup> See letter in Financial Times, Dec 12th "Three 'Ds' of our foreign policy are greater than the sum of their parts" Melissa Leach and Tom Fletcher.

in this light, since it “blurs the distinction between the European Union (EU)-member state shared competence of development with the EU single competence of trade” (Brazys and Lightfoot, 2016).

### 3.2. Data and methodology

We set out to map the way that the EU Institutions and Member States actually deploy their potential smart power by looking at data on development aid, and the link between this and EU trade policy. We hope that by looking at the coherence of the EU’s approach we may gain an insight into the way that the EU can potentially create soft power, by inducing countries to adopt its values. A higher degree of coherence in the values it is projecting may give a higher chance of partners signing up to common principles.

We use development finance data from the OECD’s DAC Creditor Reporting System (CRS), and construct a dataset containing bilateral Official Development Assistance (ODA) commitments by EU Member State donors, as well as by EU institutions over the period 1997-2017. This dataset covers 206 individual aid sectors/purposes and around 200 different aid recipients. We only include aid given to developing countries and thus exclude any aid given to multilateral organisations. Further, since we are interested in the link between aid allocations and strategic objectives in a given year, we choose to look at aid commitments rather than aid disbursements. The former measures new undertakings by each donor in a relevant year, and thus gives a sense of the donors’ intentions in a given year. In contrast, aid disbursements measure the actual payments made by a donor in a given year, and, as there are sometimes lags between a commitment and a payment, disbursements can reflect commitments made several years in the past.

We wish to establish the level of coherence between EU institutions’ aid allocations and that of individual Member States. To do this we use a Finger-Kreinin Index (Finger and Kreinin, 1979). The Finger-Kreinin Index (FKI) provides a way of measuring the similarity of two sets of numbers. In the equation below,  $i_1$  and  $i_2$  are two donor countries,  $x^k$  refers to the aid flow by functional category  $k$ , and  $X$  refers to total aid across all categories. Thus,  $x_{i_1}^k/X_{i_1}$  is the share of country  $i_1$ ’s total aid that is allocated to category  $k$ .  $x_{i_2}^k/X_{i_2}$  is the corresponding share of category  $k$  in the comparator country ( $i_2$ )’s total aid. The FKI essentially measures the minimum overlap between these two shares, and sums across all categories to obtain a figure for the overall overlap/similarity between country  $i_1$  and  $i_2$ ’s aid allocation by aid category. The same formula applies when measuring the similarity across  $k$  aid recipients rather than aid categories.

$$FKI_{i_1 i_2} = \sum_k \min \left[ \left( \frac{x_{i_1}^k}{X_{i_1}} \right), \left( \frac{x_{i_2}^k}{X_{i_2}} \right) \right]$$

The FKI varies between 0 and 1, where an FKI equal to 1 means that a pair of countries have identical proportions of aid spending across all relevant categories or recipients. When the indicator is equal to zero, this means that there is no aid spending in common.

A key advantage of using the FKI, compared to a simple measure of correlation, is that FKIs are, by design, well equipped at handling data where observations are restricted to only take values between 0 and 1. In contrast, correlation coefficients are known to be reduced when the range of one or both variables are truncated (Im et al. 2017). This is important since we are predominantly working with proportions of aid commitments, whether it be by functional category or by recipient, which by its nature are restricted to the (0,1) range.

Our main interest is the relationship between individual Member States and the EU institutions, however as a control we also calculate the FKI between each Member State and the US. This enables us to establish whether any similarities that we find between MS and the EU institutions are relatively unique for the EU-MS relationship, and as such are an indication of distinct 'European' smart power, shared among the EU institutions and the Member States, or whether such similarities also hold when comparing with an outside country such as the US. Our analysis focuses on four 'key' Member States: Germany, France, the Netherlands and the UK because, combined, they account for over 70% of total bilateral ODA given to developing countries by all individual EU Member states.

In addition to information about the destination of aid commitments, and the functional category to which aid is allocated, our dataset also makes use of OECD's policy objective markers. The markers cover four policy areas (gender, environment, trade and participatory development/good governance), and take a value of either 0,1 or 2 according to the extent to which a certain aid commitment has been motivated by the relevant policy objective. Further, we use a dataset constructed by Lisa Lechner (2016) which includes measures of the depth of non-trade provisions included in a range of EU trade agreements.

### 3.3. Aid for Trade: Coherence between Member States and EU institutions

#### 3.3.1. Aid for Trade: overview

In 2005 the WTO launched the Aid for Trade (AfT) initiative. Aid for Trade aims to help developing countries take advantage of trade as an engine for growth, by assisting them in tackling domestic obstacles which act as internal barriers to trade. Overall, the AfT programme is focused on four key areas:<sup>12</sup>

1. **Technical assistance for trade policy and regulations:** includes help to develop trade strategies, negotiate and implement trade agreements.
2. **Economic infrastructure:** help to build roads and ports in order to better connect domestic regions with markets abroad, as well as improvements to telecommunications networks.
3. **Productive capacity building:** includes aid aimed at supporting the private sector to diversify exports and help them make the most of their comparative advantages.
4. **Trade-related adjustment assistance:** helps developing countries with the costs arising from trade liberalisation.

Since the AfT programme was designed to cover a wide range of potential barriers to trade, it is classified in relatively broad terms. The categories defined under Aid For Trade cover around half of all functional categories defined in the OECD DAC data, and in 2017, made up around 37% of EU Institutions' total bilateral ODA commitments by value, 30% for France and 22%, 19% and 16% for Germany, the Netherlands and the UK respectively. The broad classification of AfT has raised concerns as to whether some of the projects classified as AfT may in reality have limited trade focus (Brazys and

<sup>12</sup> There is a further AfT category, 'Other trade-related needs'. However, no data is collected by OECD for this category and as such we do not consider this category when analysing Aid for Trade commitments. For more information, see: <https://www.oecd.org/dac/aft/aid-for-tradestatisticalqueries.htm>



Lightfoot, 2016). Nevertheless, Aid for Trade is an adopted definition and widely used in the context of trade and development and we therefore use this definition in most of our analysis.

The EU adopted an Aid for Trade Strategy in 2007, which was subsequently updated in 2017. The 2007 strategy identified 5 key objectives:

- (1) “Increasing the collective volumes of EU AfT within the ambitious development commitments to raise overall EU aid gradually”;
- (2) “Enhancing the pro-poor focus and quality of EU AfT”;
- (3) “Increasing EU-wide and Member States’ donors capacity in line with globally agreed aid effectiveness principles”;
- (4) “Building upon, fostering and supporting ACP regional integration processes with an ACP-specific angle of the Joint EU AfT Strategy”; and
- (5) “Supporting effective AfT monitoring and reporting”. (Council of the European Union, 2007)

The subsequent 2017 strategy emphasised the need to address the fragmentation of EU AfT, and “improve the coordination and coherence of their [the EU institutions and the Member States] AfT with other forms of assistance” as well as the need to enhance the coherence of AfT with EU trade policy, and increase AfT for LDCs. (Council of the European Union, 2017)

Development assistance is given directly by the individual Member States, and each Member State have autonomy over how to allocate their bilateral aid. In addition, there is aid administered centrally at the EU, by EU institutions such as the Directorate-General for International Cooperation and Development (DG DEVCO) at the European Commission. Even at the central EU level (‘EU Institutions’), EU Member States can influence the aid spending. At the European Development Fund (EDF), for example, new projects must be approved by at least 13 Member States, whose voting weights are in part determined by the amount of money the Member States contribute to the EDF. (Concord, 2012)

While the EU’s Aid for Trade strategy aims to establish a collective EU strategy, development policy in the European Union is an area of ‘soft law’ (Orbie and Carbone, 2016). Indeed, while trade policy is an exclusive competence of the European Commission, aid policy is not. This is also recognised in the 2007 AfT strategy which states that “*“the EU will”* should be understood as referring to Member States and the Commission acting on a voluntary and flexible basis, fully respecting existing competences.”

Since development policy is an area of soft law, Member States are able to allocate aid to purposes, and to recipient countries, according to their own strategic interests and priorities. Due to the lack of *de jure* obligations in this area, if the Member States and EU institutions allocate their aid to similar purposes or countries, this can be viewed as a manifestation of the Member States and the EU institutions voluntarily (or coincidentally) projecting similar values (Brazys and Lightfoot, 2016).

Of course, although Member States ultimately decide over their own aid spending, this does not necessarily mean that they do so in isolation. Indeed, the European Commission’s Code of Conduct on Division of labour in Development Policy (2007) presents a set of concrete measures that aim to enhance the complementarity and coordination of aid spending by EU donors. The communication states that “complementarity starts with co-ordination, but goes much further: it implies that each actor is focusing its assistance on areas where it can add most value, given what others are doing”. Thus, the communication encourages EU donors to divide aid spending between themselves to let each donor focus on its areas of comparative advantage. It also aims to avoid certain areas, whether within countries or across countries, being saturated while others are under-funded.

If such coordination between EU institutions and the Member States is widespread, it could result in very little overlap (similarity) across aid allocations, as each Member State focuses on its particular area of responsibility while relying on other donors to cover other areas. Since we are looking at the similarity (overlap) of aid commitments between EU Institutions and EU Member States this could pose a problem for our methodology.

However, we do not believe this to be a significant threat to our analysis for two main reasons: First, even the Code of Conduct acknowledges that, since development aid is part of donor countries' foreign policy, donors may be reluctant to give up aid cooperation in a given sector or country, as it may lead to reduced visibility for their actions. In addition, as development policy often involves a considerable amount of money, "EU member states continue to jealously guard their national prerogatives in this area" and there still exists strong national identities in development policy (Orbie and Carbone, 2016). Indeed, in the analysis of the EPA Development Programme (PAPED) in the next chapter of this report, Lui and Bilal (2019) do not find evidence that the PAPED had any significant effect on donor coordination within the EU. Further, previous work looking at EU Member States' Aid for Trade Strategies have found considerable variation between Member States in their degree of 'Europeanisation' (Brazys and Lightfoot, 2016).

Second, the correlation between EU Member States and EU Institutions' total aid allocations, by aid category or by recipient, are almost all positive, indicating that the EU and its Member States are to some extent pulling in the same direction.<sup>13</sup> If there was widespread division of labour within EU aid policy, we would expect a higher degree of negative correlations. With this in mind, we believe that the level of coordination between EU Member States is unlikely to seriously undermine our analysis, although it should still be kept in mind.

### 3.3.2. Similarity of Aid for Trade commitments by aid category

Among the four key areas of AfT, 'Productive capacity building' and 'Economic infrastructure' are by far the biggest two in value terms, for both the EU Institutions and its Member States. Looking at a slightly more disaggregated level (across 11 different categories)<sup>14</sup>, 'Energy generation', 'Transport and Storage', 'Banking and Financial Services' and 'Agriculture' have accounted for over 80% of EU Institutions' total Aid for Trade in all years from 2012 onwards, and similarly also for many Member States.

At the most detailed level, 104 different functional aid categories are defined as Aid for Trade in the OECD's data. This covers around half of all functional categories to which aid can be allocated. Table 1 gives the similarity between EU Member States' (MS) and EU Institutions' aid allocations across these functional categories. Table A1 gives the comparable figures between EU MS and the USA. We start from year 2007, as this was the year when the EU's AfT strategy was introduced. If the share of a Member State's AfT is distributed identically to that of the EU Institutions, this would give a similarity index of 1 in that year. If, on the other hand, no aid allocations are common this would give a score of 0. Cells have been colour coded according to their similarity, where colours range from dark red (least similar) to dark green (most similar).

<sup>13</sup> This largely holds also when looking only at AfT allocations, although negative correlations are somewhat more prevalent in this case, particularly when looking at AfT by recipient country.

<sup>14</sup> These categories are Banking and Financial Services, Business and other services, Energy generation, distribution and efficiency, Fishing, Forestry, Industry, Mineral resources and mining, Tourism, Trade policy and regulations, Trade-related adjustment and Transport and storage.

**Table 1: Similarity of total Aid for Trade commitments by functional category, with EU as base**

Year	USA	FRA	DEU	NLD	GBR
2007	0.51	0.10	0.27	0.31	0.21
2008	0.40	0.14	0.18	0.35	0.29
2009	0.39	0.27	0.18	0.20	0.39
2010	0.59	0.25	0.25	0.20	0.37
2011	0.36	0.35	0.37	0.17	0.26
2012	0.26	0.32	0.48	0.42	0.39
2013	0.34	0.34	0.51	0.24	0.55
2014	0.17	0.28	0.54	0.11	0.60
2015	0.32	0.42	0.63	0.30	0.29
2016	0.41	0.63	0.56	0.17	0.40
2017	0.42	0.46	0.61	0.31	0.36
<b>Average</b>	<b>0.38</b>	<b>0.32</b>	<b>0.42</b>	<b>0.25</b>	<b>0.37</b>

Data on total Aid for Trade commitments across 104 sectors, from OECD's Creditor Reporting System (CRS), bulk download 22/07/2019. The Finger-Kreinin Index is based on the share of each sector in total AfT commitments by donor and gives an index for the similarity of Member States' AfT spending and that of the EU Institutions. Cells have been colour coded according to their similarity, where colours range from dark red (least similar) to dark green (most similar).

It can be seen that both Germany and France have become gradually more aligned with EU Institutions in their allocation of Aid for Trade across aid categories. In fact, out of all the Member States reported in OECD's dataset, they have consistently been the most similar to EU Institutions in the most recent years of data. Further, both are considerably more similar to the EU than they are to the USA.

The UK displayed a high degree of similarity with EU Institutions in 2013-2014, in part driven by both spending a relatively large share of AfT on formal sector financial intermediaries in those years, but less so in the most recent years. However, the UK still shows a higher degree of similarity with the EU than to the US. In contrast, the Netherlands does not appear to have become more aligned with the EU over the time period. In fact, the Netherlands appears to be somewhat more similar to the USA than to the EU, with an average FKI index of 0.31 with the USA over the period, compared to 0.25 with the EU. This is partly due to both the Netherlands and the USA allocating a larger share of AfT to Agricultural development and Business Policy and Administration than the EU. In addition, the Netherlands allocate a considerably higher share of AfT towards Trade policy and Administrative management compared to EU Institutions.

### 3.3.3. Similarity of Aid for Trade commitments by aid recipient

Table 2 gives total AfT commitments across 12 recipient groups in 2017. The recipient groups are defined according to their trade relationship with the EU in 2017. The table gives both the share of each donor's AfT that is allocated to each region, and also the respective AfT per capita given to each region.

The largest share (21.7%) of EU Institutions' Aid for Trade is allocated to the Customs Union (CU) group, which reflects the aid given to Turkey. Further, the countries with an Association Agreement (AA) with the EU also received a large share (17.8%) of EU Institutions' AfT, followed by countries under the EU's Everything But Arms (EBA) programme (10.6%). Only 5.9% of EU Institutions' AfT in 2017 was allocated to countries with no preferential trade relationship with the EU.

These patterns are not matched in the key Member States. Barely any of Germany's Aid for Trade went to Turkey (the CU group), instead 26.6% of Germany's total Aid for Trade was allocated to countries under the Generalised System of Preferences (GSP), and 10.9% to EBA countries. In France, the AA countries received 23.8% of total AfT, GSP countries received 15.6% and the EBA group 15%. The Netherlands and the UK allocated 20.5% and 11.3% respectively of their total AfT to the EBA group.

Of course, the shares of total ODA are likely driven, at least in part, by the size of the recipient countries: larger countries are likely to receive a larger share of total ODA. It is useful, therefore, to also look at total aid for trade commitments per capita (\$ AfT per capita).

For the EU Institutions, a slightly different pattern arises when aid is normalised by population size. The largest recipient in terms of aid per capita is the group of Western Balkan countries that have Stabilisation and Association Agreements (SAAs) in place with the EU, followed by the Customs Union group (Turkey), and countries with Association Agreements. These are all countries with relatively closely integrated trade relations with the EU, which include provisions to identify common political and economic objectives and encourage regional cooperation, with an aim, notably for the SAA agreements, of potential accession to the EU in future.

Similar to the EU Institutions, Germany also commits more aid per capita to the SAA group than any other group, whereas all other Member States allocate relatively little per capita to this group. Another notable feature of table 2 is that the UK and France commit significantly more aid per capita to their respective Overseas Territories than they do to any other group, a clear reflection of their domestic commitments to these countries.

Table 3 gives the similarity between EU Member States' AfT allocations across individual recipients compared to EU Institutions. Table A2 in the appendix contains the comparable numbers for the similarity between the Member States and the USA. Overall, there are around 170 individual aid recipients, excluding any regional groupings or recipients unspecified by country.

It is clear that there is less similarity across recipients than there was across aid categories (Table 1), although this could partly be driven by the fact that there are a larger number of recipients (170) than there were functional categories (104). It could also be driven by Member States and the EU coordinating better with respect to aid recipients than for aid categories (thereby reducing the overlap in aid spending), or it could be a reflection, as Table 2 alluded to, of domestic priorities playing a greater role when Member States identify their target countries compared to their target categories.

Similar to Table 1, Germany and France appear more similar to the EU overall than the USA, and have grown increasingly so over the time period. In contrast, the UK and the Netherlands both appear more similar to the USA than to the EU, with an average similarity with the EU of 0.17 and 0.11 respectively, compared to 0.30 and 0.25 with the USA. The UK in particular has grown more similar to the USA over the time period, driven by, for example, both the UK and the USA giving a considerably larger share of AfT to Pakistan than the EU institutions.

