



The European Community's aid programme, now in its fifteenth year, is one of the most successful examples of Community action in the field of external affairs. But the programme has not developed much over this period. It has not grown faster than the bilateral aid programmes of the individual member states and it has been characterized by its restriction to a rather small group of associated states, all of which are ex-colonies or dependent territories of EEC states.

This slow growth and exclusiveness may well be modified as a result of the enlargement of the EEC—and particularly by the current negotiations to renew association arrangements and extend them to cover certain Commonwealth countries.

Europe's Chosen Few provides a briefing for these negotiations by examining in detail the EEC's aid programme, and outlining possible changes in its policies and operations.

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Europe's Chosen Few

Policy and Practice of the EEC Aid Programme

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Chapter 1

Background — the Offer of Association

The aim of this study is to provide objective and detailed information on the aid given by the European Economic Community to its associated states, indicating the advantages and disadvantages of the present arrangements, and areas where improvements might be made.

It is hoped that the study will be of particular use to those Commonwealth states that are being offered association. Negotiations between these states and the European Economic Community are due to start in August 1973. The basic texts concerning association and EEC development assistance are fairly well-known. Far less is known about the way the EEC aid programmes operate. Knowledge of the operation of the aid programmes is, however, at least as important as knowledge of the legal texts. In some ways it may be more important, as everything in the tests is open to renegotiation; the operation of the programmes, by contrast, depends on personnel and institutions and, irrespective of changes in legal texts, old habits and methods are bound to be carried over into the next phase of association, unless specific action is taken to change them.

This study will, therefore, concentrate on the operations of the aid programmes and aspects that might be changed in renegotiation, rather than on the legal texts. It will cover aid only from the EEC as a whole; the bilateral programmes of individual member states will be touched on only briefly, in considering how they may be affected by joint EEC policies. The EEC food aid programme will also be left out of the study. It is a relatively small part of EEC aid; it does not form a part of any association agreement; and (like American PL 480 aid) is probably as much a consequence of internal farm support programmes as of development aid policy.

The offer of association

Under Protocol 22 of the Treaty of Accession,¹ independent Commonwealth countries in Africa, the West Indies, the Indian Ocean, and the Pacific² were 'offered the possibility of ordering their relations with the Community in the spirit of the Declaration of Intent adopted by the Council (of the EEC) at its meeting held on 1/2 April 1963' according to one of three 'formulae'.

(i) Participation in the Convention of Association to succeed the Yaoundé Convention (see below).

¹ Treaty Concerning the Accession of the Kingdom of Denmark . . . the United Kingdom . . . to the EEC and the EAEC (HMSO, Treaty Series No. 1, 1973, Cmnd 5179, parts I and II).

² Barbados, Botswana, Fiji, the Gambia, Ghana, Guyana, Jamaica, Kenya, Lesotho, Malawi, Mauritius, Nigeria, Sierra Leone, Swaziland, Tanzania, Trinidad and Tobago, Tonga, Uganda, Western Samoa and Zambia. Mauritius signed an agreement to accede to the Convention of Association of the AAMS in May 1972. This has not yet (June 1973) been fully ratified by EEC member states.

(ii) Conclusion of one or more special conventions of association on the basis of Article 238 of the EEC Treaty comprising reciprocal rights and obligations, particularly in the field of trade.

(iii) Conclusion of a trade agreement.

Associable states were asked to 'take up a position with respect to this offer as soon as possible after accession'.

The form of this offer clearly gave rise to suspicions and misgivings among the Associable Commonwealth States (ACWS). A common reaction in the EEC Commission – the EEC's civil service – was that the ACWS were reading implications into the wording of the 'offer' that the Commission had not been aware of and that the wording was in fact rather unsatisfactory. Two important points here are the concept of 'association' and the presentation of the three 'formulae'.

The ACWS are suspicious of the motives of ex-colonial powers in offering an association. They are afraid of committing themselves to a political arrangement in which they are second-class members. It does not help matters that existing African Associates of the EEC have been heavily attacked in the past for alleged political subservience, both to the EEC¹ and, more particularly, to France, or that the word 'association' carries in English an implication of junior membership.

It is impossible to have a truly equal partnership between rich and poor countries, or between receivers and givers of aid. Two important points should, however, be made:

(1) The extent to which association directly reduces the policy-making freedom of the present associated states is very limited, and has tended to decrease.

