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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 1.10.2008
COM(2008) 604 final

**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL, THE
EUROPEAN PARLIAMENT, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

Regional integration for development in ACP countries

{ SEC(2008) 2538 }
{ SEC(2008) 2539 }

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Regional integration for development in ACP countries

1. A CHANGING CONTEXT¹

Globalisation has gained momentum and brought about a new level of economic interdependence, to which the African, Caribbean and Pacific (ACP) countries are not fully taking part. Regional integration is increasingly regarded as a tool for reaping the benefits and countering the negative impacts of globalisation.

Europe is a long-standing supporter of regional integration in developing countries, but the last time when the Commission outlined its vision was in 1995². Today, not only is regional integration firmly anchored in the European Union (EU) development policy³, but a number of recent policy initiatives have a direct impact or focus on regional integration in ACP countries. Over the last two years in particular, important developments have included the regional programming of the 10th European Development Fund (EDF) and an intense phase of the negotiation of Economic Partnership Agreements (EPAs) with ACP regions.

Yet, more can be done, and better. There is a need to take stock, review the coherence of EU action and outline the way forward. This Communication provides an updated, comprehensive and consistent EU vision of regional integration as a key mechanism for the sustainable development of ACP countries, articulates the role of regional political and policy cooperation, and calls on Member States to rally around a shared vision and common principles.

2. ACHIEVEMENTS AND CHALLENGES IN REGIONAL INTEGRATION IN ACP COUNTRIES

Since the mid-1990s, there has been a steady expansion, in depth and breadth, of ACP regional integration. The most notable achievements are the efforts to create free-trade areas and customs and monetary unions. Yet, the "cost of non-integration" is still excessively high. Specific challenges vary from region to region but overall, five issues are found everywhere:

- ***The lack of ownership and institutional capacities at regional and national level.*** This includes inadequate mandates, lack of legal and political tools for effective policy implementation, and insufficient ownership by stakeholders, in particular civil society and national administrations.
- ***The need to overcome the fragmentation of regional markets*** and to better implement economic integration agreements. This should be accompanied by streamlining overlapping and inconsistent integration agendas, taking into account the specificities of each region (in particular insular regions).

¹ Additional background information can be found in Commission Staff Working Paper (SEC(2008) xxx of 01.10.2008)

² Commission Communication on European Community support for regional economic integration efforts among developing countries, COM (1995) 219 final, 16 June 1995.

³ "The European Consensus on Development", http://ec.europa.eu/development/policies/consensus_en.cfm

- *Insufficient economic diversification*, which results in high dependence on a small number of export commodities and lack of complementarities between national economies.
- *Inefficient infrastructure interconnections* which generate excessively high costs for intra-regional transport and utilities.
- *The need for more effective regional policies to address common challenges in support of sustainability* by minimising the negative externalities of enhanced economic integration, maximising the positive synergies between economic integration and sustainable growth, and spreading the benefits and costs of regional integration more evenly.

3. THE EU PERSPECTIVE OF REGIONAL INTEGRATION FOR DEVELOPMENT

The following broad definition of regional integration, which reflects the Cotonou Partnership Agreement (CPA), is proposed: regional integration is the process of overcoming, by common accord, political, physical, economic and social barriers that divide countries from their neighbours, and of collaborating in the management of shared resources and regional commons.

The European experience is a point of reference for many ACP regions. The political goals and the specific objectives of regional integration are broadly similar. Yet the methods used in ACP regions more often rely on consensual cooperation and coordination than on supranationalism and sovereignty-sharing.

Three main objectives of regional integration can be distinguished:

- **Political stability** is a pre-requisite for economic development. Regional organisations play an increasing role in defusing conflicts within and between countries and in promoting human rights. Regional integration also helps building trust, enhancing understanding between groups and deepening interdependence.
- **Economic development:** In larger and more harmonised markets, the free movement of goods, services, capital and people enables economies of scale and stimulates investment, thus spurring economic growth and increasing south-south trade. The right mix of gradually-increased regional and extra-regional competition and a measured protection allows smooth integration into the global trading system and makes regional integration a vehicle for growth and accelerated poverty reduction.
- **Regional public goods:** Only cooperation between neighbouring countries can address challenges of a trans-national dimension such as food security, natural resources, biodiversity, climate change, and disease and pest control.