**Table 2: Total AfT commitments to developing countries, by recipient category in 2017**

Trade relation with the EU	EU institutions		USA		Germany		France		United Kingdom		Netherlands	
	Share of total AfT	Total AfT per capita	Share of total AfT	Total AfT per capita	Share of total AfT	Total AfT per capita	Share of total AfT	Total AfT per capita	Share of total AfT	Total AfT per capita	Share of total AfT	Total AfT per capita
AA	17.8%	4.65	9.0%	0.68	6.5%	1.19	23.8%	2.65	0.9%	0.03	1.0%	0.27
CU	21.7%	22.35	0.0%	0.01	0.3%	0.22	1.4%	0.56	0.1%	0.01	0.0%	0.00
EBA	10.6%	0.98	36.0%	0.97	10.9%	0.70	15.0%	0.58	11.3%	0.17	20.5%	0.27
EPA	6.3%	2.53	6.0%	0.74	5.2%	1.44	6.2%	1.04	0.5%	0.03	6.2%	0.47
FTA	2.4%	0.89	3.2%	0.34	3.6%	0.92	9.2%	1.33	0.5%	0.03	0.0%	0.00
GSP	7.7%	0.32	4.9%	0.06	26.6%	0.76	15.6%	0.26	3.8%	0.02	1.4%	0.03
GSP+	1.4%	0.33	9.0%	0.61	1.6%	0.25	5.0%	0.45	3.5%	0.11	0.0%	0.00
SAA	7.7%	36.25	2.9%	3.92	6.3%	20.10	0.0%	0.00	0.0%	0.01	0.0%	0.00
British OCT	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.5%	612.52	0.0%	0.00
French OCT	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.1%	318.67	0.0%	0.00	0.0%	0.00
No pref	5.9%	0.24	5.0%	0.06	7.8%	0.22	5.9%	0.10	4.9%	0.03	4.1%	0.26
Unspecified*	18.5%	-	23.9%	-	31.2%	-	17.8%	-	74.0%	-	66.8%	-

\* The group 'unspecified' relates to aid allocated to wider regions, such as 'Africa, regional' or 'Central Asia, regional'. As it is not possible to distinguish the individual aid recipients of such groups, we are unable to estimate the ODA per capita for this category. Source: Data on total AfT commitments across all individual recipients from OECD's Creditor Reporting System (CRS), bulk download 22/07/2019. Includes recipients unspecified by region. Population data for 2017 from the World Bank Development Indicators, supplemented with data from World Population Review.

**Table 3: Similarity of total Aid for Trade commitments by bilateral recipient, with EU as base**

Year	USA	FRA	DEU	GBR	NLD
2007	0.16	0.21	0.27	0.12	0.23
2008	0.26	0.28	0.28	0.14	0.22
2009	0.23	0.18	0.23	0.24	0.18
2010	0.21	0.25	0.27	0.17	0.09
2011	0.18	0.09	0.24	0.13	0.05
2012	0.22	0.25	0.33	0.16	0.06
2013	0.23	0.17	0.37	0.18	0.07
2014	0.16	0.15	0.34	0.10	0.04
2015	0.22	0.36	0.50	0.24	0.10
2016	0.25	0.35	0.36	0.20	0.07
2017	0.27	0.31	0.39	0.19	0.09
<b>Average</b>	<b>0.22</b>	<b>0.24</b>	<b>0.33</b>	<b>0.17</b>	<b>0.11</b>

Data on total Aid for Trade commitments across aid recipients, from OECD's Creditor Reporting System (CRS), bulk download 22/07/2019. The Finger-Kreinin Index is based on the share of each recipient in total AfT commitments by donor and gives an index for the similarity of Member States AfT spending and that of the EU Institutions. Any recipients not identified by country (e.g. regional groupings, or unspecified recipients) have been excluded. Cells have been colour coded according to their similarity, where colours range from dark red (least similar) to dark green (most similar).

### 3.4. Aid and non-trade provisions in EU's trade agreements

Having established that there is a varying degree of commonality in the EU's aid for trade policies, we now move away from Aid for Trade and look at the underlying objectives of the EU institutions' and the Member States' development aid, and explore whether there is any discernible correlation between the inclusion of non-trade provisions in the EU's trade agreements and the underlying policy objectives of the donors' development aid.

#### 3.4.1. Aid by underlying policy objective

While aid by functional category (such as aid allocated to 'Basic health care' or 'Early childhood education') can give an indication of the type of activities which a donor prioritises and the values which a donor wishes to promote, it is an imperfect measure of the donor's underlying policy objectives. Even if two donors make aid commitments under the same aid category, the underlying objectives motivating such commitments may differ. Equally, if two donors make commitments in two separate functional categories, they may serve to support the same underlying objective.

To identify the policy objectives that drive donors' aid commitments, we make use of the OECD's policy objective markers. The policy marker system is a useful complement to the data on aid by category, as it identifies activities targeted to certain policy objectives. The markers, which are designed to cover the key aims of the Sustainable Development Goals (SDGs), cover four policy areas, as outlined below:<sup>15</sup>

1. **Gender Equality:** Any activity intended to advance gender equality and women's empowerment or reduce discrimination and inequalities based on sex.
2. **Aid to Environment:** Any activity intended to produce an improvement in the physical and/or biological environment of a developing country, or activities aimed at integrating environmental concerns with development objectives through institution building and/or capacity development.
3. **Participatory Development/Good Governance (PDGG):** Activities intended to improve areas of participatory development, democratisation, good governance and the respect of human rights.
4. **Trade Development:** Activities aimed at improving the ability of a developing country to formulate and implement a trade strategy, create an enabling environment to increase exports, diversify export products and markets, increase foreign investment, or enable trade by domestic firms and promote investment in trade-oriented industries.

Each marker can take three different values (0, 1 or 2) depending on how crucial a policy objective was in motivating an aid commitment. The scores are supplied by the donors, based on their intentions at the design stage of aid commitments.

- **Principal** (primary) policy objectives: a policy objective is defined as principal if it was fundamental to the design of an aid commitment, i.e. the activity would not have been undertaken without the objective. Such aid activities are assigned a value of 2 to the relevant policy objective marker.
- **Significant** (secondary) policy objectives: covers objectives which were important in the design of the activity, but not fundamental or the principal reason for undertaking the activity. Such aid activities are assigned a value of 1 to the relevant policy objective marker.
- **Not targeted:** if an aid commitment does not target a specific policy objective, this is listed as 'not targeted' and given a value of 0.

<sup>15</sup> The full definitions can be found here: [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC/STAT\(2018\)9/ADD2&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC/STAT(2018)9/ADD2&docLanguage=En)

- **Not screened:** So as to save resources, not all donors screen all aid against the relevant policy objectives. Aid activities that have not been screened against the objectives are not assigned a marker value.

The four policy objectives (gender, environment, PDGG and trade) are not mutually exclusive, meaning that the same aid commitment could have more than one principal or significant policy objective.

To get a meaningful analysis, a relatively large share of total aid needs to have been screened against the objectives. There is some variation across MS in this respect. For example, for the EU Institutions, the Netherlands and the UK, all aid in 2017 was screened, whereas 30.9% of Germany's aid and 18.4% of France's aid in 2017 was not screened against the objectives. A further complication of the marker system is that the classification of development activities is not standardised within DAC members,<sup>16</sup> which may limit the comparability of the policy markers between donors.

Table 4 focuses on the four key Member States, as well as EU institutions (EUi), and gives the share of screened aid that is marked as significantly or principally motivated by the relevant policy objective. The table excludes the trade objective as this is discussed separately. Typically, and perhaps as can be expected, the 'principal' marker covers a smaller share of ODA than the 'significant' marker.

Overall, a larger share of EU institutions' ODA is motivated, either to a significant or principal extent, by the gender equality objective compared to the four Member States. On aid to environment there are quite large discrepancies, with 71% of all screened ODA having a significant or principal score in France compared to around 28% in EU Institutions, and only around 6% in the Netherlands. Similarly, there are differences with respect to the Participatory Development/Good Governance (PDGG) objective, with 87% of French aid focused (either principally or significantly) on this objective, compared to only 21.5% and 25.1% of the Netherlands' and the UK's total aid.

**Table 4: Share of aid commitments marked as either 'significant' or 'principal' in 2017**

	Gender		Environment		PDGG	
	Significant	Principal	Significant	Principal	Significant	Principal
EUi	45.0%	2.4%	17.1%	10.8%	22.1%	33.1%
DEU	37.4%	1.1%	24.5%	15.5%	27.8%	16.1%
FRA	31.0%	3.2%	56.7%	14.3%	61.5%	25.5%
GBR	40.1%	2.5%	14.2%	8.0%	0.8%	24.3%
NLD	34.2%	7.0%	4.2%	1.5%	8.2%	13.3%

*N.B. The shares are calculated by excluding any values that had not been screened in 2017*

The trade policy marker uses a considerably narrower definition of trade-focused aid compared to the broad 'Aid for Trade' definition used in the earlier analysis. The trade marker only includes activities recorded under sectors 'Banking and financial services', 'Business support services and institutions', 'Agriculture', 'Forestry', 'Fishing', 'Industry', 'Mineral resources and mining' and 'Tourism'. The donors then report whether commitments within these sectors were to a significant or principal extent driven by a trade objective. To get a score of (2) 'principal' or (1) 'significant', the trade objective should be explicitly promoted in the activity documentation, and the aid activity should include measures to promote at least one of:

<sup>16</sup> For more details see: <https://www.oecd.org/dac/gender-development/BMZ%202014%20The%20Policy%20Marker%20System.%20DACBMZ%20Markers.%20Guidelines.%20EN.pdf>

- business support services and institutions,
- access to trade finance,
- trade promotion and market development in the production and service sectors. (OECD, 2018)

The narrow range of sectors that qualify for the trade marker cover a considerably smaller share of total ODA compared to the 'Aid for Trade' definition explored earlier. For example, whereas AfT accounted for 37% of EU institutions' total ODA in 2017, the trade marker categories made up 19% of total ODA. In addition, the trade marker categories made up 9.3% of total ODA in Germany, 9.4% in France, 12% in the UK and 15.8% in the Netherlands in 2017.

Table 5 gives, for recipient countries grouped by their trade relationship with the EU in 2017, the share of total ODA to each group that fell within the trade marker (TM) categories, as well as the share of this aid that was principally motivated by the trade objective. As the shares vary somewhat across years, an average over 2015-2017 is used. As can be seen, 45% of EU institutions' aid to Turkey (the CU group) in 2017 fell in the 'Trade Marker' (TM) categories, although only 28% of this had trade as a principal underlying objective. In contrast, only 7.6% of EU Institutions' aid to countries with an FTA fell within the TM categories, but close to 67% of this aid was principally motivated by the trade objective.

Overall, and consistent with the patterns in Table 2, the EU institutions appear to concentrate more on trade-related aid in the countries with close trading arrangements with the EU- countries with a SAA, a CU and an AA. This pattern is, however, not coherent within all Member States. Whereas Germany shows a relatively similar pattern, very little of France's aid to these groups had an expressed trade objective. The UK appears most trade-focused in its aid to countries with an FTA, where 26.5% of the UK's total ODA fell within the TM categories, all of which had an expressed trade motive. In contrast, the Netherlands appear most trade focused in its aid to EPA and EBA countries.

**Table 5: Aid falling in Trade Marker (TM) categories as share of total ODA, and the share with a principal trade policy objective, average 2015-2017**

Relation	EUI		DEU		FRA		GBR		NLD	
	TM as % of total ODA	% marked as 'principal'	TM as % of total ODA	% marked as 'principal'	TM as % of total ODA	% marked as 'principal'	TM as % of total ODA	% marked as 'principal'	TM as % of total ODA	% marked as 'principal'
AA	19.2%	20.4%	11.2%	23.0%	14.1%	0.6%	1.1%	100.0%	8.9%	100.0%
CU	45.1%	28.2%	28.0%	29.7%	18.8%	0.0%	2.1%	100.0%	0.0%	0.0%
EBA	11.0%	7.1%	9.6%	22.1%	7.6%	18.6%	6.1%	54.9%	18.7%	100.0%
EPA	32.6%	8.3%	15.8%	6.7%	2.4%	68.4%	3.0%	75.0%	32.0%	100.0%
FTA	7.6%	66.7%	3.3%	23.1%	7.1%	0.0%	26.5%	100.0%	0.0%	0.0%
GSP	9.5%	18.3%	10.2%	10.3%	5.1%	2.1%	7.3%	93.9%	12.4%	100.0%
GSP+	13.2%	2.0%	16.4%	12.3%	11.3%	33.8%	6.2%	82.0%	10.6%	100.0%
SAA	30.9%	34.2%	14.8%	24.9%	0.3%	0.0%	0.4%	100.0%	0.0%	0.0%
British OCT	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.8%	12.6%	0.0%	0.0%
French OCT	0.0%	0.0%	0.0%	0.0%	1.2%	0.0%	0.0%	0.0%	0.0%	0.0%
No pref	15.3%	30.7%	4.7%	12.2%	2.4%	26.0%	7.7%	95.1%	10.1%	100.0%
Unspecified*	9.5%	13.1%	12.3%	18.3%	18.2%	8.1%	15.6%	93.7%	11.1%	100.0%

\* The group 'unspecified' relates to aid allocated to wider regions, such as 'Africa, regional' or 'Central Asia, regional'.



### 3.4.2. Aid objectives and non-trade provisions

Many of the EU's trade agreements contain so-called non-trade policy objectives, aimed at promoting sustainable development by conditioning access to the EU market on the partner countries making certain commitment in areas such as environmental protection, human rights and labour rights. One such example is the EU's GSP+ programme. This scheme grants deeper preferences than the original GSP programme, in exchange for the beneficiary countries ratifying 27 international conventions on sustainable development, human rights and good governance (Borchert et al. 2018). There is a continuous monitoring of, and engagement with, the GSP+ beneficiaries in relation to their adherence to these commitments (European Commission, 2019).

Given the focus on sustainable development in the GSP+ scheme, Table 6 explores whether aid to GSP+ countries appears particularly focused on the sustainable development policy objectives compared to countries under the 'ordinary' GSP programme.

**Table 6: Share of total ODA to each recipient group principally or significantly motivated by each policy objective**

Trade relation with EU (2017)	Gender					Environment					PDGG				
	EUI	DEU	FRA	GBR	NLD	EUI	DEU	FRA	GBR	NLD	EUI	DEU	FRA	GBR	NLD
AA	40.3%	38.6%	44.3%	24.9%	45.7%	21.6%	43.0%	60.4%	1.9%	1.6%	52.9%	43.0%	71.8%	70.7%	44.5%
CU	33.9%	45.8%	39.0%	64.0%	3.0%	23.7%	26.3%	44.4%	5.1%	0.0%	39.3%	28.9%	97.6%	11.6%	47.4%
EBA	55.1%	67.2%	39.7%	56.3%	59.1%	31.8%	30.4%	46.0%	38.0%	10.9%	57.8%	59.5%	79.0%	73.2%	48.2%
EPA	66.7%	50.2%	16.9%	56.9%	61.4%	47.5%	58.2%	39.8%	16.9%	1.2%	76.9%	48.2%	71.5%	34.9%	22.8%
FTA	45.6%	49.9%	35.6%	36.3%	27.6%	21.8%	70.5%	90.1%	6.6%	1.6%	70.7%	51.8%	88.0%	15.1%	73.6%
GSP	51.9%	20.2%	23.6%	45.1%	53.2%	29.4%	34.4%	64.4%	14.5%	4.6%	49.9%	26.6%	81.5%	48.5%	25.1%
GSP+	57.5%	42.9%	9.7%	74.4%	65.4%	31.8%	39.4%	94.4%	23.6%	1.5%	67.7%	54.9%	86.7%	71.4%	88.8%
SAA	26.4%	19.6%	62.9%	30.7%	31.0%	20.2%	71.1%	70.8%	0.1%	0.0%	67.3%	40.1%	38.4%	56.2%	99.7%
British OCT	0.0%	0.0%	0.0%	18.4%	0.0%	0.0%	0.0%	0.0%	56.0%	0.0%	0.0%	0.0%	0.0%	78.1%	0.0%
French OCT	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.3%	0.0%	0.0%	0.0%	0.0%	16.9%	0.0%	0.0%
No pref	34.7%	29.8%	42.5%	47.4%	45.4%	8.0%	39.7%	54.0%	24.6%	5.6%	54.2%	37.0%	79.9%	39.1%	47.5%
Unspecified*	47.5%	50.1%	19.6%	26.6%	39.6%	32.6%	47.0%	51.2%	21.4%	6.9%	59.0%	52.1%	75.8%	29.3%	25.6%

\* The group 'unspecified' relates to aid allocated to wider regions, such as 'Africa, regional' or 'Central Asia, regional'. Shares are based on the share of screened ODA to each recipient that has been marked as 'principally' (2) or 'significantly' (1) motivated by the relevant policy objective, using an average over 2015-2017

Indeed, a somewhat higher share of EU institutions' total ODA to GSP+ countries is focused on the gender, environmental or PDGG policy objectives compared to the standard GSP group, but only marginally so. A similar pattern holds for the Member States, with the exception of the gender objective for France and the environmental objective for the Netherlands where aid to the GSP+ group appears less focused on these objectives than aid to the ordinary GSP group.

However, while aid to GSP+ countries appear somewhat more focused on the sustainable development objectives than for GSP countries, there are other country groups where the policy objectives are even

more important. In particular, EU institutions' aid to countries with an Economic Partnership Agreements (EPAs) appears particularly focused on the sustainable development objectives, although the same pattern is not visible for the Member States. This is interesting given the explicit development focus of the EPAs, which are discussed in more detail by Lui and Bilal (2019) in Part II of this report. Overall, there is little coherence between the EU institutions and the Member States, as well as a high degree of variation between the Member States themselves, in the focus on the development objectives in the aid to the relevant groups.

It is not only in its unilateral preference schemes that the EU uses non-trade policy objectives conditionally, but also in its reciprocal trading arrangements. However, the depth and scope of these provisions differ between the trade agreements. A study of 90 of the EU's preferential trade agreements shows that more than 75% of these agreements contain provisions on national security, environmental protection, human rights, labour rights, economic development and the right to health whereas less than 10% contain provisions on, for example, minimum wage, right to free belief or good governance (Lechner, 2019).

Lechner (2016) estimates the degree of legalization of non-trade provisions included in a large number of preferential trade agreements, including a range of EU trade agreements, by measuring the obligation, precision, and delegation of each provision. The 'obligation' captures the degree to which parties make legally binding commitments or merely statements of intent or best endeavours. 'Precision' gives the extent to which rules are unambiguously defined, and 'delegation' gives the extent to which third parties are given authority to "to implement, interpret, and apply the rules; to resolve disputes; and (possibly) to make further rules" (Lechner, 2016). The coding covers non-trade provisions in each EU trade agreement relating to economic and social rights (ESR), civil and political rights (CPR) and environmental protection (EP):

- **Civil and Political Rights (CPR):** captures human dignity, the right to political participation, right to free movement, women's and children's rights, minority protection, rule of law
- **Economic and Social Rights (ESR):** includes the right to work, rights at work, right to education, right to development, right to health
- **Environmental Protection (EP):** captures care for natural resources (water, soil, forest), to reduce waste and air pollution and to protect wildlife and game

To arrive at a final legalization score for each broad area (ESR, CPR, EP) scores are summed across the three dimensions (obligation, precision and delegation), and the deeper the provisions, the higher the score.<sup>17</sup>

To explore the correlation between the depth of these non-trade provisions in the EU's trade agreements, and the underlying policy objectives of donors' aid commitments we make use of version 2018-12 of Lechner's data.<sup>18</sup> This dataset contains 26 agreements relevant for our analysis, covering 51 different aid recipients. The dataset does not include EU's GSP, GSP+ or EBA programmes, and also does not cover the EU's EPAs with Cameroon, Ghana or Eastern and Southern Africa.<sup>19</sup> The agreement with the highest CPR score (deepest provisions), out of those relevant for our analysis, is

<sup>17</sup> Lechner (2016) provides aggregate scores both by sum, and scores that have been aggregated using latent-trait analysis. For our purposes we make use of the total (sum) scores.