(2) Association is a voluntary arrangement. It is freely negotiated between the potential Associates and the EEC member states, and the joint institutions of the association provide forums in which Associates can raise any complaints about association affairs. Moreover, the commitments entered into last for only five years, and Associates can at any time simply withdraw from the association.

The wording of the offer of the three formulae was taken from the 1963 Declaration of Intent, following from the UK's earlier round of negotiations. It was certainly more convenient to incorporate this wording into the 1972 Treaty of Accession than to re-open negotiations on a point that had already been agreed. However, what seemed adequate in 1963 seems far less so in 1973, when the associable clientele has become more politically sophisticated.

The offer of the three 'formulae' was resented because Protocol 22 was interpreted as making implicit preconditions – that the ACWS could not start negotiations for an arrangement that would give them the same benefits as the AAMS unless they accepted the main features

¹ See Zartman, I. W. *The Politics of Trade Negotiations Between Africa and the EEC*. Princeton University Press, 1971, pp. 18-23.

of the Yaoundé Convention. The Commission, through its Memorandum on association,¹ has now replied to this criticism by making it clear that in its view there should be 'no question of limiting the scope of negotiations by setting up any prior conditions'. It does, however, go on to outline a 'model' association as 'a concrete point of departure'. This is, in its essentials, very similar to the present Yaoundé Convention - i.e. formula one - with certain improvements. Moreover, negotiation of the two Yaoundé Conventions has not, in the past, involved any formal preconditions. It is thus not immediately clear how the real negotiating position has changed.

In fact, there seem to be two major changes: first, it has been made absolutely clear that, in the Commission's view, ACWS do not have to state which 'formula' they are going for before they start negotiating. They can, therefore, start to negotiate alongside the AAMS for the next association convention, and move on to formulae two or three if they are not satisfied. Secondly, the Commission has made it clear that it is willing to consider quite major changes compared with the last Yaoundé Convention. Nonetheless, it is reasonable to assume that the three 'formulae', with formula one replaced by the Commission's 'model' association, do still represent basic options.

The Commission Memorandum on association deals mainly with the extension of a Yaoundé-type association, and although it states that all associable countries 'will retain the right to request the Community to negotiate and conclude an agreement on a different basis', it mentions specifically only 'other forms of relations, also provided for in Protocol 22 . . . characterised in general by undertakings of a more limited nature'² - i.e. formulae two and three.

It should be borne in mind that the Commission's Memorandum represents its own views, and will not necessarily be agreed to by member states. There seems little danger that member states will reject the Commission opinion that Associates should be able to enter negotiations for the replacement of the Yaoundé Convention without stating a firm intention of concluding a Yaoundé-type agreement. On other negotiable issues, however, there does not yet (June 1973) appear to be any co-ordinated EEC negotiating position. As the negotiations approach, the member states will probably drop more hints as to what they consider to be negotiable.

Formula one - the Commission's model

It has been assumed that this formula was meant to be based on the present association under the Yaoundé Convention, and the 'model' put

¹ Commission of the EEC, *Memorandum of the Commission to the Council on the Future Relations of the Community, the Present AASM States and the Countries in Africa, the Caribbean, the Indian and Pacific Oceans Referred to in Protocol No. 22 to the Act of Accession (COM (73) 500/fin., Luxembourg, 4 April (1973))*, Quotation from para. 4.

² *Op. cit.*, p. 6.

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forward in the Commission Memorandum on association confirms that the Commission is thinking broadly along these lines. The present association will be outlined in more detail in the next chapter, but basically it provides for a single convention of association with a duration of five years, linking eighteen independent African and Malagasy states with the EEC. Its main elements are:

(i) Trade clauses which, to comply (more or less) with GATT rules, are presented as the formation of free-trade areas between each associated state and the EEC. Associated states have had to eliminate customs duties on imports from the EEC. In practice Associates have been allowed to lower, or even eliminate, customs duties and replace them with fiscal duties that are applicable to imports from all countries, including EEC member states. In most cases, imports from EEC countries are exempted from any remaining customs duties. Zaire and Togo do not, however, even provide this preference to the EEC. In addition, wide escape clauses permit the associated states to impose non-preferential tariffs or quantitative restrictions for purposes of industrialization or development, or even for budgetary revenues.