This definition and multidimensional vision of regional integration should guide all EU actions⁴ in support of integration processes of ACP countries.

4. THE PROPOSED APPROACH TO EU SUPPORT TO REGIONAL INTEGRATION FOR ACP DEVELOPMENT

As a response to the five challenges identified in Section 2, the EU should commit to supporting the five priorities below⁵. This should be done on the basis of each regions'

⁴ Including the EU-Africa Partnership on trade and regional integration.

strategic development plan and a dialogue resulting in the joint assessment of challenges, and should be focused as appropriate on regional specificities and needs.

4.1. Strengthening regional institutions

The EU should support:

- ***Regional governance and cooperation for peace and stability***, between states as well as within states, including the promotion of human rights.
- ***The improvement of institutional capacities at regional and national level***, with renewed efforts to strengthen the national capacities to implement regional policies.
- ***The simplification of the institutional architecture*** and integration agendas.
- ***Stronger ownership of regional integration processes***, with broader diversity of stakeholders at both national and regional levels.

4.2. Building regional integrated markets

The EU should continue to support regions in this area, including:

- ***The effective implementation of regional commitments in trade in goods***, including the modernisation of customs systems and the collection of public revenue.
- ***The integration of the services sector and investment*** with the objective of enhancing competition on the regional markets, lowering the excessive costs of services and establishing more transparent and stable regional investment rules.
- ***Technical barriers to trade (TBT) and Sanitary and Phytosanitary Standards (SPS)***: standardisation and harmonisation with international standards remove the need for burdensome controls, improves food safety on a regional level and facilitates access of regionally-produced goods to international markets.
- ***Monetary integration***: Several ambitious agendas for regional monetary unions in ACP need to take into account that the progress between monetary and economic integration should be closely linked. The EU is ready to share its own experience of integration and policy coordination with ACP partners. The issue of macro-economic coordination will receive more attention in the context of the dialogue on EC general budget support at national level.

4.3. Supporting business development

The EU should reinforce the regional dimension of its support to business development and productive capacity building in areas where regional level action adds value:

- ***Improving the regulatory environment*** (e.g. business and company laws, industrial standards, intellectual property rules, competition laws, tax policies, including tax fraud);
- ***Strengthening productive capacities*** (development of industrial and export strategies, regional training and research institutions);
- ***Developing financial regional markets*** to mobilise regional and external capital for business development, in particular SMEs;
- ***Promoting inter-enterprise co-operation*** to foster production networks and supply chains as well as networks of business associations.

⁵ See Section 5 on tools.

4.4. Connecting regional infrastructure networks

The EU should support the increase in infrastructure stock, with an emphasis on completing the "missing links" between national road, energy and telecommunications networks. EC support to Infrastructure, which includes support to the EU-Africa Infrastructure Partnership, will be scaled up by 50% between the 9th EDF (2000-2007) and the 10th EDF (2008-2013). EU Member States should also join in these efforts.

4.5. Developing regional policies for sustainable development

The EU should assist efforts by the regions to manage common challenges where the regional added value is greatest for the sustainable livelihood of populations. Depending on the region, this may cover:

- ***Food security and agricultural production:*** harmonisation of policies and standards, regional information systems allowing better-functioning of regional markets for food and agricultural inputs, management of regional food stocks, and policies against land degradation and desertification can help improve food security.
- ***The common management of natural resources:*** trans-boundary environmental problems can only be tackled through comprehensive and effective regional policies. The EC will, in particular, support the fight against climate change and biodiversity loss as well as the sustainable management of fisheries, forests, energy resources and water basins.
- ***Social cohesion at regional level:*** national and regional redistributive policies are important for the costs and benefits of regional integration to be evenly distributed across and within countries.

The above will also be supported by developing ***science and technology capacities*** to enhance science's contribution to tackling shared problems and to fostering growth and reducing poverty.