<sup>18</sup> Downloaded from <http://www.lisalechner.com/> 18.09.2019

<sup>19</sup> In some cases, several agreements exist for the same partner. In these cases, we have used the most recent agreement that has been coded in the data. We have excluded any agreement that had not entered into force by 2017, such as the EU-Vietnam agreement. Note also that Lechner's data includes scores for an EC-Overseas Territories agreement from 1970, however due to the OCT's special status within the EU this has not been included in our analysis.

the EU-Chile, EU-Montenegro and EU-Serbia agreements (all with a score of 11), whereas for both ESR and EP the highest scoring agreement is that between the EU and Colombia and Peru.<sup>20</sup>

In tables 7-9 we look at the correlation between the depth of the CPR, ESR and EP provisions in the EU's trade agreements on the one hand, and the share of aid to each recipient that has been principally motivated by the gender, environment or PDGG objectives on the other hand. If the EU institutions and the Member States use development aid as a policy instrument to support the non-trade policy objectives, we would expect a positive correlation between the depth of the non-trade provisions, and the extent to which aid is focused on a certain policy objective. For example, if countries with strong environmental provisions in their trade agreements with the EU received relatively more aid with a strong environmental objective, then we would see a positive correlation between the two.

Overall, there is only a weak association between the depth of the non-trade provisions and the extent to which aid is focused on the sustainable development objectives. On some occasions the correlation is even negative. The strongest (positive) correlation for the EU institutions and most of the Member States is between the depth of environmental provisions and the share of aid with a principal environmental objective. However, this still has a relatively weak correlation for most member states, and close to 0 correlation for France. In all other cases, there appears to be little evidence of the EU institutions or the Member States supplementing the non-trade provisions in its trade agreements with aid specifically targeted to the sustainable development objectives.

**Table 7: Correlation between the depth of Non-Trade provisions in EU trade agreements, and aid with a principal gender objective**

Non-trade provisions	EUi	DEU	FRA	GBR	NLD
CPR	-0.02	0.09	-0.06	0.00	-0.16
ESR	-0.14	0.08	0.13	0.09	0.17
EP	-0.22	0.09	0.12	0.00	0.15

Data on total aid by policy marker from OECD's Creditor Reporting System (CRS), bulk download 22/07/2019 (average across 2015-2017), data on non-trade provisions from Lechner (2018)

**Table 8: Correlation between the depth of Non-Trade provisions in EU trade agreements, and aid with a principal environmental objective**

Non-trade provisions	EUi	DEU	FRA	GBR	NLD
CPR	-0.17	0.03	0.08	-0.11	-0.30
ESR	0.17	0.13	-0.03	0.11	0.21
EP	0.17	0.16	-0.01	0.14	0.25

Data on total aid by policy marker from OECD's Creditor Reporting System (CRS), bulk download 22/07/2019 (average across 2015-2017), data on non-trade provisions from Lechner (2018)

<sup>20</sup> Note that the EU-Canada agreement scores higher, but Canada is not an aid recipient and therefore not relevant for our analysis.

**Table 9: Correlation between the depth of Non-Trade provisions in EU trade agreements, and aid with a principal PDGG objective**

Non-trade provisions	EUi	DEU	FRA	GBR	NLD
CPR	0.10	-0.03	-0.10	0.31	0.30
ESR	0.11	0.06	-0.01	-0.07	0.11
EP	0.13	0.07	-0.04	-0.20	0.15

Data on total aid by policy marker from OECD's Creditor Reporting System (CRS), bulk download 22/07/2019 (average across 2015-2017), data on non-trade provisions from Lechner (2018)

## 4. Broader aid policy

The analysis so far suggests a varying degree of coherence between Member States and the EU institutions in the values that are being projected and the countries that are being prioritised under their respective Aid for Trade policies. While some Member states, notably France and Germany, appear to project the EU's values and aid objectives relatively more coherently, and increasingly so over the time period of interest, the UK and the Netherlands both show signs of divergence from the EU institutions.

However, since trade policy is uniform across all Member States, it is possible that this induces a higher degree of coherence between Member States and EU institutions with respect to trade-related aid, compared to total aid overall. To check this, this section briefly expands the analysis to cover all bilateral aid flows, to see if the patterns observed in the preceding sections still hold.

Table 10 gives the similarity between the Member States and the EU institutions of total bilateral ODA commitments across all aid categories. Table A3 in the appendix contains the comparable figures for the similarity with the USA. In total, this covers over 200 distinct aid categories, compared to around 100 Aid for Trade categories that were analysed in the previous section. Whereas the previous section was limited to a ten-year period (2007-2017), we expand this to a time series of 20 years.

The first thing to note is that the similarity between the US and the EU is relatively high, with an average Finger-Kreinin Index (FKI) of around 0.45. Therefore, it is unsurprising that most Member States' similarity with respect to the EU and the USA is relatively comparable. Nevertheless, the key Member States are all, on average, more similar to the EU than to the US.

As we observed in Table 1, from around the middle to the end of the time series France and Germany appear to become more similar to the EU than to the US. France's FKI with the EU increases over the period, from 0.29 to 0.40, whereas the FKI with US stays largely unchanged (from 0.23 to 0.25). For Germany the FKI with EU increases considerably, from 0.19 to 0.46, while it increases relatively less with the US (from 0.26 to 0.38).

On the whole, the Netherlands appears equally similar to both the US and the EU, although in the most recent years it has been slightly more similar to the US than the EU. The UK also has a relatively high similarity with both the US and the EU, more so than most other Member States. However, over the time period, the UK also appears to have become more similar to the US (the FKI has increased from 0.38 in 1997 to 0.45 in 2017) than it has the EU (where the FKI has only increased from 0.34 to 0.37).

Table 11 looks at the similarity between the Member States and the EU institutions for total aid commitments by recipients, with Table A4 in the appendix giving the corresponding numbers for the

USA. This analysis shows that France is considerably more similar to the EU than to the USA, consistent with the patterns observed in Table 3 for AfT. In addition, both the UK and the Netherlands appear more aligned with the USA than the EU, again consistent with the findings in Table 3. However, Germany appears equally similar to both the EU and the USA in its total ODA spending by recipient, in contrast to the pattern observed in Germany's allocation of AfT where it displayed a higher degree of similarity to the EU than to the USA. Thus, for trade-related aid Germany diverges more from the USA in favour of the EU than it does in its total aid overall.

Further, Table A5 in the appendix gives the distribution of total ODA commitments across groups defined by their trade relationship with the EU, which shows a very similar pattern to that observed in Table 2 for the distribution of Aid for Trade.

**Table 10: Similarity of total aid commitments by functional category, with EU as base**

Year	USA	DEU	FRA	GBR	NLD
1997	0.39	0.19	0.29	0.34	0.31
1998	0.46	0.26	0.22	0.44	0.31
1999	0.47	0.34	0.24	0.49	0.36
2000	0.36	0.39	0.34	0.53	0.38
2001	0.43	0.40	0.23	0.41	0.35
2002	0.45	0.34	0.28	0.42	0.27
2003	0.47	0.36	0.27	0.48	0.44
2004	0.52	0.38	0.22	0.45	0.43
2005	0.50	0.30	0.22	0.35	0.50
2006	0.50	0.30	0.23	0.34	0.25
2007	0.53	0.35	0.28	0.42	0.50
2008	0.47	0.31	0.34	0.39	0.48
2009	0.47	0.40	0.33	0.52	0.44
2010	0.51	0.45	0.33	0.51	0.35
2011	0.42	0.49	0.31	0.50	0.38
2012	0.38	0.49	0.33	0.46	0.44
2013	0.41	0.52	0.31	0.50	0.46
2014	0.42	0.52	0.31	0.51	0.30
2015	0.40	0.48	0.32	0.42	0.33
2016	0.41	0.45	0.42	0.38	0.32
2017	0.39	0.46	0.40	0.37	0.36
<b>Average</b>	<b>0.45</b>	<b>0.39</b>	<b>0.30</b>	<b>0.44</b>	<b>0.38</b>

*Data on total ODA commitments across 206 sectors, from OECD's Creditor Reporting System (CRS), bulk download 22/07/2019. The Finger-Kreinin Index is based on the share of each sector in total ODA commitments by donor and gives an index for the similarity of Member States ODA spending and that of the EU Institutions.*

**Table 11: Similarity of total aid commitments by bilateral recipient, with EU as base**

Year	USA	DEU	FRA	GBR	NLD
1997	0.47	0.45	0.43	0.29	0.50
1998	0.45	0.58	0.50	0.33	0.52
1999	0.44	0.46	0.44	0.38	0.52
2000	0.40	0.54	0.35	0.44	0.44
2001	0.48	0.55	0.38	0.40	0.48
2002	0.54	0.57	0.38	0.39	0.36
2003	0.41	0.52	0.38	0.35	0.48
2004	0.41	0.53	0.43	0.37	0.49
2005	0.36	0.35	0.39	0.38	0.47
2006	0.48	0.49	0.39	0.33	0.41
2007	0.46	0.44	0.39	0.32	0.37
2008	0.47	0.40	0.37	0.35	0.46
2009	0.52	0.53	0.36	0.39	0.40
2010	0.52	0.53	0.34	0.39	0.36
2011	0.40	0.43	0.35	0.31	0.29
2012	0.36	0.45	0.37	0.31	0.21
2013	0.41	0.50	0.36	0.31	0.26
2014	0.38	0.45	0.32	0.29	0.22
2015	0.47	0.59	0.42	0.43	0.32
2016	0.46	0.52	0.46	0.38	0.41
2017	0.48	0.53	0.39	0.39	0.31
<b>Average</b>	<b>0.45</b>	<b>0.50</b>	<b>0.39</b>	<b>0.36</b>	<b>0.39</b>

*Data on total ODA commitments across aid recipients, from OECD's Creditor Reporting System (CRS), bulk download 22/07/2019. The Finger-Kreinin Index is based on the share of each recipient in total ODA commitments by donor and gives an index for the similarity of Member States ODA spending and that of the EU Institutions. Any recipients not identified by country (e.g. regional groupings, or unspecified recipients) have been excluded.*

## 5. Conclusions

In this study we have looked at the interrelationship between soft power, trade and trade-related aid, of the EU institutions and the EU Member states.

We first discussed the meaning of “soft power” in detail. We noted that for the inventor of the concept, Joseph Nye, soft power referred specifically to a power of attraction that would induce partners to see a country or bloc as an example to be copied. The choice of many countries to imitate the United States during the cold war and the eagerness of countries in Central and Eastern Europe in the 1990s to emulate the EU are exemplars of this. Nye’s work stressed that the use of coercion or inducement forms part of a harder form of power while the concept of ‘smart power’ captures the complementarity between soft and hard power.

The lesson we draw is that trade and trade-related policies, such as trade-focused aid, embody incentives and carry implicit penalties, and as such these policies do not by themselves constitute soft power, but they may create it if the EU action is welcomed. Indeed, the giving of unconditional aid to

country A may create a favourable perception in country B, and in so doing generate soft power. On the other hand, conditional trade preferences, or aid donations, may serve to diminish soft power if it is perceived negatively by the recipients.

Using a Finger-Kreinin similarity Index, we went on to explore the coherence of trade-focused aid commitments between the EU Institutions and four key Member States (Germany, France, the UK and the Netherlands), to shed light on the extent to which the Member States project the same smart power values as the EU institutions, and the connection between the values espoused by the EU in its trade agreements and the patterns of aid given to its preferential trading partners.

Overall, we found that the correlation between EU Member States and EU institutions' aid allocations are predominantly positive, indicating that the EU and its Member States are to some extent pulling in the same direction. Notwithstanding this, we found the degree of coherence with the EU institutions to vary across the key Member States. In particular, we found Germany and France to be relatively more aligned with the EU Institutions, and increasingly so over the time period.

Overall, the degree of similarity was found to be lower with respect to the donors' distribution of aid by recipient country compared to the aid by functional category. Indeed, both the UK and the Netherlands were found to display a degree of divergence from the EU Institutions with respect to aid by recipient, where the Netherlands in particular appeared more similar to the USA than to the EU Institutions.

Further, we found mixed evidence of the complementarity between aid policy and trade policy. The EU institutions appeared to focus its trade-related aid particularly on relatively closely integrated countries with the potential of future accession to the EU, but the same pattern was not observed in the aid given by the Member States.

In addition, we found aid to GSP+ countries to be somewhat more focused on the sustainable development objectives than for GSP countries, coherent with the fact that the deeper preferences in the GSP+ scheme are directly conditioned on the partner countries implementing a range of sustainable development provisions. Further, we found the EU institutions' aid to countries with an Economic Partnership Agreements (EPAs) to be particularly focused on the sustainable development objectives, although the same pattern was not visible for the Member States.

Finally, we showed some evidence of a positive correlation between the depth of environmental provisions in the EU's trade agreements and the share of aid with an explicit environmental focus, however overall we found limited complementarity between the depths of non-trade provisions in the EU's trade agreements and aid with sustainable development objectives, although more rigorous analysis is needed to explore this issue fully.

Our conclusions suggest that the EU needs to develop further its thinking on complementarity among actors. One can imagine a scenario in which EU institutions and Member States simply replicate each other's spending, in which case there would be no point in separate activity. There could also be pure "negative complementarity" with Member States doing exactly the opposite of what the institutions encourage, e.g. the EU incentivising regional cooperation and certain Member States encouraging unilateral actions.

But what we observe in reality is neither of these, instead we see what we might call "positive complementarity": the EU Institutions and the Member States appear to promote similar but not identical aims. As Nye has suggested this can be linked to soft power in a positive way. Where there is a

favourable attitude in a recipient partner to a particular donor or a particular goal it makes sense to link aid from the most favoured source and most acceptable objectives.

Our reading of the GSP and EBA experience is that there is a symbiotic relationship between soft power and smart power, as we have used the term. The existence of soft power means that in certain cases a partner is predisposed to act in a certain way and will respond without hesitation to incentives to act in a certain way. A successful partnership of this kind, where the donor is perceived as acting in a benign way, actually increases soft power for the future. We gave Pakistan as an apparent instance of this. Further, the Cariforum EPA negotiators have reported that they were persuaded by the EU that the incorporation of tighter IPRs were in their own interest. (Spence, 2009)

The PAPED experience (see next chapter) generates complex lessons. The EU sought to use a mix of pre-existing soft power via Member State links and its own smart power package. This was partially but not wholly successful. By contrast, it is widely reported that even unconditional commitments by China to some countries in Africa causes resentment.<sup>21</sup>

Looking forward, one approach that the smart power strategy suggests is that the External Action Service should undertake periodic surveys of the soft power potential of the EU (as opposed to Member States which are the current focus of existing surveys) among trading partners. Such surveys might specifically look for countries that are especially admiring of EU deep integration and trade and aid policy and are therefore likely to be sympathetic to smart power strategies based on aid for trade and non-trade chapters (e.g. environment, labour rights) in trade agreements.

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<sup>21</sup> This was reported to us by African partners in our IDS China-Africa project (Gu et al. 2017).



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## Appendix

**Table A1: Similarity of total Aid for Trade commitments by functional category, with USA as base**

Year	EUi	FRA	DEU	NLD	GBR
2007	0.51	0.16	0.32	0.30	0.36
2008	0.40	0.24	0.29	0.39	0.27
2009	0.39	0.25	0.27	0.27	0.43
2010	0.59	0.26	0.29	0.29	0.31
2011	0.36	0.23	0.24	0.26	0.26
2012	0.26	0.26	0.25	0.40	0.36
2013	0.34	0.24	0.27	0.35	0.40
2014	0.17	0.10	0.17	0.23	0.29
2015	0.32	0.21	0.30	0.31	0.32
2016	0.41	0.24	0.35	0.27	0.41
2017	0.42	0.29	0.44	0.36	0.25
<b>Average</b>	<b>0.38</b>	<b>0.22</b>	<b>0.29</b>	<b>0.31</b>	<b>0.33</b>

Data on total Aid for Trade commitments across 104 sectors, from OECD's Creditor Reporting System (CRS), bulk download 22/07/2019. The Finger-Kreinin Index is based on the share of each sector in total AfT commitments by donor and gives an index for the similarity of Member States AfT spending and that of the USA.

**Table A2: Similarity of total Aid for Trade commitments by bilateral recipient, with USA as base**

	EUi	FRA	DEU	GBR	NLD
2007	0.16	0.12	0.23	0.15	0.29
2008	0.26	0.21	0.21	0.25	0.29
2009	0.23	0.16	0.23	0.38	0.33
2010	0.21	0.14	0.23	0.22	0.22
2011	0.18	0.11	0.27	0.27	0.38
2012	0.22	0.17	0.24	0.31	0.18
2013	0.23	0.11	0.26	0.38	0.23
2014	0.16	0.15	0.22	0.35	0.20
2015	0.22	0.26	0.22	0.35	0.18
2016	0.25	0.17	0.24	0.25	0.22
2017	0.27	0.22	0.29	0.40	0.26
<b>Average</b>	<b>0.22</b>	<b>0.17</b>	<b>0.24</b>	<b>0.30</b>	<b>0.25</b>

Data on total Aid for Trade commitments across aid recipients, from OECD's Creditor Reporting System (CRS), bulk download 22/07/2019. The Finger-Kreinin Index is based on the share of each aid recipient in total AfT commitments by donor and gives an index for the similarity of Member States AfT spending and that of the USA. Any recipients not identified by country (e.g. regional groupings) have been excluded.