On the EEC side, goods from the associated states are admitted free of import taxes with the exception of a wide range of goods affected by the Common Agricultural Policy.¹

(ii) Development assistance, mainly in grant form, totalling 828m u.a.² plus loans from the European Investment Bank of up to 90m u.a., over the five-year period 1971-75.

(iii) Rules prohibiting discrimination against or between EEC member states in the fields of right of establishment, services, payments, and capital. These rules are now of very minor importance, but are widely misunderstood outside the association. They do not involve obligations to give foreign firms or individuals the same rights of establishment as nationals.

(iv) Joint institutions for consultation and negotiation.

The present Convention expires at the end of January 1975, and the ACWS are being invited to take part in its renegotiation, which should start at the beginning of August 1973. The Commission of the EEC is stressing two major principles in connection with enlargement:

- (a) that there should be no reduction in the benefits the existing AAMS derive from the association;³
- (b) 'Similar treatment of comparable situations'⁴ - i.e. that Common-

1 See F. Ellis, J. Marsh and C. Ritson, *Farmers and Foreigners*. Overseas Development Institute, to be published Autumn 1973.

2 The u.a. is the EEC unit of account, defined as 0.8867088 grammes of fine gold. Until 1972 this was equivalent to one U.S. dollar. After the dollar devaluations of 1972 and February 1973 it is equivalent to \$1.20634.

3 Statement by M. Deniau, on behalf of the Community, at the meeting of the Association Council, 30 November 1971. Similar assurances are given in Protocol 22 of the Treaty of Accession, para. II, 2 and II, 3.

4 Commission Memorandum on association, para. 2.2.4.1.

wealth countries that associate under the new convention should receive similar treatment, taking into account their relative needs and circumstances.

Subject to these principles, the Commission appears to be intending to maintain the main features of the present Convention of Association, but admitting the possibility of a number of important modifications.

The single convention of association

The Commission apparently doubts whether it is desirable to have a single association covering not only a much larger number of African Associates, but also Associates in the Caribbean and the Pacific area. It is admitting the possibility of having separate associations for the Caribbean and the Pacific. There is even a possibility of creating a separate association for all the ACWS.¹ The Commission Memorandum on association does not, however, mention this point, and it seems unlikely that the Commission is thinking of a separate association for ACWS that would go as far as the Yaoundé Convention.

Trade provisions

The Commission Memorandum on association recommends retaining the 'free-trade area' formula under which the EEC member states and the Associates have been able to give each other trade concessions. A number of arguments are put forward in the Memorandum for maintaining this approach, but the only one which carries any weight is that this is still the only convenient way for the Community to give preferences without clearly infringing Article I of the GATT. The Memorandum does, however, go some way towards meeting the objections of the ACWS to 'reverse' preferences, by stating that duty-free entry need not be preferential but could be extended to other countries, or all countries. This apparently opens a loophole for customs duties to be replaced across the board by duties having similar effects but different names.² It remains to be seen whether the GATT would tolerate this, although it should be pointed out that some AAMS already do this, so it is not entirely an innovation. Second, the system 'could incorporate wide derogations of the kind provided for under Protocol No. 2 of the Second Yaoundé Convention, to allow for the development requirements of the Associated States.' Third, the Community will adopt 'a very understanding attitude' as regards quantitative restrictions or measures having equivalent effect imposed by AAMS 'in accordance with the requirements of their development or their balance of payments'.

It is not, however, at all clear that these views are shared by all EEC member states; nor is it likely that they wholly meet the objections

¹ See, e.g. H. B. Krohn, Director-General for Development Aid, Commission of the EEC, *La Communauté Élargie et les Pays en Voie de Développement*. College of Europe, Bruges, 1972. p.14.

² This point is made almost explicitly in a footnote—*op. cit.* p.21.

of the ACWS, who may be unwilling to believe that the formal commitments they enter into are entirely without substance, or may object to becoming solemn signatories to a charade.

The Memorandum also stresses the Commission's wish to 'revitalise and improve' the commercial content of the association to avoid its erosion by trade liberalization outside the association. The main innovation is the proposal of a price stabilization scheme for sugar, groundnuts, groundnut oil, cotton, cocoa, coffee, bananas, and copper. It is also suggested that associated states should receive unspecified non-tariff advantages under the Common Agricultural Policy, that excise duties be removed on tropical products, and rules of origin for food products be improved (although these last two points would, presumably, apply equally to third countries).