5. MAKING THE MOST OF EU TOOLS TO SUPPORT REGIONAL INTEGRATION IN ACP COUNTRIES

EU support to ACP regional integration is founded on the basic principles of the CPA: ownership, dialogue and sustainable development. Accordingly, the EU respects the choices made by its partners on the objectives, design, speed and focus of their integration processes. The EU should support choices that regions make for themselves. This entails efforts and responsibilities also on the part of our ACP partners.

In addition, subsidiarity is to be a key guiding concept. It is also in ACP partners' interest to deal with issues at the level that will maximise the efficiency and effectiveness of the activity.

5.1. EU-ACP political partnerships for regional development

The EU has recently deepened a global political dialogue between its institutions and ACP regions, leading to the adoption of regional strategies for the Caribbean (March 2006) and the Pacific (May 2006), and the Joint EU-Africa Strategy (December 2007).

This ongoing dialogue focuses, in particular, on peace, security and conflict prevention, as well as on sharing experience in integration and common policies. As the EU is itself an integrated region, this dialogue should evolve towards a fully joined-up EU approach.

It is therefore essential to improve the coherence and effectiveness of all instruments available to the EU, so as to enhance their impact on the five priorities outlined above.

5.2. Political dialogue at regional level: Being true to the spirit of Cotonou

To strengthen this dialogue at the regional level, the EU should:

- ***Enhance dialogue on regional integration:*** Recognising the crucial importance of the national level for successful regional integration, the Commission will initiate regular consultation on regional issues with national authorities and, in the context of the regular monitoring of the governance commitments undertaken by the ACP countries, particular attention will be given to the implementation by national governments of their regional integration commitments.

The EU should support cross-regional exchanges of experience and possible peer reviews on regional integration agendas. In Africa, this exchange should include the African Union.

In addition, the EU should share its experience with ACP regions where the regions believe it is most relevant. A number of EU policies are relevant: economic and social cohesion, health, food safety, agriculture, transports, environment and energy.

- ***Broaden the dialogue on regional integration:*** the EU should encourage the creation of regional business forums, and systematically support the creation or reinforcement of regional civil society forums and parliamentary committees designed to oversee regional integration.

The EU should also encourage the activities of academic institutions dedicated to the analysis of regional integration and, in general, initiatives about monitoring regional integration in ACP countries – including those related to EPAs.

5.3. Development policy: The EU Consensus on Development in practice

From 2008 to 2013, support to regional integration will be strengthened through the 10th EDF. EU Member States should also considerably upgrade their activities.

5.3.1. Combining EU efforts: Towards joint programming

In line with aid effectiveness principles, the EU must develop a common approach to regional integration for development in ACP countries:

- The EU is committed to joint programming and joint strategies at national level. ***EC regional programming should therefore be the first step towards joint EU regional programming.***
- ***"EU aid for trade regional packages"***, which will implement the EU Aid for Trade Strategy including support to the implementation of the EPAs, are being designed. While welcoming the strong commitment of the Council and Member States, the Commission calls for substantially increased efforts in order to deliver these packages as soon as possible.
- ACP regional organisations too often depend on contributions from donors. As the aim should be financial sustainability, ***mobilisation of national and regional resources*** is crucial, in particular to support less developed countries in developing regional projects.
- Under the leadership of the region, the EU should strengthen its ***coordination with other development partners*** (such as the international financing institutions and regional development banks), as long as their support is fully in line with the Paris principles.

5.3.2. Strengthened EC support

EDF support to projects with a regional focus amounted to €3.2 billion during the period 1996 to 2007 (8th and 9th EDF). The main area for support was sustainable development with €1.2 billion, followed by infrastructure development (€777 million) and business development (€524 million).

In the coming years, the **10th EDF regional programmes** will be the primary instrument of EC support for ACP regional integration. While the overall EDF increased substantially from the 9th to the 10th EDF, the regional envelope almost doubled to €1.78 billion, reflecting EU-ACP consensus on the importance of regional integration for development.