**Table A3: Similarity of total aid commitments by functional category, with USA as base**

Year	EUi	DEU	FRA	GBR	NLD
1997	0.39	0.26	0.23	0.38	0.32
1998	0.46	0.25	0.20	0.35	0.29
1999	0.47	0.28	0.17	0.33	0.24
2000	0.36	0.37	0.15	0.26	0.22
2001	0.43	0.35	0.21	0.39	0.36
2002	0.45	0.36	0.24	0.40	0.27
2003	0.47	0.40	0.27	0.39	0.45
2004	0.52	0.33	0.18	0.31	0.34
2005	0.50	0.42	0.35	0.47	0.39
2006	0.50	0.38	0.27	0.33	0.23
2007	0.53	0.31	0.24	0.39	0.41
2008	0.47	0.32	0.27	0.37	0.42
2009	0.47	0.38	0.27	0.42	0.36
2010	0.51	0.34	0.23	0.43	0.30
2011	0.42	0.36	0.27	0.43	0.34
2012	0.38	0.34	0.23	0.48	0.42
2013	0.41	0.36	0.28	0.47	0.41
2014	0.42	0.31	0.24	0.49	0.35
2015	0.40	0.35	0.25	0.53	0.38
2016	0.41	0.35	0.27	0.43	0.41
2017	0.39	0.38	0.25	0.45	0.43
<b>Average</b>	<b>0.45</b>	<b>0.34</b>	<b>0.24</b>	<b>0.41</b>	<b>0.35</b>

Data on total ODA commitments across 206 sectors, from OECD's Creditor Reporting System (CRS), bulk download 22/07/2019. The Finger-Kreinin Index is based on the share of each sector in total ODA commitments by donor and gives an index for the similarity of Member States ODA spending and that of the USA.

**Table A4: Similarity of total aid commitments by bilateral recipient, with USA as base**

Year	EUi	DEU	FRA	GBR	NLD
1997	0.47	0.44	0.31	0.24	0.38
1998	0.45	0.54	0.32	0.23	0.47
1999	0.44	0.47	0.27	0.37	0.54
2000	0.40	0.54	0.32	0.27	0.37
2001	0.48	0.52	0.33	0.32	0.41
2002	0.54	0.54	0.27	0.40	0.36
2003	0.41	0.43	0.32	0.37	0.43
2004	0.41	0.37	0.21	0.29	0.37
2005	0.36	0.55	0.27	0.45	0.34
2006	0.48	0.43	0.35	0.32	0.39
2007	0.46	0.56	0.37	0.32	0.42
2008	0.47	0.51	0.26	0.51	0.49
2009	0.52	0.47	0.29	0.46	0.54
2010	0.52	0.48	0.33	0.52	0.45
2011	0.40	0.46	0.30	0.55	0.53
2012	0.36	0.46	0.30	0.59	0.42
2013	0.41	0.51	0.32	0.60	0.46
2014	0.38	0.44	0.32	0.63	0.47
2015	0.47	0.48	0.40	0.61	0.50
2016	0.46	0.47	0.34	0.61	0.52
2017	0.48	0.55	0.37	0.60	0.55
<b>Average</b>	<b>0.45</b>	<b>0.49</b>	<b>0.31</b>	<b>0.44</b>	<b>0.45</b>

Data on total ODA commitments across aid recipients, from OECD's Creditor Reporting System (CRS), bulk download 22/07/2019 . The Finger-Kreinin Index is based on the share of each recipient in total ODA commitments by donor and gives an index for the similarity of Member States ODA spending and that of the USA. Any recipients not identified by country (e.g. regional groupings, or unspecified recipients) have been excluded.

**Table A5: Total ODA commitments to developing countries, by recipient category in 2017**

Relation with the EU	EU Institutions		USA		Germany		France		United Kingdom		Netherlands	
	Share of total ODA	Total ODA per capita	Share of total ODA	Total ODA per capita	Share of total ODA	Total ODA per capita	Share of total ODA	Total ODA per capita	Share of total ODA	Total ODA per capita	Share of total ODA	Total ODA per capita
AA	11.2%	7.93	10.0%	9.68	7.9%	6.47	16.7%	5.56	3.3%	0.74	3.3%	0.39
CU	13.9%	39.05	0.5%	1.83	1.0%	3.22	2.5%	3.29	0.2%	0.18	0.1%	0.05
EBA	17.7%	4.44	31.5%	10.82	11.4%	3.27	15.5%	1.84	21.9%	1.79	15.3%	0.67
EPA	3.5%	3.83	5.4%	8.11	2.6%	3.2	7.4%	3.79	1.7%	0.58	1.5%	0.49
FTA	1.4%	1.43	2.4%	3.33	3.3%	3.85	8.2%	3.95	0.7%	0.24	0.2%	0.03
GSP	6.4%	0.72	10.8%	1.68	13.5%	1.76	10.7%	0.57	10.5%	0.38	2.5%	0.04
GSP+	2.0%	1.29	2.9%	2.49	1.7%	1.22	6.5%	1.94	5.2%	1.07	0.1%	0.01
SAA	5.5%	70.22	1.0%	17.35	2.5%	36.74	0.2%	0.93	0.2%	0.94	0.1%	0.10
British OCT	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.3%	2233.9	0.0%	0.00
French OCT	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.8%	7569.5	0.0%	0.00	0.0%	0.00
No pref	4.9%	0.55	6.8%	1.04	9.8%	1.24	11.8%	0.61	5.7%	0.2	2.4%	0.04
Unspecified*	33.6%	-	28.7%	-	46.4%	-	19.7%	-	50.2%	-	74.5%	-

\* The group 'unspecified' relates to aid allocated to wider regions, such as 'Africa, regional' or 'Central Asia, regional'. As it is not possible to distinguish the individual aid recipients of such groups, we are unable to estimate the ODA per capita for this category.

Source: Data on total ODA commitments across all individual recipients, from OECD's Creditor Reporting System (CRS), bulk download 22/07/2019. Includes recipients unspecified by region. Population data sourced from World Bank, supplemented with data from World Population Review.

## Part II: EU soft power in the case of the West Africa EPA Development Programme (PAPED)

Dan Lui and San Bilal (ECDPM)

### 1. Introduction

The Economic Partnership Agreements (EPAs) between the European Union (EU) and African, Caribbean and Pacific (ACP) countries have been primarily envisaged as a development tool, to support domestic reforms towards sustainable economic transformation, foster market development building on and strengthening the various regional integration processes at play in the ACP, and helping the gradual integration of ACP countries into the world economy (EC, 2016b; Zamfir, 2018). The EPAs were meant to take the form of development-oriented comprehensive regional free trade agreements, enshrined in the ACP-EU 'Cotonou' Partnership Agreement, and notably the development cooperation pillar associated to it.

#### 1.1. The need for accompanying adjustment support

Yet, many ACP countries have been reluctant to conclude an EPA with the EU, leading to contentious and at times tumultuous negotiations, including in West Africa (Bilal, 2011; Kohnert, 2015; Lyngstad Wernø, 2015; Murray-Evans, 2019b). One of the main concerns centred on the effective development dimension of the EPAs (Berthelot, 2018; Kwa et al. 2014; Oxfam, 2006; Tradecraft, 2012). The fear was that by opening their market to the EU, part of the domestic ACP production will be wiped out by more competitive products imported from the EU. In addition, liberalisation towards the EU could entail a significant loss of customs revenue, an important source of fiscal revenue for many ACP countries (Bilal et al. 2012; Grumiller et al. 2018). It was also felt that to take advantage of the EPAs and better access the EU market, ACP production capacity and (soft and hard) infrastructure would have to be significantly enhanced.

As a consequence, ACP countries asked for more development support from the EU to accompany the EPAs, so as to allow all the necessary adjustments to take place and ensure that ACP countries can truly benefit from the EPAs (Makhan, 2011). The initial response of the EU has been that the EPA negotiations were about trade, addressing the trade pillar of the Cotonou Agreement, and not a negotiation about aid, which was already covered by the development pillar of the Cotonou Agreement and the increased amounts dedicated to it under the European Development Fund (EDF) (Frederikson and Bilal, 2004). This argument in itself has contributed to sour the relations between some ACP countries and the EU, and increased a perceived mistrust.

In an effort to overcome these differences and unlock the EPA negotiations, and following the impetus of the Aid for Trade (AfT) initiative of the World Trade Organization in 2005 and ensuing joint EU Aid for Trade Strategy in 2007, the EU agreed to collectively seek to provide adequate support measures to accompany the EPAs (Quak, 2018; Bilal and Rampa, 2009). Collectively meant the EU institutions together with the EU member states. In the Caribbean region, it has been sufficient for this commitment to be reflected in the EPA text. In other regions, the EU has asked its regional partners to identify their needs. In East and Southern Africa (ESA), the EPA region came up with a long list of issues and projects to be financed. To stimulate a more coherent and effective approach, the EU has encouraged West



Africa to adopt a more structured approach. This is what the region has done, under the lead of the Economic Community of West African States (ECOWAS), in cooperation with the West African Economic and Monetary Union (UEMOA). The result is the West Africa's EPA Development Programme, better known by its French acronym (PAPED).

This study reviews the rationale and experience of the PAPED, and its relevance in practice. By doing so, we seek to identify whether the more structured approach followed by the region to assess its needs, and the ensuing collective response by the EU, has effectively contributed to a better alignment of the EU support to the trade and development objectives of the EPAs, and a more tailored approach to EU EPA-related aid for trade to meet West Africa needs.

## 1.2. What is the PAPED and why does it matter?

West Africa's EPA Development Programme (PAPED) was a detailed, region-wide project identification exercise conducted in 2009-2010 designed to enable West African countries to maximise the benefit of the EPAs being negotiated at the time. The intention was to identify specific needs with respect to increasing West Africa's trade with the EU and quantify the 'adjustment costs' of a regional EPA, and thus help channel EU AfT resources towards a portfolio of regionally-and nationally-defined AfT priority projects.

The PAPED was therefore a product of the negotiations, designed to meet a specific need of defining and addressing the 'development dimension' of EPAs. Yet far from settling this issue, it subsequently became the touchstone for a protracted set of the negotiations on the contentious issue how to make EPAs 'development friendly' (Hulse, 2016; Lyngstad Wernø, 2015).

As the negotiating parties struggled during negotiations at a technical level to forge the West African demand and the EU response, the linkage between EPAs and AfT remained politically contentious. Some of the key debates at the time were around whether the PAPED was genuinely specific to EPAs and EU-West Africa trade (as opposed addressing the broader challenge of how to increase West Africa's overall capacity to trade), the extent to which PAPED was simply a 'wish list' of projects (versus the fact that it appeared to have a high level of national and regional endorsement), the additionality in the donor response, and how the EU (i.e. the EU institutions and its Member States) should respond to the requests contained in the PAPED in place of more established programming procedures (e.g. national-level dialogues, strategies, plans and aid delivery instruments).<sup>22</sup>

As such, the PAPED experience represents an interesting case study in the exercise of EU soft power within the specific context of its trade negotiations with one particular region. We attempt to assess the successes and failures of the PAPED, and draw broader conclusions and lessons for EU-West Africa relations, the aid for trade agenda, and so-called North-South trade negotiations more generally. Specifically, we seek to analyse the extent to which the PAPED was effective in changing:

- decision-making in donor-recipient relations in West Africa
- actual allocations of aid for trade
- the performance and effectiveness of Aid for Trade under the PAPED, and regional aid more generally
- the regional approach to Aid for Trade and coordination on the West African side

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<sup>22</sup> ECDPM documented much of this discussion (ECDPM, 2010; Dalleau and Seters, 2011) and was also part of a significant exercise in 2009-10 to assist, as an independent organisation, the European Commission and the EU member states in their process to respond effectively to the PAPED.

Therefore, we focus on whether the PAPED was useful changing or improving the way that regional aid investment took place over the last decade, or whether its impact was ultimately more limited. It is important to note from the outset that some difficulties exist in assessing the PAPED, not least because, with the regional EPA yet to be ratified, the PAPED was never fully operationalised. Nevertheless, the expectation that it had at least some subsequent impact on EU's AfT to West Africa provides the possibility of reviewing its progress, its influence in the EPA process, and the lessons yielded by the experience.

The discussion is organised as follows: following a recap of the history and context of the PAPED in Section 2, an assessment on whether it became a useful tool is made given in Section 3 before conclusions are drawn in Section 4.

## 2. The PAPED: A Complex History

The PAPED emerged from a highly specific context, which helped shape the motivations behind its initial creation, the eventual form it took, and the subsequent role it played in trade relations between West Africa and the EU. Most obviously, the PAPED was a product of the ongoing negotiations towards Economic Partnership Agreements (EPAs) between six original regional configurations in Africa, the Caribbean and Pacific (ACP) on the one hand, and the EU on the other.

### 2.1. Origins and Context: The 'Development Dimension' of the EPAs and the WTO Aid for Trade Agenda

Negotiations towards EPAs began in 2003 and were due to be concluded in late 2007, although in most regions only a handful of interim agreements were signed at that time. In West Africa, only two bilateral interim EPAs were concluded by the EU at the end of 2007, one with Ghana and the other with Cote d'Ivoire. Negotiations on a regional EPA continued until 2014 when one was concluded that includes all West African countries. However, Nigeria has since refused to endorse it, thus preventing its entry into force and application at the regional level. Only Cote d'Ivoire and Ghana have ratified their individual interim EPAs and slowly started proceeding with its implementation.

Since the start, the EPAs were presented as being not just standard free trade agreements, but also encompass a 'development dimension' (EC, 2015, 2016b). While this phrase was emphasised repeatedly throughout the EPA negotiations, an agreed understanding on what this 'development dimension' entailed proved highly problematic to reach in practice. For many in the European Commission (EC), especially the experienced trade negotiators in DG Trade, the 'development dimension' was initially held to stem from the transformative effects that trade liberalisation commitments would have on ACP economies, with increasing levels of trade generating growth and poverty reduction. However, many EU development officials, especially from the EU member states, were more sceptical of the liberalisation thesis (Denmark et al. 2008). With a number of prominent campaigning civil society organisations (CSOs) arguing against the EPAs (Oxfam, 2006), EC officials became keen to fend off criticism from civil society stakeholders and the European Parliament (Bilal, 2011; Bilal and Stevens, 2009; Kwa et al., 2014; Makhan, 2009).

Drawing on the recent emergence of the Aid for Trade initiative, many ACP negotiators argued instead for clear financial commitments to accompany the adjustment costs associated with EPAs. Within the context of the Doha Development Round, in late 2005 the WTO members gave recognition to the principle that developing countries required support – through 'Aid for Trade' – in order to take

advantage of trade liberalisation. In this context, ACP negotiators sought legally binding financial commitments within EPAs to guarantee the 'development dimension'. This in turn created a dilemma for the EU, who simultaneously wanted to make the EPAs 'development friendly' yet were reluctant to be perceived as 'buying-in' support, creating the conditions for long-running debates on the source, legal form, conditionality and additionality of EPA adjustment support, which were resolved in similar yet different ways across the ACP regions.

## 2.2. Towards the PAPED: the West Africa EPA Negotiating Dilemma

In West Africa, the situation of different countries with respect to the costs and benefits of signing an EPA arguably shaped the response to the development dimension in the EPAs, leading to an outcome in which the EU eventually became more accommodative to the region's demands on EPA adjustment support. While the process followed was meant to be based on sound technical needs assessments to guide EU donor responses in term of development support, in practice it has been also a very political process and arguably resulted in an outcome that may not be prone to respond to its ambitions (Langan and Price, 2015).

In 2007, each ACP region had a differing set of external and regional pressures and dynamics that shaped whether a regional-level EPA was signed, or individual agreements as countries sought to preserve market access. In West Africa, two countries in the region – Ghana and Cote d'Ivoire – concluded interim EPAs in late 2007 to preserve their preferential access to the EU market, while 12 of the remaining 13 West African countries were least developed countries (LDCs) that continued to benefit from duty-free and quota-free market access to EU markets under the Everything-But-Arms (EBA) initiative. As a regional grouping, West African countries were therefore better able to argue that they had little to gain –in terms of access to the EU– from signing a regional EPA without addressing the issue of development assistance (Hulse, 2016). Seen another way, for those West African countries that were opposed in principle to an EPA, there was little incentive to conclude an EPA without additional support. As such, development support quickly became a totemic issue in the West Africa negotiations.

While West Africa argued (along with other regions) that the conclusion of a regional EPA would create additional burdens and adjustment costs that needed to be addressed in order for them to reap the full benefits of an EPA, it was far from clear in 2008 what these adjustment costs actually were, or what they amounted to. This is not to say that such adjustment costs had not been estimated: in one influential contribution, Milner (2006) had estimated total EPA-related costs for ECOWAS (plus Chad and Cameroon) at €2.8bn (in 2005 prices). But there was wide variation in estimates, and a distinct lack of agreement on what 'adjustment costs' entailed, and methodologies for assessing them.

## 2.3. The Development of the PAPED

Seeking to unblock EPA negotiations (and to engage on the question of supporting trade-related needs in the region), the EU asked West Africa to identify its specific needs. While similar concerns were raised in other ACP regions, a formal structured 'needs assessment' exercises for EPA support was only carried out in West Africa. The process to develop the PAPED was ostensibly the most comprehensive and bottom-up approach, with a lengthy process of national consultations led by the then ECOWAS Secretariat (now a Commission) and UEMOA Commission to identify a broad range of needs related to EPA, and to cost them by type of projects.<sup>23</sup>

<sup>23</sup> At the same time, the EC and ECOWAS also jointly recruited independent consultants to make a dynamic impact assessment of EPAs (a Computerised General Equilibrium model) and identify costs associated to it. Whereas the

The programme covers 5 'axes':

- (i) Diversification and increase of production capacities;
- (ii) Intra-regional trade development and facilitation of access to international markets;
- (iii) Improvement and reinforcement of trade related infrastructure;
- (iv) Making the necessary adjustments and taking into account other trade related needs;
- (v) Support to the implementation and monitoring-evaluation of the regional EPA.

As noted in Dalleau and van Seters (2011): 'Each of the axes is broken down further into 'components', adding up to 28 in total, which describe areas. countries have developed each a 'National Operational Plan' (NOP), which further specify needs at the project level. This is complemented by a 'Regional Operational Plan' (ROP) which presents regional projects based on the subsidiarity principle.'

At the time, the PAPED was subject to some debate, particularly over the methodology used to cost projects, and questions over the newness of project requests and over inconsistencies and differences of quality in the project identification process among West African countries (see for example ECDPM 2010; Dalleau and van Seters 2011). Nevertheless, the sheer scale of the exercise – the length and elaborate nature of the document, the time investment made, and the apparent ownership through high-level regional endorsement – meant that the document became a touchstone in the negotiations, regardless of its potential methodological shortcomings.

Thus, the 'headline' result of the PAPED exercise was that an amount of at least €9.5bn in EPA-related adjustment costs were identified, which naturally then became a focal figure in subsequent negotiations towards a regional EPA.