Development assistance

The principles of maintaining benefits to existing Associates and giving similar treatment in similar circumstances to new Associates provide a vaguely defined minimum assurance of aid. The Commission has clearly stated that in its view the nominal amount of the third EDF must be increased in proportion to the lowering of the purchasing power of the u.a. since 1969, and also that it wishes to maintain the relatively soft terms of aid. However, neither the Commission nor the member states seem to envisage substantial increases in the scale of EEC aid, beyond those made necessary by enlargement of the association.

Rules on non-discrimination in rights of establishment etc

The EEC side does not consider these rules to be controversial, and no fundamental changes have been proposed in the Commission Memorandum on association.

Joint institutions

The EEC side does not seem to envisage any fundamental changes in the role and powers of the joint institutions. The Commission Memorandum on association puts forward a number of relatively minor proposals, which would widen the field of subjects the institutions were competent to discuss, but do not give any new decision-making powers.

Formula two

Article 238 of the Treaty of Rome states that:

'The Community may conclude with a third State, a union of States, or an international organisation agreements establishing an association involving reciprocal rights and obligations, common action, and special procedures. These agreements shall be concluded by the Council, acting unanimously after consulting the Assembly.'

This is the legal basis of the Yaoundé Convention, but it has also been used to establish association agreements with Greece, Turkey,

Tunisia, Morocco, Malta, and the East African Community. An association agreement was also negotiated with Nigeria in 1966, but was never ratified.

From the point of view of the offer to ACWS, the Lagos and Arusha Agreements negotiated with Nigeria and the East African Community are the closest precedents. In both cases, the agreements were negotiated for five years and provided for the phased establishment of free-trade areas in the same way as the Yaoundé Convention, with similar provisions for the Associates to impose fiscal duties, and trade barriers designed to meet development and industrialization requirements. The trade concessions given by the EEC were, however, less generous than those for the AAMS, as duty-free entry for various products which competed with exports of the AAMS was limited to tariff quotas. Moreover, the Arusha Agreement - unlike the Yaoundé Convention - contained a formal undertaking by the associated states to maintain specific preferences to the EEC on a specific product list. The agreements involved provisions on establishments, services, payments, and capital, and joint institutions which were similar to the Yaoundé Conventions. There was, however, no development assistance in either the Lagos or the Arusha Agreements.

On the basis of these precedents, therefore, the disadvantages of formula two compared with formula one are that the trade provisions are less generous, and the aid factor is absent. It is difficult to see any advantages compared with formula one apart from a less intense political involvement with the EEC, and avoidance of partnership with the present AAMS. (These political factors will be examined in greater detail in Chapter 2.)

The Commission's commitment to maintain the benefits enjoyed by existing AAMS gives the latter a good bargaining position for demanding better trade provisions than formula two Associates. It is much more difficult for the AAMS to maintain this position against new formula one Associates.

Aid is not explicitly excluded from formula two. There is a rather weak precedent for the inclusion of aid in the special loans from the European Investment Bank provided for Turkey, which is associated under Article 238 of the Treaty of Rome. The weakness of this precedent is that Turkey's case is so different from that of the ACWS; its association is, in principle, a step towards full membership of the EEC. More important than precedents is the general feeling in the Commission that aid should in future be a negotiable part of individual agreements of the Lagos or Arusha type.

Formula three

Under Article 113 of the Treaty of Rome trade agreements may be negotiated with third countries as part of the common commercial

policy of the EEC. On this basis, preferential agreements have been negotiated with Spain, Israel, Lebanon, and a looser trade promotion agreement with Yugoslavia. None of these agreements has included aid provisions, although some countries currently negotiating, or preparing for negotiations on, this type of agreement clearly are trying to get some form of assistance included in their agreements.

Non-Commonwealth countries

It should be remembered that the offer of the three formulae to countries having comparable economic structures and production to those of the AAMS has been open since 1963 and is therefore open to non-Commonwealth countries. Non-Commonwealth countries that have shown some interest in the next round of negotiations on association are Ethiopia, Liberia and, more tentatively, Sudan.