The forthcoming Regional Strategy Papers (RSPs) and Regional Indicative Programmes⁶ (RIPs), which include an analysis of the state of play of regional integration and a response strategy, are to serve the five main priorities outlined in section 4. They will:

- Provide, in all regions, support for ***regional mechanisms to foster peace and stability***, prevent and manage conflicts, and fight security threats (such as organised crime), thus furthering a broadly-defined regional human security agenda. In West, Southern and East Africa, EDF support will help strengthen the regional pillar of the pan-African architecture of peace and security.
- Pay particular attention to ***regional economic integration***, with almost 75% of the indicative appropriation (i.e. €1.3 billion) likely to be devoted to this area.
- Within the regional economic integration agenda, focus on ***specific regional priorities***, with an emphasis on the completion of more integrated markets; the development of productive capacities; and the improvement of infrastructure networks and enhanced regional cooperation for the promotion of sustainable energy policies. There will be a particular focus on EPA support measures: almost half of the Caribbean RIP would be allocated to their EPA commitments.
- Reflect the ***diversity of ACP regions*** in terms of their priorities for sustainable development. This applies, in particular, to the second focal sector in the Pacific (fisheries) and in Central Africa (forestry). Support for food security and agriculture is foreseen in West Africa, and for land, water and marine resources management in East Africa.
- Support ***good regional governance***, with an emphasis on capacity-building for non-state actors.

Under the **10th EDF national programmes**, more importance will be given to regional issues. 30% (€3.7 billion) of the national envelopes relate to economic development, with the bulk going to economic infrastructure (around €3 billion, with a stronger focus on regional connections) and a significant amount of support to trade and regional integration and production sectors, including agriculture (around €600 million).

The **EDF all-ACP envelope** will contribute to further strengthening regional integration in cases where a cross-regional approach can add value, i.e.:

⁶ Commission Staff Working Paper "The Regional Strategy Papers and Indicative Programmes of the 10th European Development Fund" (SEC(2008) xxx of 01.10.2008). RSPs are being finalised. The information provided here is without prejudice to the formal adoption of the programmes by the Commission.

- **Business development:** The EC will work with the European Investment Bank to strengthen the synergies between the Investment Facility (to which the EDF contributes up to €3.5 billion) and the 10th EDF RIPs.

The mission and governing structure of the Centre for the Development of Enterprises (EDF support of €18 million a year on average) should be adapted to decisively reinforce its efficiency and focus on supporting business in their efforts to take advantage of regional integration.

- **Infrastructure networks:** The EU-Africa Infrastructure Trust Fund will be further supported as an innovative tool for the implementation of the EU-Africa Infrastructure Partnership. Similar mechanisms are being considered for the Pacific and the Caribbean.
- **Peace and security in Africa:** As part of the Joint Africa-EU Strategy, the EU will continue to support the role of the regional actors within the African peace and security agenda and, in particular, through the African Peace Facility.

The EC budget-funded programmes also have an important role to play:

- **The Development Cooperation Instrument** (thematic programmes on Food Security, Environment and Sustainable Management of Natural Resources including Energy, and Investing in People) will provide support for regional activities in policy areas where catalytic or complementary support is needed in order to develop regional cooperation.
- **The special "Facility for rapid response to soaring food prices in developing countries"** proposed by the Commission will also contribute to supporting regional agricultural and food security policies.
- The **Stability Instrument** contributes to regional stabilisation and peace-building capacities, including through targeted crisis response actions and measures to address longer-term trans-regional security threats.

5.3.3. A more effective method of delivery

In order to better leverage the increased support, EU activities at programme and project level should become more strategic through:

- **Gradually moving to a programme- (rather than project-) based approach.**
- **The active promotion of joint delivery methods**, such as co-financing, delegated cooperation or pool funds. The experience of the EU Trust Fund for Infrastructure in Africa may be seen as an example in this respect.
- **Regionally-established Funds** to which the EC and EU Member States could contribute in the context of EPAs and the EU Aid-for-Trade Strategy could also be the instruments to deliver EU and other donors' support to regional integration.
- **Prioritising projects of a truly regional dimension**, ensuring that projects and activities i) directly support regional priorities, ii) have a truly regional dimension, and iii) aim at the highest possible returns on regional growth.
- **Strengthening the "regional dimension" at national level**, by including the regional dimension more systematically in projects supported at national level.