## 2.4. The EU Response of 2010 and Commitment to the PAPED

For their part, the EC sought to provide a collective response to the PAPED from the EU institutions and EU member states. Although seemingly simple, this in fact raises issues of competences and control of the EU development assistance, given that aside from their contributions to EU instruments such as the European Development Fund (EDF), which is collectively managed by EU member states and the EC, each member state has an autonomous development cooperation budget. Aside from the aforementioned debates over the principle of providing financial commitments for EPA development support, the member states already contributed to the EDF and did not want to face the prospect of making extra contributions to an additional EU fund led and managed by the EC. However, while member states were keen to retain their autonomy, they also faced political pressure to get West African support for an EPA, thus reluctantly agreed to the process. The EU as a whole, however, firmly maintained its common position on additionality (i.e. no new additional funding commitment) arguing that in fact this was not the right question. The issue was the EU ability to mobilise adequate resources for the needs identified, which it was EU committed to doing, irrespective of whether it was new or not.

The main solution was essentially to ensure that enough resources would be available, which led the EU institutions and key member states to compile an inventory of potentially available resources. IN practice, the EC (from the EDF programming), other EU institutions such as the European Investment Bank (EIB), and EU member states identified their respective sources of funding and projects in their

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PAPED focused on broad adjustment costs, this study focused mainly on fiscal adjustment costs (i.e. loss of tariff revenue due to EPA liberalisation) with the implicit expectation by West Africa that the EU could compensate for loss of tariff revenues.

respective pipelines (i.e. planned projects and anticipated programming) than could potentially address EPA-related needs. Even here however, significant difficulties arose from several facts:

- Donor programming cycles differed and were often for one to two years, rarely beyond three, hence offering only a limited overview;
- Donor allocations were often made through established dialogues at country level, based on country strategies and requests; there were hence difficulties at the headquarters level in EU capitals to plan a regional response in line with PAPED ambitions;
- Many EU member state donors were not active in West Africa, putting the onus for the member state contribution on France, Germany, UK, Belgium and Spain;
- Many EU member states provided funding through multilateral agencies (e.g. UN agencies) or development finance institutions such as the World Bank and African Development Bank, rather than (or in addition to) bilaterally, which is difficult to trace through to its final use and would be excluded from EU member state contributions in aid statistics;
- The PAPED was not structured along agreed WTO categories for AfT used in aid statistics: and hence there was a need to examine project-by-project to find equivalence between PAPED and AfT categories (ECDPM 2010).

Ultimately following a complicated exercise, this work led to an official, collective EU response to the PAPED. The EU Council Conclusion of 10 May 2010 on PAPED stated:

‘The EU currently estimates that funds available for PAPED-related activities from all of its financing instruments over the next five years amount to at least €6.5bn. Total aid for trade to West Africa from all donors can be projected to exceed US\$12bn in the same period. Thus, the EU expects to be in a position to support the PAPED to a very substantial extent.’<sup>24</sup>

Nevertheless, even with the significant levels of effort made by sides to elaborate AfT needs and craft responses, there were still obvious methodological weaknesses in the project identification exercise, as well as continuing divergences between the PAPED and the EU response. For example:

- While the PAPED was presented as focusing on additional costs for EPA-related adjustments only, the EU emphasises their support in the context of total AfT for West Africa. In practice, it remains in most cases extremely difficult to distinguish between the two.
- The project-focused nature of the PAPED necessitated an EU response that was similarly focused on projects. By using already-foreseen ‘pipeline’ projects as a starting point, the EU response did not generate any intrinsically new funding commitments: in practice it was more of an accounting exercise of forthcoming AfT.
- Despite the endorsement on both sides to the PAPED within the context of the EPA negotiations, both donor and recipient countries generally have a strong preference for direct bilateral assistance over support provided through a regional platform (such as through ECOWAS with the PAPED), as it provides greater control, flexibility and accountability. In principle, the PAPED could fulfil its intended role as an additional instrument to help guide donor dialogues and bilateral requests from West African countries to EU member states and direct funds to priority AfT projects. Yet in practice it is unclear how important it became in such dialogues vis-à-vis, for instance, already-existing national planning frameworks and development plans.

Ultimately therefore, both the PAPED and the EU response represented as much presentational, political and strategic exercise, carried out within the context of the EPA negotiations, as it did a genuine

<sup>24</sup> The Conclusions were followed by the EU Spanish Presidency high-level seminar on Strengthening Regional Integration in West Africa: What role for the EU (co-organised by ECDPM 11-12 May 2010).

attempt to forge a new approach to AfT in West Africa. While the EU could be shown to be responding to West Africa's needs, and so gain political support for the conclusion of West Africa EPA, in practice there was no real new commitment from the EU (since this was mainly a stocktaking exercise). More generally, the exercise could be viewed as signalling tool, demonstrating that the EU was proving funds to the region and raising awareness of the EPA-related needs to encourage AfT to be mobilised from EU member states and the broader international community, beyond EC/EDF support. Some observers also stressed that the PAPED and related commitments were not sufficient to respond to the development challenges of an EPA for West Africa, and that leaders in West Africa were seeking a cover up for concluding an EPA (Berthelot, 2016; Koné, 2010; Langan and Price, 2015).

## 2.5. The 2014 Response and After

Over the subsequent years, the main issue was over the additionality of the EU's financial commitment to the PAPED, with the West African side continuing to argue that this needed to be additional rather than simply a restatement of funds already being planned. The argument for additional funds was that there should not be a shift from other priorities in order to finance EPA adjustment. On the EU side however, its inventory of €6.5bn in forthcoming AfT already represented a significant amount of development spending: finding additional funds, beyond those already pledged, was a non-starter. As noted above, there were also debates about what 'additionality' actually meant, given that in practice all of the proposed projects were in fact 'new', previously unfunded ones.

Negotiations continued over the following years and at some point, the question of additionality was dropped. Since their original PAPED commitment covered only up to period from 2010 to 2015, towards the end of this period the EU conducted another inventory exercise, and a new set of EU Council conclusions from May 2014 stated that AfT provided by EU, Member States and the EIB during the 2010-14 period reached €8.2bn, and committed another €6.5bn for 2015-20 for activities linked to the PAPED.

In December 2014 a regional EPA was signed by 13 West African countries. Part III and Annex F of the agreement set out the detailed set of legal commitments with respect to the PAPED, including for example the commitment to support the PAPED throughout the tariff liberalisation period. The EPA also outlines the institutional set-up for administering support, with funding being provided through existing and new instruments, and potentially channelled through a new Regional EPA Fund to be established. The PAPED document itself is only referenced and does not appear in the text. Currently 15 countries have signed the regional EPA with Nigeria as the only country in the region not to sign; as such the regional EPA is still at present awaiting ratification.

## 3. What Influence did the PAPED have?

It is important to note that the PAPED was never operationalised, since a regional EPA has not yet entered into force. Nevertheless, a good case can be made that the PAPED should have had at least some influence on EU donor behaviour in the years after it was produced, given that:

- the exercise was carried out and a document itself was produced following the exertion of significant negotiating capital on both sides
- the document was accepted by both sides as a basis for engaging on the issues of development support within the EPA, and appears in the EPA text itself
- the EU made specific commitments within its Council Conclusions in both 2010 and 2014 to support the PAPED

- Aid for Trade has continued to be delivered to the region over subsequent years and trade-related projects have been funded, and
- negotiations have continued over recent years towards a regional EPA.

Assessing the direct influence of the PAPED on subsequent levels of EU AfT is very difficult, since there are obvious issues around attributing the latter to the former. However, it is reasonable to presume that all of the above points mean that PAPED may have had some level of significance in the EU's engagement on AfT in West Africa the years since it was first presented.

### 3.1. What happened to EU Aid for Trade to West Africa?

*Did the PAPED lead to more AfT from the EU? What is the broad trend?*

Total AfT commitments from EU institutions and member states to West Africa increased from approximately \$2.7bn over the 2008-2010 period (approximately \$910m per annum), to \$3.8 bn for the period 2015-17 (or approximately \$1.26bn per annum).<sup>25</sup>

Extrapolating over the six-year period from 2015-2020 AfT commitments from EU and member states reaches approximately \$6.3bn in constant 2017 dollars (€5.5bn). While this is lower than the EU's 2014 commitment of €6.5bn for this period, commitments historically increase in the end of the programming cycle.<sup>26</sup> Furthermore, the figure does not include contributions to multilateral organisations or non-EU development finance institutions, and multi-donor funds and projects managed by them (it also includes only official development assistance, and not concessional loans for example).<sup>27</sup> Broadly therefore, a reasonable case could be made that at present the EU appears to be on track towards meeting its 2014 commitment.

*Was there any difference in the response between EU Institutions and Member States?*

Figure 1 shows that overall AfT from both EU institutions and EU member states has grown since 2008-10 period. Set against this the general trend higher, the contribution of the EC institutions has grown vis-à-vis the EU member states, particularly in recent years. While the EU institutions provided around 39% of the total EU AfT to West Africa in 2008-10, their contribution was 48% in 2015-17. It should be noted however that there are wide fluctuations from year to year in the figures (which may reflect different donor funding cycles, or cycles for the completion of large-scale projects in infrastructure for example).

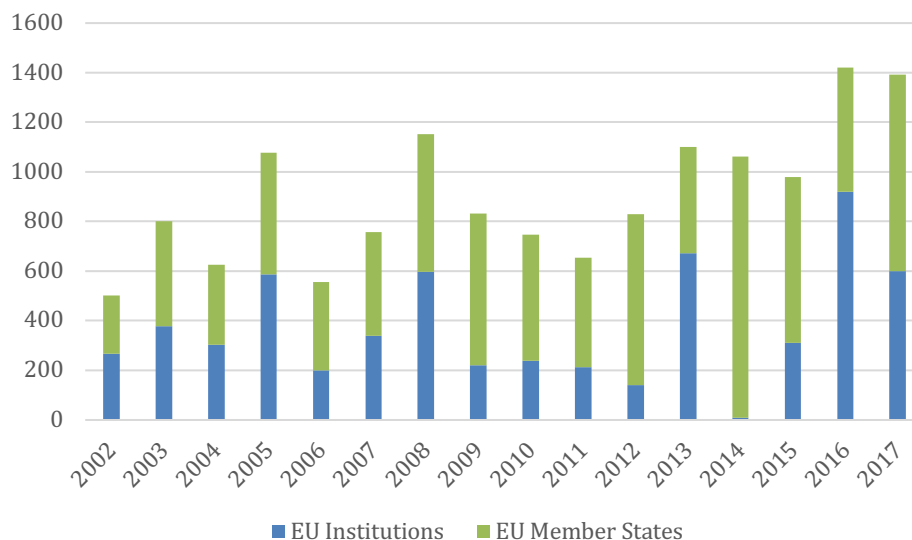
Amongst individual member states, bilateral EU AfT to West Africa is heavily influenced by France and Germany, which contribute around 45 and 30 per cent of total EU-Member State AfT respectively over the 2015-2017 period, as illustrated in Figure 2. The concentration of EU member state AfT provided by these leading two donors has grown – France in particular has significantly increased bilateral AfT – while AfT from other EU Member States such as UK, Spain and Italy has shrunk. Again however, this does not reflect the contributions made by EU Member States to multilateral agencies and funds.

<sup>25</sup> The source for all Aid for Trade data presented in this section is the OECD's Creditor Reporting System (CRS) database. Figures are for AfT commitments in constant 2017 US dollars (unless stated otherwise).

<sup>26</sup> Some €475-650m in the PAPED is also linked to implementation of the EPA, fiscal reform and compensation, which is clearly only required in the event of being implemented.

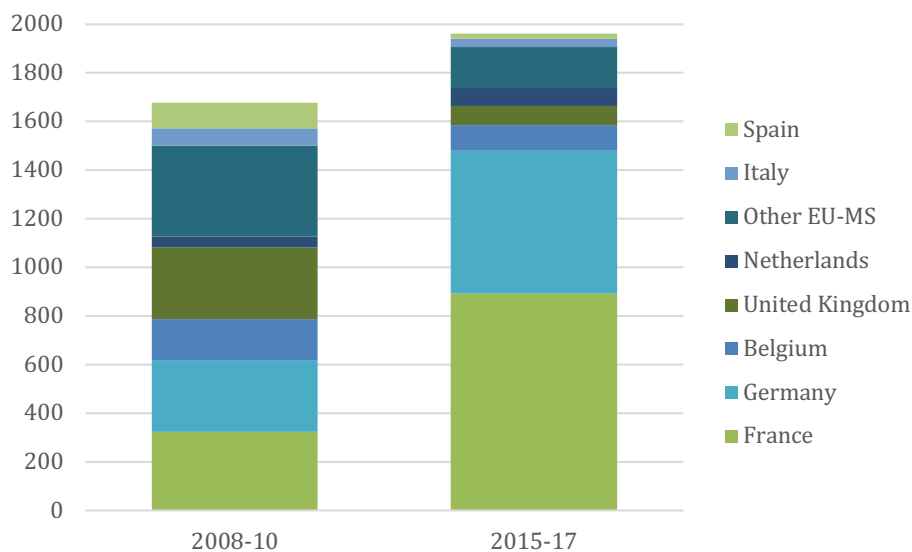
<sup>27</sup> For example, Spain extended support to the ECOWAP, but this was done through a contribution to a World Bank managed fund, so does not register as Spanish AfT to West Africa in OECD statistics.

**Figure 1. EU AFT to ECOWAS: EU institutions and member states (2017 constant US\$, million)**



Source: Compiled by the authors from OECD CRS

**Figure 2. EU member states AFT, by donor country (2017 constant US\$, million)**



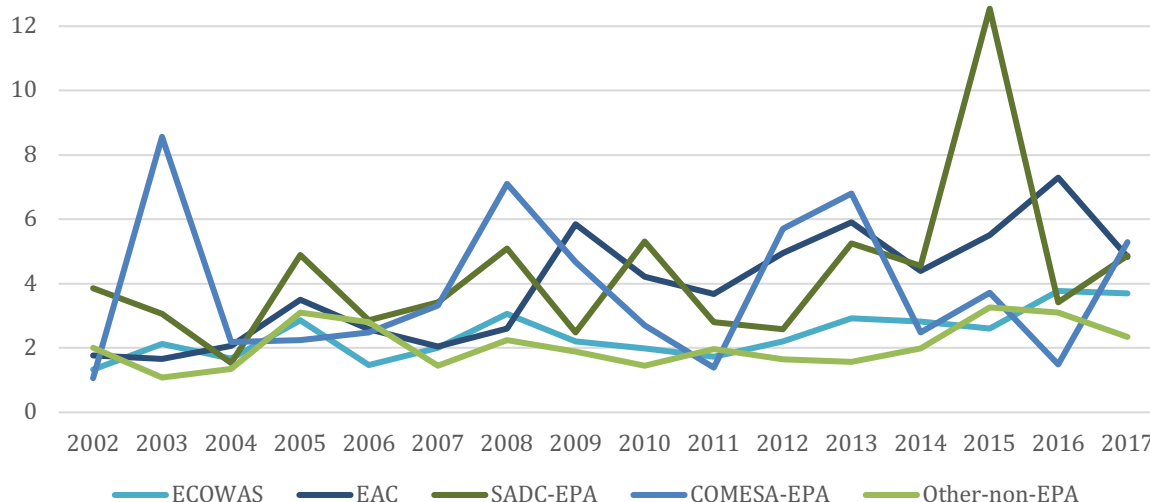
Source: Compiled by the authors from OECD CRS.

*Did the PAPED lead to more AFT to West Africa vis-à-vis other EPA regions?*

There is little evidence that West Africa received higher amounts of AFT from the EU and member states as a result of elaborating the PAPED, when compared to other EPA regions. On per capita basis, AFT to West Africa was in fact slightly lower than for the EAC and SADC-EPA configurations, as shown in Figure 3.



**Figure 3. EU institutions and member states AfT to ECOWAS and other regions (2017 constant \$/cap)**

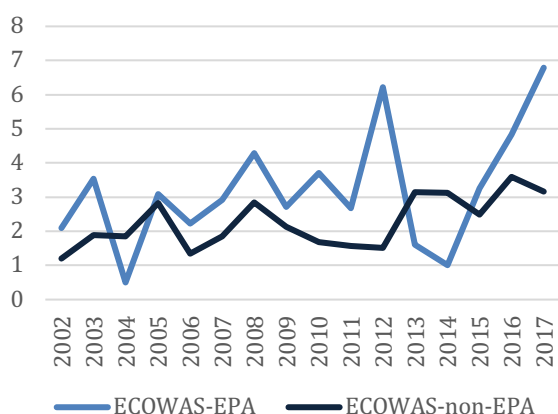


Source: Compiled by the authors from OECD CRS.

*Did EPA signatories receive more AfT than non-signatories?*

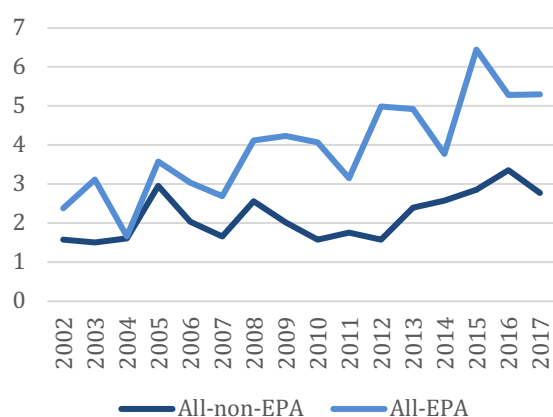
Looking at EPA status, there is however some evidence that those who have signed and are implementing EPAs did receive more AfT than non-signatories, as can be seen in Figures 4 and 5. This is less evident in West Africa (with 2 countries that are implementing interim EPAs, and 13 that are not yet implementing) than in the more evident in a broader sample of 17 EPA and 24 non-EPA countries across the African EPA configurations.<sup>28</sup>

**Figure 4. EU institutions and member states support to ECOWAS by EPA status (2017 constant \$/cap)**



Source: Compiled by the authors from OECD CRS.

<sup>28</sup> Here the sample of 'EPA countries' are those in Africa that have signed and ratified interim EPAs: Cote d'Ivoire and Ghana in West Africa, Botswana, Eswatini, Lesotho, Mozambique, Namibia, South Africa in SADC, Burundi, Kenya, Rwanda, Tanzania, Uganda in the EAC, Madagascar, Mauritius, Seychelles, Zimbabwe in COMESA and Cameroon in Central Africa.

**Figure 5. EU institutions and member states support to Africa by EPA status (2017 constant \$/cap)**

Source: Compiled by the authors from OECD CRS.

However, there are a number of important caveats here. Firstly, EPAs have been signed and ratified in different years, and mostly towards only the end of the period examined; of these, even fewer EPAs have begun their implementation. Secondly, there may also be other mitigating factors at work: given that most EPA signatories are non-LDCs, AfT levels may be more closely linked to the level of development, pointing to lower AfT absorption capacity in LDCs or competing priorities (e.g. basic services such as health or education, rather than trade-related infrastructure).