The position of dependencies

Overseas countries and territories (OCT) for whose foreign policy original member states are still responsible have continued to be associated with the EEC under Part IV of the Treaty of Rome. The form of this association has up to now been determined by decisions of the Council of the EEC for periods of five years, coinciding with the periods of the Conventions negotiated with the independent AAMS.¹

The nature of the association is almost identical to the convention associating the AAMS. The main difference is the lack of joint institutions. In principle the association arrangements are negotiated between the responsible member states and the other member states. The two Dutch overseas countries are, however, self-governing, and the decision determining the form of the association² includes a declaration by the government of the Netherlands that it takes decisions in co-operation with the governments of these two countries.

The decision provides for EDF aid of 72m u.a. (62m u.a. grants, 10m u.a. soft loans) and 10m u.a. in commercial loans from the EIB over the years 1971-75. This sum is shared with the French overseas territories of Guadeloupe, Martinique, Réunion, and French Guyana.

Commonwealth dependent countries and territories other than Gibraltar and Hong Kong³ are offered association on the same basis as the present OCT, but this association cannot take effect before 1 February 1975 and will be determined by a decision of the EEC Coun-

1 Overseas countries: Surinam and Netherlands West Indies. Overseas territories: Saint Pierre and Miquelon, Comoro Archipelago, French Territory of Afars and Issas, New Caledonia and its dependencies, Wallis and Futuna Islands, French Polynesia, French Austral and Antarctic Territories.

2 Council Decision 70/549/EEC of 29 September 1970.

3 Bahamas, Bermuda, British Antarctic Territory, British Honduras, British Indian Ocean Territory, British Solomon Islands Protectorate, British Virgin Islands, Brunei, Cayman Islands, Central and Southern Line Islands, Falkland Islands and Dependencies, Gilbert and Ellice Islands, Montserrat, Pitcairn, St. Helena and Dependencies, the Seychelles, Turks and Caicos Islands, the West Indian Associated States (Antigua, Dominica, Grenada, St. Lucia, St. Vincent, St. Kitts-Nevis-Anguilla) and the Anglo-French Condominium of the New Hebrides.

cil. The implication is that, as in the past, the terms on which the OCT are associated will be based on those negotiated for the AAMS and those ACWS that wish to associate.

Phasing of negotiations

The Yaoundé Convention and the decision on association of OCT expire on 31 January 1975. The Yaoundé Convention stipulates that re-negotiation should start eighteen months before the date of expiry (Article 62), and it has been decided to start formal re-negotiation at the beginning of August 1973. The ACWS are invited to start negotiations at the same time. Those ACWS that wish to negotiate for formula one will, therefore, be negotiating alongside the AAMS. If they are unable to reach agreement on formula one, they may then start to negotiate jointly or individually on formulae two or three.

Chapter 2

The Wider Issues of Association

The issues involved in the association of Commonwealth countries with the EEC go far beyond those of most bilateral aid or trade negotiations between rich and poor countries.

The main feature of the EEC policy is that a specific group of developing countries is being picked out and offered a special relationship with the EEC, including trade and aid advantages that are denied to other developing countries. In terms of population, the association of AAMS and OCT covers only a very small proportion of the developing world (excluding China) – 5% for the present AAMS and OCT, which would rise to 12% if all the Commonwealth Associates joined. Aid, and foreign policy generally, are seldom disinterested, and this selective approach to developing countries must inevitably raise the questions: what is the EEC hoping to get in return, and why concentrate on these specific regions?

Why is the EEC interested in association?

If the EEC cannot provide a more convincing answer than a generous desire to help its old friends in Africa – which is what its published explanations amount to¹ – suspicions are bound to arise which can deter potential Associates. In fact, there do not appear to be any simple answers; it is, in any event, a mistake to suppose that the EEC Commission and the member states all have identical policy aims.

One should not be wholly sceptical of declarations of unselfish interest in development. The Commission's Memorandum² on development policy states that:

'The basic purpose of any development co-operation policy [and presumably, by implication, that of the EEC] is the systematic pursuit of a more harmonious distribution – and better adapted to modern times – of well-being throughout the world, in other words the pursuit of better conditions of life and of fulfilment for mankind.'

There is no doubt that this view is sincerely held by many of those concerned with EEC development policy, although it is not evident where the balance lies between benevolence and self-interest.

If the benefits given to the associate states through the Convention of Association are being used to 'buy' reciprocal benefits for EEC member states, the first place to look for what is being bought is the Convention. The clauses in the First and Second Yaoundé Conventions relating to preferences and rights of establishment and payments

1 See Commission of the EEC, *Memorandum on Community Policy on Development Co-operation*. The Commission Memorandum on association of 4 April 1973 (COM (73) 500/fm.) does not attempt to justify the association, but merely talks of the opportunity to 'enrich' it and strengthen it.