Special attention should be paid to the necessary accountability and capacity for effective implementation, with regional organisations appropriately empowered by their member states to ensure sound financial management of own and donor funds, as well as to the removal of

absorption capacity weaknesses of regional organisations and to donors' capacity to monitor delivery.

Finally, ACP regional integration should be supported in synergy with the immediate environment of the regions. This means facilitating cooperation between African regions, for example through the co-financing of relevant projects by two or more RIPs. This also includes encouraging cooperation between ACP regions, EU outermost regions and the EU Overseas Countries and Territories (OCTs), where potential remains for increased regional synergies⁷.

5.4. Trade policy: A changing paradigm in a changing global environment

5.4.1. The Economic Partnership Agreements

A comprehensive regional EPA has been concluded with the fifteen CARIFORUM countries, while in the other ACP regions, the EU and its partners remain firmly committed to achieve, with all countries of a region, comprehensive EPAs which i.a. include provisions on services and investment and a set of regional trade-related rules that is as comprehensive as possible.

Comprehensive regional EPAs are a key instrument in the ACP-EU partnership to foster regional integration. They will help implementing integration schemes, consolidating regional markets and strengthening sound economic governance policies by anchoring them in a partnership with the EU. In particular, regional EPAs will:

- ***Foster the effective implementation of regional trade-in-goods commitments*** by supporting existing or planned trade integration projects, including the necessary customs reforms.
- ***Expand regional trade in services and promote investment within the region*** and with the EU (where regions choose to include these issues in the EPA) through more transparent, stable and development-friendly regional rules.
- ***Consolidate a set of regional trade-related rules*** by addressing important regulatory issues, such as trade facilitation, TBTs and SPS. Where the region is ready, commitments and cooperation on competition, intellectual property, social and environmental aspects, and public procurement rules, will improve development and business conditions at the national and regional levels.

EPAs entail reforms at regional and national levels and contain detailed development cooperation provisions that commit the EU to support these EPA-related reforms in order to maximise the benefits and minimise the costs of the new trade regime between the ACP regions and the EU.

Concerns and outstanding problematic issues expressed by ACP partners will be addressed in a flexible way, consistent with international trade rules and ensuring that progress is made towards full regional EPAs. The different needs, levels of development of the ACP countries and stages of existing regional integration processes will be taken into account, as EPAs need to build upon and foster existing regional integration processes. In particular, differentiation in regional integration processes may well result in variable geometry within the EPA.

⁷ Commission Green Paper on the future of EU-OCT relations, COM (2008) 383 final of 25.06.2008 and Commission Communication on Strategies for the Outermost Regions: achievements and prospects, COM(2007) 507 final of 12.09.2007.

5.4.2. *Other trade policy challenges in ACP countries*

ACP countries face other trade policy challenges that should also be integrated in the EU-ACP partnership:

- ***The interplay between regionalism and multilateralism:*** The EU should reaffirm that regional openness needs to be carefully designed so as to maximise its development impact. In addition, national engagement with regional integration will need to face challenges such as the current food prices crisis, with policy solutions needed at regional level rather than in national decisions that jeopardise regional commitments.
- ***The rationalisation of trade integration agendas in Africa:*** The African Union has launched a rationalisation exercise with the aim of facilitating the long-term objective of continental integration. The EU should support a rationalisation exercise that strengthens the building blocks of an eventual single economic African entity, while seeking to minimise barriers to trade between African regions. In the context of the Joint EU-Africa Strategy, the EU will cooperate with the African Union and its Commission to that end.

6. CONCLUSION

Regional integration should become a fundamental tenet of EU development policy and EU-ACP relations. It is an essential vehicle for more political stability. It is a vehicle for accelerated growth through coordinated structural reforms and gradual trade opening. Regional integration is therefore an essential driver for reaching the Millenium Development Goal of reducing poverty in ACP regions.