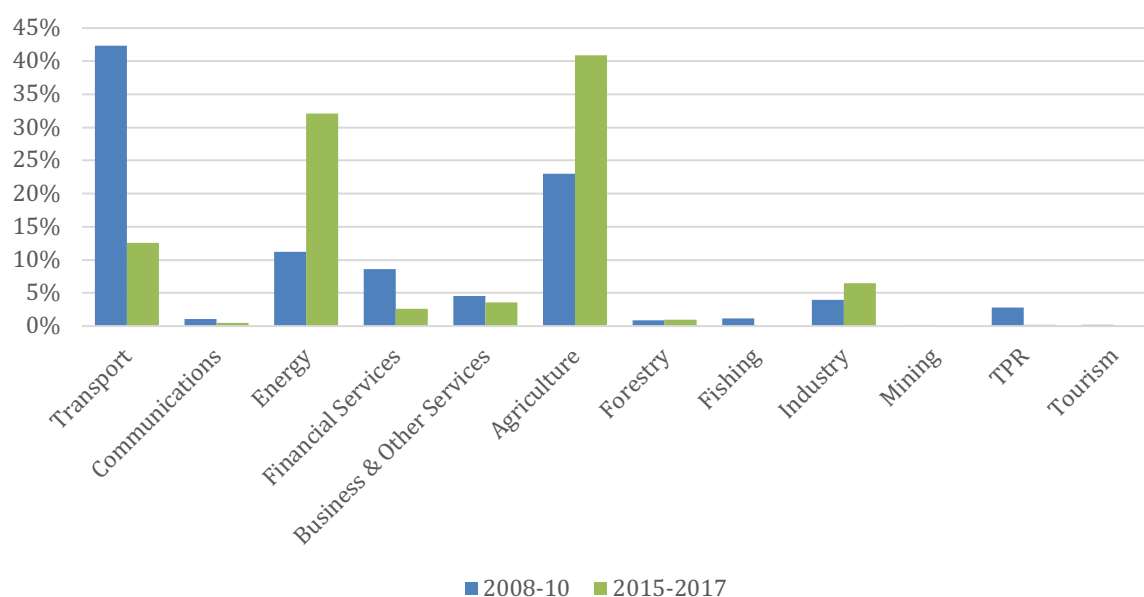
### 3.2. Coherence and Quality of AfT

*Did the PAPED lead to more targeted AfT towards PAPED-priority sectors?*

One objective of the PAPED was to reallocate AfT towards regionally defined priority sectors. As noted previously, a direct comparison between the PAPED and AfT outcomes is complicated by the fact that the PAPED does not follow the OECD-DAC reporting categories for AfT. Nevertheless, the PAPED can be seen to prioritise certain AfT areas, most notably energy (to about 34% of the PAPED €9.5bn estimates are allocated), regional transport (26%), and agriculture (approximately 10% across PAPED axes), as shown in Figure 6.

As such, it is possible to compare roughly AfT allocations to PAPED priorities. Here, the distribution of EU AfT commitments shows that over the last decade, in the context of rising AfT overall, the EU shifted significantly away from transport as a priority sector, and significantly towards agriculture and energy. In fact, this confirms the *a priori* analysis of the key EC aid instruments at the national level (the National Indicative Programmes or NIPs) conducted by Herrero et al (2015) about the priorities selected by the EC for the EDF11 period.

Hence while the PAPED priority of energy infrastructure is supported, the major shift in EU support from 2015-2017 from transport towards agriculture appears to be at odds with PAPED's heavier emphasis on the former than the latter. Given that this was a global decision for all EDF recipients taken at EC headquarters level, there is no sign that the shift was a response to West Africa's specific PAPED-related demands.

**Figure 6. Sector Distribution of EU institutions and member states AFT to West Africa**

Note: 'TPR' means Trade Policy and Regulations.

Source: Compiled by the authors from OECD CRS.

*Is there any evidence within the EU's aid programming documents that the PAPED had an influence?*

A detailed examination of all the programming documents of all EU institutions and member states is beyond the remit of this study. Looking however at some of the key EC programming documents – the Regional and National Indicative Programmes (RIPs and NIPs) – suggests that while the documents tend to make reference to the PAPED, its influence on actual programming was limited.

Particularly at the national level there is scant evidence that the PAPED featured significantly in aid programming discussions. For example:

- For Ghana – where NIP programming took place after the country had signed an interim EPA and therefore might be expected to reflect the PAPED – the NIP mentions support for EPA implementation only in relation to the continuation of ongoing national trade support program, and through the support available within the RIP. It also mentions that planned investment under the NIP in the agricultural sector will 'contribute' to the implementation of the EPA and the PAPED.
- Similarly, for Cote d'Ivoire the PAPED is referenced in the NIP, though without being linked to projects: "The objectives pursued by cooperation between the EU and Côte d'Ivoire aimed at the development of agriculture and the energy sector are a response to the objectives expressed by the region in the EPA Development Programme (EPADP). Later on the document also states that "The agriculture and energy sectors will also contribute to supporting Côte d'Ivoire and the West African region in the implementation of the Economic Partnership Agreement with the European Union and the Economic Partnership for Development Agreement Programme (EPADP)." (own translation from French)
- 'Les objectifs poursuivis par la coopération entre l'UE et la Côte d'Ivoire visant le développement de l'agriculture et du secteur de l'énergie constituent une réponse aux objectifs exprimés par la région dans le Programme APE pour le Développement (PAPED).' Later, 'Les secteurs agriculture et énergie contribueront, en outre, à accompagner la Côte d'Ivoire et la

région Afrique de l'Ouest dans la mise en oeuvre de l'Accord de Partenariat Economique avec l'Union européenne et du Programme d'accord de partenariat économique pour le développement (PAPED).'

As such, in the few instances where the PAPED is mentioned in NIPs, activities are said to contribute to the implementation of the PAPED, rather than programming being directly driven or influenced by PAPED priorities.

It is perhaps easier to trace the influence of the PAPED at the regional level than at the national level. Again, the Regional Indicative Programme (RIP) states that 'measures under the 11th EDF RIP will support in particular the EPADP' [PAPED], yet also mentions this alongside other frameworks, namely the 'ECOWAS private-sector support strategy and 'ECOWAS industrial development strategy'. Nevertheless, in terms of amounts allocated, regional trade and economic integration is the largest sector in the RIP, with exactly half of the €1.15bn seven-year envelope earmarked for four priorities of regional transport (€200m), energy (€200m), private sector support (€120m) and trade integration (€50m). It is beyond the scope of this study to trace any of these earmarked sums to specific PAPED projects, but these allocations suggest perhaps that it influenced the EC response towards PAPED objectives at the regional level.

*Did the PAPED have any effect on donor coordination on the ground (i.e. between EU institutions and Member States)?*

One of the main goals of the PAPED was potentially to improve the coordination of AfT behind a regional vision. Donor coordination is inherently difficult to assess, but again the PAPED is unlikely to have had great impact in this area. This is firstly because, as seen above, the PAPED had limited impact on EU aid only at the regional level, and did not become much of a programming instrument at the national level where existing mechanisms (partner-donor dialogues) and frameworks (national development plans) were already in place. Donors contacted for this study indicated they have not used the PAPED in making programming decisions or funding allocations. Over time, the PAPED appears to have received less and less attention even at the level of ECOWAS-EU discussions, especially in the two or three years.

Secondly, the sectoral distribution above also may suggest that overall donor coordination (amongst EU and non-EU donors) may have improved *in spite of* PAPED objectives. Whereas the PAPED foresaw the EU intervening in *all* of the sectors identified, the aforementioned shift in EU funding away from transport towards agriculture may be a reflection of the reality that other donors (most notably the Development Finance Institutions such as the World Bank and Africa, as well as Japan and China) were better suited to delivering large-scale infrastructure projects. Within the PAPED's focus on having an exclusively EU-funded programme – rather than one that matched AfT needs amongst all potential donors – the potential benefits of increased specialisation and division of labour amongst international donors appears to be something that was not considered.

*Did the PAPED improve the quality of AfT (for example in terms of the quality of the project requests received?)*

Another goal of the PAPED was to improve the quality of AfT (for example in terms of project proposals received). An attempt to assess the 'quality of AfT' is again beyond the remit of this study and would depend on a chosen methodology for doing so, but it also seems unlikely that the PAPED had much of

a positive influence here. Ultimately there appear to be several issues with the original methodology of the PAPED project identification exercise itself that prevented it from becoming a useful tool.

Firstly, the emphasis from the start in the exercise was on identifying only 'new' or unfunded projects that were ostensibly linked to ensuring West Africa benefit from an EPA. In reality, the link to EU trade was fairly tenuous: projects to upgrade infrastructure or improve agriculture are likely to benefit not just West Africa-EU trade, but productive capacity in West Africa more generally. Contrary to claims made of the document, projects were not fully elaborated and many of the project costings were estimates, based for example on model projects from other regions.

Just as much of the funding identified by the EU was pipeline funding, most of the projects in the PAPED's country-level 'National Operating Plans' (NOPs) were existing unfunded pipeline project proposals, or ones that had not been presented to other donors. Yet arguably, such projects were not always in fact the 'best' projects to pursue, but rather lower-priority projects that were 'left over' from national plans. Their inclusion therefore did not represent a step up from existing pipeline projects, but arguably the reverse (Dalleau and Seters, 2011).

At the programming level, some argue that the emphasis on the PAPED in fact prevented the elaboration of alternative projects that were more appropriate to the region's needs. For example, during the programming for the 2014-20 RIP, it was suggested that only PAPED-related trade projects should be discussed. EU Member States officials contacted for this study reported that they did not use the PAPED when programming. This points to one clear weakness of the PAPED – the lack of flexibility in the approach to adapt to changing context of changing needs, different donors, as well as new aid instruments and modalities.

As an example, one trend in trade related assistance has been for the development of multi-donor, integrated regional-level projects, which are more common now than previously. The North-South Corridor concept for example emerged around the same time, but independently of EPAs. In West Africa, some commentators believed that the negotiating dynamic created by the PAPED during say the 2010-2015 period actually prevented such regional projects from being jointly conceived and pursued.

#### *PAPED and Monitoring of AfT*

Throughout the above analysis, an important, cross-cutting point is that the PAPED was not particularly conducive to objective, results oriented monitoring and evaluation (M&E). This hinders much of the analysis of the PAPED. Of course, the PAPED was never fully operationalised, so it is possible to argue that appropriate M&E mechanisms would have been put in place if it had been. However, the lack of coherence with OECD definitions and categorisations of AfT make it difficult to monitor financial commitments, while the lack of indicators at the project level make it harder to assess what outcomes the PAPED projects were designed to achieve.

### 3.2. Broader Impact of the PAPED

*Did the PAPED move trade up the agenda in West Africa? How much influence did it have in influencing countries signing up to the EPA?*

While difficult to properly assess, it is telling that following the EU's 2014 commitment on the PAPED, all West African countries agreed to the successful conclusion of the EPA negotiations (including

Nigeria, though the Head of State ultimately declined to sign it). One key factor in the successful conclusion of the negotiations was the adoption of the ECOWAS custom union's common external tariff, which paved the way to the adoption of the regional EPA liberalisation schedule. With the regional EPA (as opposed to separate, interim EPAs) is seen as necessary to strengthen and consolidate the growing trade integration process within ECOWAS, the PAPED's biggest influence was arguably then in giving West Africa countries the confidence (or the political cover) to sign up to EPA liberalisation commitments with the promise of guaranteed levels of Aft. Of course, the evidence presented above suggests that the PAPED did not actually result in any financial commitment, beyond what would have been given. Yet the inclusion of the PAPED in the agreement, and the signalling effect given for example through the 2014 EU Council conclusions, may have been enough to convince some West African government that the 'development dimension' of the EPAs was being met (or in turn allow them to convince more sceptical stakeholders). As such, the EPA process – including the PAPED as an integral part of the final package - ultimately helped break the fairly strong prevailing political economy in West Africa against making liberalisation commitments.

## 4. Conclusions and key lessons

The PAPED emerged from circumstances that were common across ACP countries (the EPA negotiations), but the path taken in West Africa represented a unique response to the question of the 'development dimension' of EPAs. This approach went beyond those taken elsewhere: the specific responses by the EU Council in 2010 and 2014 made the PAPED the most prominent of the EPA support programmes amongst ACP regions. Unlike elsewhere – where negotiations were limited to a broad set of trade-related development goals accompanied by 'best endeavour' commitments and an EC funding through the RIP, the outcome in West Africa was that ECOWAS and EU engaged in a much more detailed discussion on a specific programme that encompassed the range of trade-related support, from hard and soft infrastructure, to sector-level support, fiscal adjustments, to policies and standards. This discussion was predicated on the idea that West Africa would define its detailed needs, and the EU – the EC and EU member states – would respond with a bespoke financial package.

Ultimately this approach led to a deeper level of negotiation over Aft allocations, that extended even to efforts on programming. The latter was normally something that was done through donor dialogues, whereby governments and donors would jointly agree funding priorities. While the PAPED attempted to put in place a similar process at the regional level specifically for EPA-related priorities, its dynamics were different from usual aid programming discussions because:

- they were closely linked to trade negotiations and therefore to some extent questions of conditionality;
- rather than dividing up a predetermined envelope of funding, here ECOWAS itself generated the estimates of required funding (i.e. €9.5bn over five years);
- a response was sought from the whole of the EU at the same time (which was again new, and not done in other regions).

Yet while this approach may have made sense in the context of the EPA negotiations at the time, in the final analysis, it yielded few benefits.

- Despite playing a central part in the EPA negotiations, West Africa did not receive comparatively more Aft than other regions as a result of elaborating the PAPED. In line with elsewhere, West African countries did receive Aft at increased levels (matching levels discussed in the PAPED), despite not implementing a regional EPA. The mobilisation of Aft resources occurred, despite the fact that the PAPED was not operationalised.

- With respect to EU member states: there is little evidence that the PAPED led to a change in EU Member state priorities, or that it changed the coordination at the level of programming between EC and member states.
- With respect to the sector allocation of resources, the PAPED did not lead to a shift in favour of EU funds to transport infrastructure; the EU did however increase funds significantly to energy and agriculture. Nevertheless, AfT to transport infrastructure increased as a result of commitments by other donors (multilateral donors through AfT or concessional loans); this is more in line with the aid effectiveness agenda than the PAPED vision.
- Country programming: the PAPED did not replace traditional mechanisms (e.g. donor dialogues) for deciding aid or AfT allocations. The PAPED did not influence the EDF11 NIPs. The only case where PAPED had an influence was in the RIP EDF11.
- By contrast, the quality of AfT projects may have suffered as a result of the excessive focus on the PAPED. Because the PAPED identified only 'new' or non-funded projects in 2009-10, there was some debate over whether these were neither the highest priority or 'best quality' projects. Potential multi-donor regional projects that were not part of the PAPED were excluded from discussions. ECOWAS' long awaited and broader AfT strategy – designed to engage all donors and not just the EU – was only adopted in 2016, while it ideally should have been in place before the PAPED (and was perhaps delayed because of the heavy focus on it).
- Despite the insistence that PAPED projects were EPA-focused (and therefore required additional funding *by virtue of* a country signing and implementing an EPA), it is likely that most were funded in any case, either by the EU or other donors.
- The opportunity cost of PAPED was that it created an unnecessary and prolonged period of missed opportunity for a more constructive engagement with respect to Aid or Trade. Entire negotiating sessions were devoted just to PAPED-related questions, while between sessions time and resources were spent by officials in what were essentially AfT stocktaking and accounting exercises.

By creating a strong link between trade negotiations discussions over AfT programming ended up being conducted in a confrontational rather than collaborative setting, turning the programming of AfT into a 'political bargaining chip', and less of an objective response to the trade-related needs of the region. Furthermore, the discussions led to a framework that turned out to be rigid and entrenched, lacking of flexibility to respond quickly to changing AfT needs.

It is important to note that this dynamic was created by both the EU and West African side. The EU placed emphasis throughout the negotiations on the 'development dimension' of EPAs yet without fully defining this. West Africa for its unrealistic expectations for additional funding and the focus by trade negotiators on delivering a negotiating 'win' for member states with the PAPED, rather than broader goal making the most effective use of AfT for increasing trade.

#### 4.1. Next steps: a PAPED trapped in 2010 as we enter 2020

At this juncture, the West Africa regional EPA contains clear commitments to the PAPED, despite the fact that the current version of the PAPED is now much outdated, while the EU current financial commitment runs until the end of 2020. Although the regional EPA is effectively stalled, in the event that it does enter into force at some point, the tricky question of what to do with the PAPED will inevitably need to be revisited again.

In theory, the PAPED would then be operationalised, along with its supporting structures including the regional EPA fund. However, the list of projects would first need to be revised to produce a new 'multi-annual plan', which would involve a new round of project identification and fund-matching. Yet this has

not worked well before: both the West African process of project identification, and the subsequent exercise in which EU provides a presentation of the commitments it intends to make, have been cumbersome and duplicative, without changing very much on the ground. Although the PAPED could yet have a signalling effect (that EPAs are being accompanied by AfT) and thus help the monitoring of EPA commitments, this should be set against the additional administrative burdens it would entail, as well as the potential for continued disagreements on funding.

## 4.2. Alternatives Going Forward?

Given the amount of effort invested in the PAPED and the fact that it has yet to be operationalised, it is difficult to see any radical change to the approach at this point. However, this should not prevent potential alternative approaches from being considered, and at the least the forging of a less confrontational and more cooperative approach to the allocation of EU AfT to regional priorities.

This could see less focus on reaching agreement every five years on committed amounts for a wide range of specific projects, and more on the original goals of the PAPED and AfT more generally: end results in terms of enhanced opportunities and increased trade from West Africa. In this regard, ECOWAS now has a regional AfT Strategy (adopted in 2016), and this may serve as a better guide to the region's needs than the PAPED's narrow focus on EPAs.

At the same time, the context of the EU's AfT has changed considerably in the ten years since the PAPED was written: there has been a shift in focus away from Official Development Assistance, and towards innovative forms of assistance such as blending grants and loans. Large multi-donor projects – involving for example the DFIs alongside the EC, EU and other bilateral donors – make the distinction between EU and non-EU aid difficult to distinguish. New and broader plans and instruments for aid delivery now exist: increasing trade-related assistance is delivered through the Pan-African envelope of the EDF, while the European Investment Plan which was launched in 2017 and African Jobs Alliance in 2018. These may provide more comprehensive approach and appropriate tools to address aid for trade in the broad sense, also including private investment and finance, as well as policy dialogue on reforms and adjustments needed (Bilal, 2018; Quak, 2108). The EIP may also reinforce synergies with other initiatives where the EU is also engaged, such as the G20 Compact with Africa, to support needed adjustments in EPA and other African countries (Floyd, 2019). The changing aid architecture arguably makes the PAPED – as an additional regional programming instrument and fund in West Africa – less useful.