2 EEC Commission, *op. cit.*, p. 27.

have been picked on. However, the EEC has not demanded anything resembling reciprocal advantages. AAMS countries are permitted under the Second Convention to impose restrictions for 'purposes of industrialisation or development', and may replace customs duties with fiscal duties. Zaire and Togo have given no preferences at all (by contrast, the Arusha Agreement associating the East African countries did contain an undertaking to give preferences on specified items)¹ and the Commission has made it clear in the Memorandum on association that it does not want preferential treatment of member states by Associates to be obligatory in the next association period.

Most of the existing AAMS do give preferences to the EEC, even though they are not obliged to do so, and there is some evidence that preferences, EDF procurement, and relaxation of non-tariff barriers which had discriminated in favour of France have led to a diversion of AAMS imports in favour of the other EEC members.² Even so, this trade makes up less than 3% of total EEC exports, and the association Convention does not guarantee any access for EEC exports.

Some AAMS – notably Senegal – are opposed to any reduction in reverse preferences. Their position is not as weak as is sometimes supposed. According to them, unless the Associates give preference to the EEC member states, the EEC is unlikely, in the long term, to have any interest in providing benefits for the AAMS. Reverse trade concessions are a safeguard for a preferential position which is well worth this cost. Some AAMS have also expressed concern over the loss of dignity involved in accepting non-reciprocal concessions. Nonetheless, the current view in the EEC Commission appears to be that trade concessions by the AAMS are a negligible, even negative, factor in the association. Most EEC member states now seem to be willing to go along with this view. But the intricacies of such arguments are endless: it is quite conceivable that some member states might be willing to sacrifice reverse trade concessions *in order* to weaken the association.

Another supposed benefit for EEC member states is the right of establishment for their firms and individuals in the AAMS; however the Convention gives no such rights. The implementing convention in the Treaty of Rome provided for rights of establishment (in what were then colonies) but neither the First nor the Second Yaoundé Convention obliges AAMS to allow the establishment of firms or individuals from EEC member states. The only regulation is one against discrimination between member states, and requires treatment of firms and individuals of member states that is at least as favourable as for those of any third country.

A similar position exists for freedom of payments. Article 37 of the Second Convention merely obliges AAMS to permit payments which

¹ *Journal of Common Market Studies*, Vol. XI, No. 2, December 1972. Charles Young 'Association with the EEC: Economic Aspects of the Trade Relationship', p. 126.

² Charles Young, *Journal of Common Market Studies*, *op. cit.*

arise out of transactions which they have also permitted. Article 39 is a non-binding declaration of intent that AAMS will try to operate a liberal system of international payments.

The Convention of Association does not, therefore, involve significant benefits that would recompense EEC member states for the concessions they have made. Furthermore, the terms of aid to Associates have been unusually generous, and have allowed smaller and less certain return flows in the form of interest payments, repayments, and exports than do most bilateral aid programmes.

It is therefore necessary to look outside the Convention. One possibility is that the EEC is trying to secure a share of a growing market and a source of raw materials. This may well be an important consideration for some EEC member states, and for the Commission. If this policy is being pursued, however, the approach is very 'soft' and gradual. The EEC is not, for example, using its aid policy as an instrument to expand production of strategic raw materials, or exact trade concessions.

Similarly, the EEC's policy may be seen as a safeguard for European firms operating in the AAMS – either exporting or producing. But again the EEC has never made aid or trade concessions conditional on specific action to favour these firms, nor has aid been withdrawn when enterprises owned by nationals of member states have been nationalized. In fact, the present AAMS take a very favourable view of EEC aid, and say it has fewer political or commercial strings than any of the bilateral programmes.

What is the political significance of association?

The association has frequently been accused of being neo-colonial, and its reputation still suffers from Pan-Africanist attacks led by Guinea and Ghana around the years 1958 to 1962¹. The EEC has reacted by denying political pressure, and by modifying those aspects of the association that were most suspect – in particular, reverse preferences and rights of establishment. It used to be said, with much justification, that the association was merely an extension of the French colonial relationship – a respectable disguise for continuing political subservience. It has definitely moved away from this role, towards a 'simple' arrangement for aid and trade, as various Associates have, more or less vociferously, asserted their independence. The political element has not, by definition, been reduced, but the political relationship has changed to one in which the EEC member states have accepted the necessity for longer-term diplomacy, in much the same way as in relations with other countries.