## 4.3. Broader conclusions for EU soft power?

The EPAs have been considered as an example of the limits to the EU soft power (Murray-Evans, 2019a,b). But EU soft power is also exercised through the linkages between trade and aid (Holmes et al. 2019). While the PAPED emerged from a specific set of circumstances, the experience offers broader insights into the EU's use of soft power.

Historically, the PAPED was hardly the first example of a negotiation between the ACP and the EU over trade or other commitments in exchange for funding: in fact, this had been the pattern of ACP-EU development cooperation for many years. But the PAPED experience demonstrates the complexity of using soft power and the difficulty of achieving coherent EU-wide responses. Firstly, it would be interesting to explore further the political economy of the EU's chosen path on the 'development dimension' – and in particular the internal debate within the EU: (i) between the EC DG Development and DG Trade on this (which was reportedly influenced by the desire of EU Development Commissioner



Louis Michel to have a bigger role in EPA negotiations); and (ii) pressure applied by the EU Parliament and from member states on the EC to foster in more concrete terms the development dimension of the EPA, and legitimate request for appropriate AfT. EU action was also constrained by pressure over the impact of EPAs from CSOs, through EU Parliament. Previous donor commitments in 2005 at the WTO on AfT raised expectations from developing countries, and also played an important role in framing subsequent debates on the linkages between aid and trade.

Secondly, achieving coherence between EC and EU member states on trade and aid agenda is often a challenge (Holmes et al., 2019). It proved also difficult within the PAPED framework. Although the EC sought to craft a collective response, some EU member states were fearful of an erosion of their own power and transfer of sovereignty over aid decision-making to the EU level, as well as any implications in terms of requiring new additional allocations for their side. As a result, they did not fully engage with the PAPED at the time beyond providing figures on their planned aid, and did not use it afterwards in their programming. On the few times that they occurred, the EU's internal technical coordination meetings on the PAPED therefore did not focused on programming responses to the PAPED, but instead on stocktaking, attended not by design teams or field practitioners but by experts in the OECD aid statistics.

Finally, the PAPED experience may have broader application, since the paradigm of 'negotiated conditionality' (e.g. legal commitments in exchange for funding) continues to this day, for example in the EU's migration agreements and global climate agreements. An informative counterexample to the PAPED discussions could be that of the WTO Trade Facilitation Agreement (TFA), which was the first WTO agreement to include fulfilment of trade obligations dependent on provision of AfT. The TFA arguably works better however for several reasons (Lodge, 2019):

- commitments and obligations are clearly-defined, agreed and accepted by all WTO members;
- there is an agreed methodology for conducting TFA needs assessments and identifying the projects required to meet them, independently and universally applied;
- there is clarity over the funding source, the TFA fund.

As such the TFA perhaps represents an example of how the highly political process of negotiated conditionality can - through careful consideration and agreement of appropriate structures for commitments to be carried out and monitored – then be made much less politicised, which was clearly not the case for the PAPED.

While EU efforts to link aid to trade negotiations are commendable, both from a development and negotiation perspective, the overly structured and rigid approach pursued under the PAPED has been time consuming with limited impact on development support, if any. Its main achievement seems to have been to help reach a politically acceptable conclusion of the EPA negotiation with West Africa. In this respect, it has been an expression of EU soft power, linking trade and aid.

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## Part III: EU support to the Botswana EU-SADC EPA Implementation: A case study

Philomena Apiko, with contribution from San Bilal (ECDPM)

### 1. Introduction

This case study briefly examines the experience of Botswana and the European Union (EU) support to the implementation of its Economic Partnership Agreement (EPA). Botswana, as a member of the Southern Africa Customs Union (SACU) and the Southern Africa Development Community (SADC), is one of the six SADC members to have signed an EPA with the EU in 2016 (EU-SADC EPA).<sup>29</sup> The EPA guarantees Botswana's exports duty free and quota free access to the EU market, while the EU will obtain meaningful new market access into SACU and Mozambique. The EPA is part of Botswana endeavour to maintain access to the EU market, reform and diversify its economy, while strengthening regional integration.

Indeed, the EU-SADC EPA aims at promoting trade with participating countries, and ultimately contribute, through trade and investment, to sustainable development and poverty reduction. The Agreement also aims to promote regional integration, economic cooperation and good governance to establish and implement an effective regional trade and investment regulatory framework. The EU-SADC EPA is a reciprocal trade agreement, with both the EU and the SADC EPA group offering preferential market access to each other. The EU provides greater preferential and duty free access, while the SADC EPA group are allowed to maintain protection of sensitive sectors resulting in a reciprocal but asymmetric trade agreement. For example, the EU offers 100% duty free access to the SADC EPA group excluding South Africa, for all goods except for arms and ammunitions.<sup>30</sup> It offers South Africa 98.7% duty free access (fully for 96.2% of goods and partially for 2.5% of goods).<sup>31</sup> On the other hand, the SACU countries opened up 86.2% of their market to EU products (fully for 74.1% and partially for 12.1%), while Mozambique opened up 74% of its market to EU products.<sup>32</sup>

Botswana is in a good place to take advantage of the EPA opportunities. It is one of Africa's stable democracies and is ranked the second least corrupt country in Africa and 34th globally, according to Transparency International's 2019 *Corruption Perceptions Index*.<sup>33</sup> Botswana ranks 87 out of 190 economies surveyed in the World Bank's *Doing Business 2020* report. Significant mineral wealth mainly from diamonds, good governance and prudent economic management have helped it to be classified as an upper middle-income country.<sup>34</sup> However, there are challenges to Botswana's development with

<sup>29</sup> The EU-SADC EPA includes Botswana, South Africa, Eswatini, Namibia, Lesotho and Mozambique. Angola has the option to join the EU-SADC EPA [Economic Partnership Agreement between the European Union and its Member States, of the one part, and the SADC EPA States, of the other part](#) Official Journal of the European Union, 16 September 2016.

<sup>30</sup> European Commission, Economic Partnership Agreement (EPA) between the European Union and the Southern African Development Community (SADC) EPA Group: Key Advantages, June 2016.

<sup>31</sup> Ibid.

<sup>32</sup> Ibid.

<sup>33</sup> Transparency International <https://www.transparency.org/news/feature/cpi2018-subsaharan-africa-regional-analysis>

<sup>34</sup> World Bank, [The World Bank in Botswana](#)

economic growth becoming slower, while inequality remains high with limited job creation.<sup>35</sup> As such, the country's model focusing on export diversification strategy as outlined in its 11th National Development Plan<sup>36</sup> (NPD 11) and much needed doing business reforms will play a key role in its future economic performance. It is in this context that the support to its EPA with the EU should be considered.

## 2. EU Aid for Trade support to Botswana

The EPA-related support to Botswana is part of a broader aid for trade approach to Botswana and the region. The EU's Aid for Trade Strategy, initially adopted in October 2007<sup>37</sup>, was updated in 2017<sup>38</sup> to respond to the 2030 Agenda, improve complementarity between EU trade and development policies, in particular to increase the effectiveness of AfT in the least developed countries, and to promote sustainability objectives and inclusiveness along with economic growth.<sup>39</sup>

According to the 2019 EU Aid for Trade Report,<sup>40</sup> the EU and its member states' overall AfT commitments amounted to a total of €14.5 billion in 2017, an increase of 7.8% compared to 2016. Collectively, the EU and its member states are the leading AfT donor with 31% of global AfT. Africa continued to receive the largest share of AfT commitments in 2017, with 40% of total AfT (excluding EU Official Development Assistance loans), followed by Asia (22%), America (9%) and Europe (9%).

Although the EU is Botswana's main funder for AfT support, in 2017 such support amounted to only €0.4m (mainly under trade development category).<sup>41</sup> This is a small amount in comparison to other Southern African countries, and has been constantly so over time, as illustrated by Figure 1.

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<sup>35</sup> Ibid.

<sup>36</sup> Government of Botswana, [National Development Plan 11](#), Volume 1, April 2017- March 2023.

<sup>37</sup> Council of the European Union, [EU Strategy on Aid for Trade: Enhancing EU support for trade-related needs in developing countries](#), Brussels, 29 October 2007.

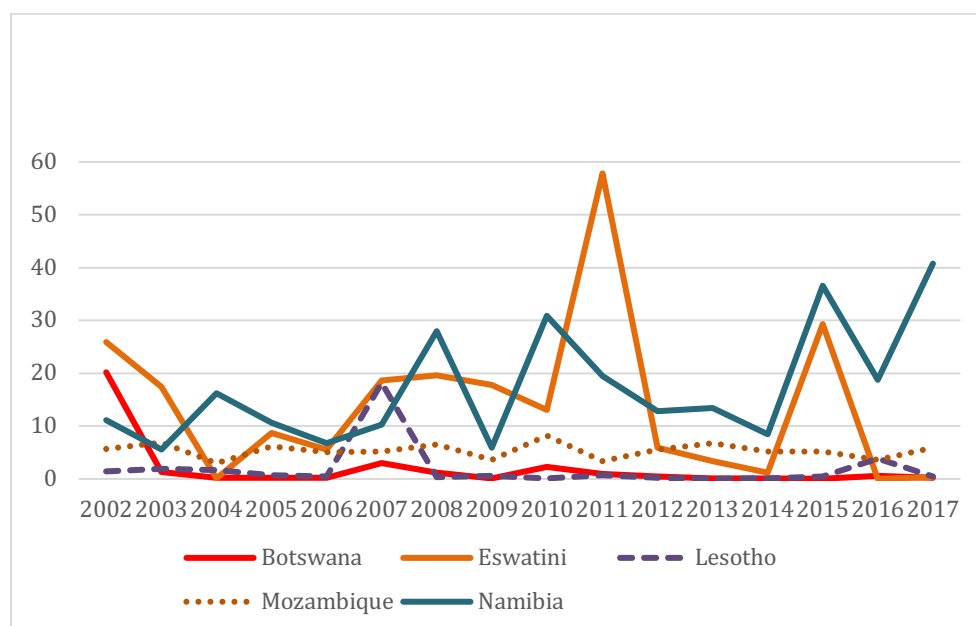
<sup>38</sup> European Commission, *Achieving Prosperity through Trade and Investment: Updating the 2007 Joint EU Strategy on Aid for Trade*, Brussels, 13 November 2017.

<sup>39</sup> Ibid.

<sup>40</sup> European Commission (2019) [EU Aid for Trade Progress Report 2019](#)

<sup>41</sup> Ibid.

**Figure 1: European institutions and member states AfT support to SADC EPA countries, excluding South Africa (2017 constant \$/cap)**



Source: OECD DAC data compiled by the authors

### 3. Strategic alignment of EU support to Botswana's implementation of the EU-SADC EPA

The EU AfT support to Botswana is provided through both bilateral and regional programmes. Botswana's National Indicative Plan<sup>42</sup> (NIP) for 2014-2020 amounting to €33m governs the bilateral cooperation between Botswana and the EU. The focal sectors identified in the NIP are:

- inclusive and sustainable growth with specific focus on the education sector (€11m);
- public sector reforms (€11m);
- measures in favour of civil society (€6m); and
- cross-cutting support measures (€5m).

The EU's *Support Programme to the Economic Partnership Agreement Implementation*<sup>43</sup> (EPA Support Programme) in Botswana is provided under the 11th European Development Fund (EDF) Regional Indicative Programme (RIP) for Eastern Africa, Southern Africa and the Indian Ocean instead of through the NIP. This support amounts to €6m for 2020-2024.

The EPA Support Programme under the RIP aims to enhance the capacity of Botswana's public and private sectors to fully realize the benefits of the EPA. The overall objective of the programme is to promote export-led economic growth in Botswana with improved employment in targeted value chains. The three specific objectives are:

<sup>42</sup> European Commission, [11th EDF National Indicative Plan \(2014-2020\) for co-operation between the Republic of Botswana and the European Union](#).

<sup>43</sup> European Commission, European Union Support Programme to the Economic Partnership Agreement (EPA) Implementation in Botswana CRIS number: FED/2018/41651, financed under the 11th European Development Fund (on file with the author).

- increased and diversified exports to the EU and regional markets;
- enhanced enterprise and product competitiveness along selected value chains, with a potential to strengthen women's economic empowerment; and
- increased foreign direct investments in support of the export effort.

The three areas identified for support to the EU-SADC EPA implementation accord with the NIP's objective for sustainable and inclusive economic development by developing skilled and competitive human resources and public sector reform to achieve greater provision of public goods and services and Botswana's NDP 11 which focuses on six national priorities:

- developing diversified sources of economic growth;
- human capital development;
- social development;
- sustainable use of national resources;
- consolidation of good governance and strengthening of national security; and
- and implementation of an effective monitoring and evaluation system.

This is the case because the EU-SADC EPA implementation priorities were identified after consultation with domestic stakeholders, including the Ministry of Investment Trade and Industry (MITI), Botswana Unified Revenue Services (BURS), Botswana Investment and Trade Centre (BITC) and the Local Enterprise Agency (LEA).<sup>44</sup> The RIP EPA Support Programme comes in support of Botswana's own EU-SADC EPA National Implementation Plan, which was drafted by the MITI after consultations with domestic stakeholders including the private sector and regionally with SADC.<sup>45</sup> Botswana's National Implementation Plan<sup>46</sup> will cover eight focus areas with activities to be undertaken at policy and strategic levels. These areas are:

- developing legal and regulatory frameworks;
- capacity building and skills development;
- institutional arrangements; policy dialogue on business climate;
- enterprise and product competitiveness;
- foreign and domestic investment;
- publicity awareness; and
- monitoring and evaluation.

For Botswana, opportunities lie in utilising the EPA to revitalise industry, create jobs and widen the export base.

The design process of the EU support for the EPA implementation in Botswana illustrates well the critical role that consultations and domestic ownership play in aligning European support to domestic strategic priorities and action plans.

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<sup>44</sup> Interviews with the EU Delegation in Botswana, 15 November 2019.

<sup>45</sup> Interviews with Ministry of Investment Trade and Industry, 15 November 2019.

<sup>46</sup> Botswana Ministry of Investment, Trade and Industry Draft Botswana National Implementation Plan for the SADC-EU Economic Partnership Agreement, September 2017 (on file with the author).



## 4. What does the EPA Support Programme entail?

Although the EPA Support Programme is only implementable from 2020, this section analyses the three focus areas identified:

- (i) increased and diversified exports to the EU and regional markets;
- (ii) enhanced enterprise and product competitiveness along selected value chains, with a potential to strengthen women's economic empowerment; and
- (iii) increased foreign direct investments in support of the export effort.

### 4.1. Increased and diversified exports to the EU and regional markets

Botswana's National Export Strategy (NES) prioritises seven areas: leather and leather products, garments and textiles, arts and crafts, jewellery and semi-precious stones, meat and meat products, light manufacturing, and indigenous products.<sup>47</sup> However, Botswana's economy is heavily dependent on its mineral resources with diamond exports accounting for 87.3% of total exports in August 2019.<sup>48</sup> Other mineral exports include copper, nickel, gold, soda ash and salt. External shocks make the country's economy vulnerable to diamond price volatility on the world market, highlighting the imperative need to diversify the country's economy.

The EPA Support Programme therefore aims to build the capacity of institutions such as BITC, MITI and BURS to facilitate increased and diversified exports, foster business linkages and ensure coordination amongst government ministries and departments in relation to EPA implementation. Interviews with BITC highlighted the need for market intelligence analysis, FDI strategy development, product and business tools development, and capacity building of the export sector as some of the priority areas for support.<sup>49</sup> MITI expressed similar support needs such as, training on the rules of origin, development of EPA trade related manuals, capacity building and training of trainers; business to business matching and industrial development.<sup>50</sup> Supply side constraints in terms of limited product ranges have been a challenge in building Botswana's export industry to a sizeable scale. Non-mineral exports include meat and meat products, hides and skins, textiles and machinery and electrical equipment but their export percentage is lower in comparison to diamonds.<sup>51</sup>

The EPA Support Programme will also focus on policy dialogue and improving public awareness of the EPA with business operators as the prime target, and specific attention given to women business operators. Importantly, the support will not only be provided for business to business (B2B) activities, but also for civil society involvement.

### 4.2. Enhanced enterprise and product competitiveness along selected value chains

EU support will seek to increase the competitiveness of locally established and new firms in penetrating the EU or regional markets with competitive goods. Importantly, the development of the value chains will focus on women's empowerment. Generation of new jobs will specially target women and youth.

<sup>47</sup> The Commonwealth, [Commonwealth helps Botswana launch export strategy](#), 8 May 2019.

<sup>48</sup> Statistics Botswana, [International Merchandise Trade Statistics](#), August 2019.

<sup>49</sup> Interview with Botswana Investment and Trade Centre, 13 November 2019.

<sup>50</sup> Interview with Botswana Ministry of Investment Trade and Industry, 15 November 2019.

<sup>51</sup> See Statistics Botswana, [International Merchandise Trade Statistics](#), August 2019 for detailed trade exports statistics.

Two value chains have been identified as under the EPA Support Programme – beef and leather – in harmony with the priority areas under the NES. Beef is Botswana’s main agricultural export. Botswana beef exports enjoy unlimited preferential market access to the EU. However, Botswana’s beef exports to the EU remain small, not only in comparison to the other major beef exporters, but also in real terms, having decreased by about a quarter, from 9258 tonnes in 2015 to 7025 in 2018 (see Table 1), in spite of the EPA.

**Table 1. EU imports of beef in tonnes 2015-2019**

Carcass Weight	2015		2016		2017		2018		Jan-Sep 19		Compared to Jan-Sep 18
	tonnes	%	tonnes	%	tonnes	%	tonnes	%	tonnes	%	
Brazil	136 858	42.4%	140 319	42.0%	115 392	37.7%	140 243	41.1%	97 781	41.0%	- 3.4%
Argentina	42 149	13.0%	43 542	13.0%	49 890	16.3%	69 996	20.5%	52 721	22.1%	+ 4.9%
Uruguay	46 287	14.3%	56 747	17.0%	57 985	18.9%	52 462	15.4%	33 957	14.2%	- 14.0%
Australia	30 884	9.6%	27 850	8.3%	21 990	7.2%	20 868	6.1%	13 855	5.8%	- 12.3%
USA	24 132	7.5%	20 499	6.1%	21 624	7.1%	19 319	5.7%	12 582	5.3%	- 9.7%
Namibia	12 112	3.7%	10 686	3.2%	7 705	2.5%	5 585	1.6%	7 299	3.1%	+ 61.8%
New Zealand	11 380	3.5%	9 869	3.0%	8 093	2.6%	8 669	2.5%	5 832	2.4%	- 13.1%
Paraguay	1 915	0.6%	5 979	1.8%	6 915	2.3%	6 287	1.8%	3 800	1.6%	- 21.3%
Botswana	9 258	2.9%	9 382	2.8%	7 718	2.5%	7 025	2.1%	3 168	1.3%	- 31.2%
Switzerland	5 090	1.6%	5 500	1.6%	5 138	1.7%	5 437	1.6%	3 107	1.3%	- 19.8%
Canada	428	0.1%	421	0.1%	513	0.2%	1 343	0.4%	1 655	0.7%	+++
Other Origins	2 607	0.8%	3 157	0.9%	3 100	1.0%	3 818	1.1%	2 636	1.1%	
Extra-EU	323 099		333 952		306 064		341 053		238 395		
% change			+ 3%		- 8%		+ 11%		- 4.1%		

Source: [https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/farming/documents/eu-bovine-trade\\_en.pdf](https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/farming/documents/eu-bovine-trade_en.pdf)

The choice of beef as one of the value chains is strategic given the importance of cattle farming for rural development by providing food, income and employment for the majority of rural dwellers.<sup>52</sup> The EU support will support the Ministry of Agriculture and its Department of Veterinary Services which is a central player in the livestock value chain. The Programme covers support to both the foot and mouth disease (FMD) free green-zone as well as the red zone where FMD outbreaks are prevalent. Support to the green zone includes consolidating the integrity of the FMD-free zone through relevant staff training to improve control capacities and successfully implementing the Botswana Animal Information and Traceability System (BAITS) and ensuring its acceptance by cattle owners. The BAITS was introduced as a tool to facilitate animal traceability to enforce animal and public health controls, for example, FMD. Although, BAITS is not only designed for EU beef export markets. the EU requires traceability of animals in order to access the lucrative beef market. However, BAITS has faced challenges in its implementation include little uptake by farmers as well as technical constraints in the system. Interviews with the BAITS department in the DVS revealed that the system is being upgraded. Complaints from farmers include the inaccessibility of the system offline.

Support to the red zone will include the dissemination of Commodity based training (CBT) processes to small cattle owners to educate farmers on CBT requirements and benefits and promote their adoption. The CBT approach focuses on the safety of the beef production process and the beef itself, rather than on the animal disease situation in the locality of production. The EU’s support the protocols and operating procedures on biosafety in view of the endorsement of CBT by the OIE. However, the beef from the red zone will not access the EU market and instead support will be in identification of non-EU export markets for example China and the Democratic Republic of Congo.

<sup>52</sup> Statistically, 80% of Botswana’s cattle farming is communal with only 20% commercial farming.

The development of the leather value chain is part of the diversification and value added strategy of Botswana, EU support will be given to the Local Enterprise Authority (LEA) which is taking the lead in promoting processing and investment through the forthcoming leather park in Lobatse and its common effluent treatment plant. Support will also be provided to the Ministry of Agriculture as development of the leather value chain will require supply of hides as raw material. Challenges identified include the lack of skilled labour in the leather product manufacturing industry and lags in leather technology. Skills development is one of the areas of support under the NIP to accelerate social and economic development and raise Botswana's competitiveness in both regional and global markets. The EPA Support Programme aims to support entrepreneurial advisory services and business expansion support services. Support will also go to training on the transformation of treated leather into finished products to ensuring local value addition. Interviews with the EU Delegation in Botswana, MITI and BITC mentioned that Italian investors in the leather industry had toured the Lobatse leather park. Steps towards the development of the value chain include improving the animal husbandry practices in the communal farming as the current system of cattle branding and injuries sustained during grazing, makes the hides unsuitable for the high luxury leather market.

#### 4.3. Increased FDI in support of the export effort

EU support will be through strengthening BITC's capacity to attract FDI into the country. FDI promotion will contribute to the realisation of Botswana's export diversification and bring in financial resources and technological knowledge required to develop the export sectors. Botswana's FDI inflows increased from US\$177m in 2017 to US\$229m in 2018.<sup>53</sup> EPA Support Programmes activities include updating of BITC's investment promotion strategy; and empowering it to provide accurate, updated investor information and customised business support services. Additionally, support will be given to participation in missions and exhibitions to promote Botswana as an investment destination and as a hub to access EU markets as well as in regional initiatives for investment promotion.

## 5. Other regional EPA support benefiting Botswana

Although implementation of the SADC EPA will take place domestically, regional efforts are necessary to ensure coordination in the implementation process. Regionally, the coordination is done by the SADC EPA Unit housed at the SADC Secretariat in Gaborone. Botswana is the coordinator of the EU-SADC EPA Group at the Ministerial level. Regionally, SADC EPA member states approve and validate the SADC EPA regional implementation programme which is positive in terms of ensuring ownership. The Unit has been instrumental in the sensitization around the EPA and even funds some of the meetings for member states to discuss the EU-SADC EPA implementation. Some of the activities undertaken include sensitization on trade remedies and sanitary and phytosanitary (SPS) measures.

### 5.1. Areas of support

Apart from EPA Support Programme, support for the EPA Implementation is currently provided through the SADC Trade Related Facility (TRF) amounting to €32m for 2015-2021.<sup>54</sup> The TRF is a mechanism for financial and technical support to SADC Member States to assist them to implement commitments made under the SADC Protocol on Trade and the EU-SADC EPA. The major aim is to strengthen the process of regional integration in SADC, enhance trade with the EU and strengthen the region's trade

<sup>53</sup> UNCTAD (2019) [World investment Report 2019: Special Economic Zones](#)

<sup>54</sup> Initially foreseen to end in September 2019, the deadline has been extended to September 2021.

competitiveness globally. The TRF is financed through a Contribution Agreement between the SADC Secretariat and the EU. It is implemented through the Trade, Industry, Finance and Investment Directorate in the SADC Secretariat with the MITI driving the project domestically in Botswana. Concerning the overall EPA implementation, the fact that the EU SADC EPA was only signed and provisionally entered into force by October 2016, constrained effective design of TRF interventions towards implementation of the EPA. Member states submitting their projects for funding during the initial call in 2015 did not explicitly differentiate between the two windows available, with €1.4m allocated for the SADC Trade Protocol (STP) Window and €1.2m for the EU-SADC EPA Window, and as such support under the STP Window also benefits the EPA Window.<sup>55</sup>

Botswana benefits a maximum of €2.6m under the two windows. The focus under the EPA Window is on preparing states to effectively implement and monitor the EPA and benefit particularly from the improved market access. Financial support is extended to three key areas: trade defence instruments, trade related adjustment and competition policy. Botswana's financial support under the EPA Window is targeted at strengthening the capacity of the Botswana Trade Commission (BOTC) to become an effective trade remedy authority and build its capacity in the application of trade remedies; and the Competition Authority to improve its analytical and investigative functions. Botswana's focus areas under the EPA Window are timely as the EPA provides for trade defence instruments which require national institutions to effectively implement them. Past studies show that Botswana has not been making use of its available trade defence instruments to protect its industry from damaging import surges.<sup>56</sup> Although the 2002 SACU Treaty<sup>57</sup> makes provision for national bodies, Botswana does not as yet have a fully-fledged trade defence institution. Currently, South Africa's International Trade Administration Commission (ITAC) serves as the investigative authority for SACU members and Botswana must apply trade defence measures adopted by ITAC. Measures have however been made to develop the BOTC as the national institution responsible for investigating applications for tariff amendments and trade remedies; regulating exportation and importation of goods; and determining the eligibility for infant industry protection. Since its establishment in 2013, the body has faced capacity constraints, and the support under the TRF was envisioned to boost its effectiveness, by capacitating its officials. Inter-ministry trainings involving, BOTC, MITI, BURS, and the Agri-business department of the Ministry of Agriculture have been conducted on trade remedies, tariff analysis and trade negotiations.<sup>58</sup> Nevertheless, BOTC remains malfunctioning with lack of capacity to implement its activities owing to loss of senior-level and technical staff after initial trainings.<sup>59</sup> Challenges have also been attributed to its institutional set up as a parastatal –which has been described as too ambitious– as opposed to as a Unit within MITI to liaise with SACU.<sup>60</sup> Discussions are ongoing within MITI on how to restructure BOTC, which explains delays in the implementation of its activities.<sup>61</sup>

Concerning the support to the Competition Authority, implementation of its EPA window activities has been fair compared to BOTC. There is some traction especially with additional support from the Organisation for Economic Co-operation and Development (OECD) with a work programme to be launched in 2020. The Competition Authority uses the OECD *Competition Assessment toolkit* to formulate its competition assessments. In 2018, legislative amendments were made with Parliament approving the Competition Act of 2018 set to replace the Competition Act of 2009.<sup>62</sup> The new Act

<sup>55</sup> Interview with SADC TRF (EPA implementation), 10 December 2019.

<sup>56</sup> UNCTAD, 2016 [Trade Policy Framework: Botswana](#).

<sup>57</sup> SACU, [2002 Southern African Customs Union Agreement](#), signed on 21 October 2002 in Gaborone, Botswana, Article 14.

<sup>58</sup> Interview with Botswana Trade Commission official, 10 December 2019.

<sup>59</sup> Ibid.

<sup>60</sup> Interview with SADC TRF (EPA implementation), 10 December 2019.

<sup>61</sup> Interview with Botswana Trade Commission official, 10 December 2019.

<sup>62</sup> Republic of Botswana, [Competition Act No.4 of 2018](#).

enhances the current competition legislation particularly the sanctions for different contraventions including criminal sanctions for officers or directors of enterprises found to have engaged in cartel conduct and practices such as price-fixing, market division and bid-rigging.<sup>63</sup> Furthermore, the mandate of the Competition Authority was widened to include the enforcement of the Consumer Protection Act thereby serving a dual role similar to that in other SADC countries such as Eswatini, Malawi, Tanzania, Zambia and Zimbabwe.<sup>64</sup> Integrating competition and consumer protection authorities is beneficial for developing and sharing expertise as part of a common portfolio of welfare-enhancing instruments, however, the risk is that sufficient priority may not be given where multiple competition and consumer protection mandates are operating in an environment with limited resources.<sup>65</sup> Despite pockets of success, challenges remain in the implementation of the Competition Authority's EPA Window supported activities. For example, there were delays in setting up the Competition and Consumer Tribunal which is a key institution for dispute settlement. The commencement date of the new Act was on 2 December 2019 and the Tribunal is now legally in effect although no cases as yet, have appeared before it. In addition, the establishment of a resource centre for research and studies was part of the activities discussed in the TRF terms of reference, but the focus will instead be on strengthening the Competition Authority's library facilities.

A support area cutting across both TRF windows is capacity building for SPS management and control, standards and import inspections regulations. The ministries of Health and Agriculture are responsible for developing SPS measures. The central implementation body for standards is the Botswana Bureau of Standards (BOBS) which offers technical services in the areas of standardisation, testing of goods, certification of products, industrial & trade metrology, quality management systems, environmental management systems, information and training. BOBS was cited as a good example as it has been able to implement most of its TRF supported activities including revision of its framework, training on International Organization for Standardization (ISO) standards and compulsory standards training.<sup>66</sup> BOBS enforces compulsory standards which affect human health, safety, environment or export, and monitors compliance on such products. BOBS has also developed import inspection regulations. Other cross cutting TRF support areas include the development of an e-commerce strategy, currently ongoing, to cater for e-commerce entrepreneurs and consumers. Overall, Botswana's implementation of its TRF EPA Window activities has had mixed impact with some projects doing better than others. Although the initial TRF support deadline was set for September 2019, the support has been extended from October 2019 to September 2021 to enable the country to complete the implementation of its activities.<sup>67</sup>

Additionally, support for EPA implementation is provided through the Trade Facilitation Programme (TFP) at €15m for 2019-2023. The TFP addresses barriers to trade and facilitate harmonisation of trade tools to increase intra-regional and international trade. Other regional programmes that may impact EPA implementation include the Support to the Investment and Business Environment in the SADC region (SIBE) at €14m from 2019-2023 aimed at improving the investment policy framework and harmonisation in the region; Support to Industrialisation and Productive Sectors in SADC Region (SIPS) at €18m from 2019-2023 to support the development of two regional value chains (leather and anti-retroviral drugs) through the enhancement of the policy and regulatory environment and the improvement of the private sector participation. The SIPS programme is specifically relevant to the EPA

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<sup>63</sup> Ibid, section 26, sanctions are for a fine not exceeding P100,000 or a term of imprisonment not exceeding five years, or both.

<sup>64</sup> See Shingie Chisoro, Namhla Landani, 2019 [Fit-for-purpose competition laws: Amendments of competition laws in Botswana, South Africa, Tanzania and Zimbabwe](#), CCRED Competition Review.

<sup>65</sup> Ibid.

<sup>66</sup> Interview with SADC TRF (EPA implementation), 10 December 2019.

<sup>67</sup> Andrew Maramwidze [EU Commits to Botswana's export led economy](#), 11 June 2019, *Botswana Guardian*.

Support Programme which proposes to support the leather value chain in Botswana. The country can take advantage of the EU-SADC provisions on cumulation through regional sourcing and integration into regional value chains. These programmes are still in the planning stages and their impact cannot yet be assessed.

## 5.2. Challenges

All of these regional programmes require strong institutional support to coordinate support amongst member states. However, interviews with the SADC EPA Unit revealed that it faces challenges both in terms of financial and human resources constraints. Currently, the Unit is staffed by one representative seconded from the Botswana Government. The Unit is fully funded by the EU with minimal financial contributions from the 6 SADC EPA member states. Lack of human resource capacity is attributed to the fact that the member states have not supplemented the secondment allowance necessary for the officials from ministries to be posted to the SADC EPA Unit.<sup>68</sup> Another challenge is the tension of the SADC EPA Unit representing six member states within the greater SADC Secretariat representing 16 member states. This sentiment was that the Unit was not fully supported at the Secretariat level, a viewpoint also expressed by the TRF Unit, which supports 12 out of the 16 SADC members.<sup>69</sup> Key support services from the SADC Secretariat, such as, finance, procurement, human resources have not been fully afforded.

Gaps between EU programming also means that there are periods where the Unit is not supported as member states are not filling the funding gap in between programmes. As a result, the Unit has relied on the support from the German Federal Ministry for Economic Cooperation and Development implemented through Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) which has SADC programmes on similar subject matter to the work of the SADC EPA Unit. GIZ's project *Supporting sustainability aspects in the implementation of the EU Economic Partnership Agreements (2017-2020)* focusses on the SADC-EPA and the Caribbean forum EPA (CARIFORUM).<sup>70</sup> The three areas of activities are: strengthening the capacity of the public sector, private sector and civil society on the utilisation of the EPA; facilitating participatory EPA monitoring; and developing cross-regional exchange platforms, for example between the private sector in the SADC EPA, CARIFORUM EPA and the Eastern and Southern (ESA) EPA.<sup>71</sup> Interviews cited that from January 2019, the Unit's projects were funded through existing GIZ programmes.<sup>72</sup> The EU has however stepped in to support the EPA Unit at €2.5m budget under the TFP for 5 years from September 2019- March 2023 and interviews with the EU Delegation revealed that two additional staff members will be added to the Unit. The request from the Unit is for the experts in customs, SPS measures, technical barriers to trade, services and legal compliance.

The SADC EPA Unit highlighted the importance of the involvement of the private sector. However, private sector engagement has not been as smooth anticipated, for example, some member states did not fully include private sector during the trade remedies sensitization, yet they are the ones actively involved in the industry.<sup>73</sup> More so, given the sovereignty of states, member states are cautious to let the SADC EPA Unit directly approach the private sector. Interviews from the unit mentioned that in regionally organised events, invitations to the private sector were sent by SADC EPA unit through the

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<sup>68</sup> Interview with SADC EPA Unit, 13 November 2019.

<sup>69</sup> Ibid; Interview with Interview with SADC TRF (EPA implementation), 10 December 2019.

<sup>70</sup> See <https://www.giz.de/en/worldwide/60150.html> for more information on the Programme.

<sup>71</sup> Interview with GIZ official, 15 November 2019.

<sup>72</sup> Interview with SADC EPA Unit, 13 November 2019.

<sup>73</sup> Ibid.

relevant government ministries. Nevertheless, at the regional level efforts to better engage with the private sector have been made with the launch of the SADC Business Council on 5 August 2019.

Another challenge expressed by the Unit and also noted in the GIZ interviews, was that progress in the development of a framework for the monitoring and evaluation of the EPA implementation has been stalled. This is because some member states are reluctant to agree on the non-trade policy indicators relating to poverty eradication and labour reforms, questioning their relevance to the trade agreement arguing for example, that measuring poverty eradication cannot be tied to a specific agreement. Yet, the EPA text mandates continuous monitoring of the operation and impact of the Agreement in order to ensure that the objectives, –which include poverty eradication and the promotion of regional integration, economic cooperation and good governance– are achieved. It further recognises the value of decent work for all as key elements of sustainable development and as a priority objective of international cooperation. The non-trade policy indicators may therefore offer a way to stimulate domestic reform for countries lagging behind, for example, on competition, labour, gender and environmental issues, in order to take full advantage of the EPA. However, such domestic reforms need to be supported, presenting an opportunity for the EU to invest in understanding how best to support such domestic reforms in partner countries.

## 6. Moving forward

In conclusion, the support strategy from the EU for the EPA implementation in Botswana appears to respond to the needs and priorities identified by Botswana itself. It is based on consultative processes, building on domestic strategy and ownership, and anchored in a regional approach. By doing so, the EU seems to have usefully exercised its soft power by linking its aid to trade priorities.

However, there have been some challenges and implementation of the EU-SADC EPA under the TRF EPA Window has had mixed impacts, with some projects being better implemented than others. Capacity constraints both financially and human resources have delayed implementation of some activities, a challenge that must be addressed in order to meet the new deadline in 2021.

The EPA Support Programme implementable from next year focuses on increasing and diversifying exports; enhancing competitiveness along beef and leather value chains; and increased foreign direct investments in support of the export effort. This requires not only effective domestic implementation but also regional coordination through the SADC EPA Unit. Lessons learned so far emphasise the imperativeness of capacitating both domestic and regional institutions to ensure that the EU-SADC EPA is fully implemented to meet its objective for sustainable development through trade and investment.