Yet there remains an influential body of opinion in the EEC in

¹ See Zartman, I. W. *The Politics of Trade Negotiations between Africa and the EEC*. Princeton U.P. 1971, pp. 18-23.

favour of a political 'special relationship' of a sort that might be most offensive to many independent states. For example, the Commission's Memorandum on development co-operation states¹:

'The policy of association with the AAMS goes far beyond the mere application of preferential trade measures and of technical and financial aid. The most authoritative voices in the AASM stress, unceasingly and emphatically, the fact that association is, in the first place, a political option which aims at the maintenance and development of privileged relationships of every kind between Europe and Africa'.

This view is not, of course, shared by many AAMS, even if one or two of its most vocal leaders have concurred. The Commission's lack of political delicacy in formulating such a statement is remarkable.

The EEC has never imposed any obstacles to African unity and has accepted the desirability of inter-African co-operation and free-trade areas. The Second Yaoundé Convention makes special provision for co-operation between either associated states, or associated states and other states; and the Commission's Directorate-General VIII (DG 8) for Aid to Development² has, without much success, tried to promote inter-state projects.

Why a concentration on Africa?

The Commission has justified its regional policy of concentrating on certain developing countries in the Memorandum on development co-operation³:

'The policy of preferential access which the Community pursues in its relations with some developing countries corresponds to special obligations and interests created not only by history and geography but by the clearly complementary nature of their economies and by a host of traditional links which are not exclusively commercial.

Co-operation of this type, however, is feasible only if it covers a relatively small proportion of world trade and if it is confined to countries in relatively homogeneous geographical areas.

Taken beyond this point, the policy of association would tend to become diluted and would cease to be complementary to international co-operation; indeed it would be inimical to it because of the scale of the distortions and difficulties which it would lead to in world trade'.

The first paragraph has real value in explaining the exclusive nature of the regional policy. It is a continuation of historical links. The second and third paragraphs are complete nonsense, but do underline the Commission's wish to pursue an exclusive policy. The latest Com-

¹ *op. cit.*, p. 21. This part of the Memorandum was first presented to the EEC Council in July 1971. The 1973 Memorandum on association offers no comparable attempts to justify the association.

² DG 8—Directorate-General for Aid to Development—is the branch of the Commission that deals with all questions relating specifically to policy towards developing countries.

³ Commission of the EEC, *op. cit.*, p. 34.

mission Memorandum on association does not amplify these explanations, but merely repeats that the 'Community's policy of development co-operation will be characterised by a combination of a high degree of co-operation at regional level (sic) with a necessarily less intense degree of co-operation on a world scale'.¹

The French concern to maintain links with former colonies is an important factor in the selective approach. The initial association was a French condition for entering the EEC,² and France has continued to be the main promoter of the association. French firms and nationals retain important assets in the AAMS, and France is by far the largest trading partner of the ex-French AAMS. Furthermore, French firms get most EDF-financed contracts, simply because they are already established in the AAMS, and are in a position to give the best tenders. This commercial interest cannot be separated from political interest. There is, however, another aspect – the wish to maintain links with French-speaking countries and to spread French culture. Association of the AAMS has lightened the financial burden on France of promoting these policies.

In the field of trade, membership of the EEC meant that France had to abandon preferential trading relationships with former colonies. With association, it has been possible to retain at least part of this preferential trading relationship by extending it to trade between the ex-colonies and the other member states, while reducing the risk that continued relations with France will appear embarrassingly neo-colonial. This particular French interest gains nothing from the enlargement of the association, except a more secure future for the continuance of the principle of association.

Belgium – the only other original EEC member in a comparable position to France – does not appear to have been nearly so interested in its relationship with its former colonies, but does retain important commercial interests; and of course the UK has similar interests in the associable countries.

Apart from this, Africa is likely to continue to be a long-term exporter of raw materials. The EEC is a long-term importer, and may well have an interest in giving concessions in order to safeguard future access.

There has been little discussion of the geopolitical aspect but there is a body of opinion in the member states and in the Commission that wishes to make Black Africa – as well as the Mediterranean – an EEC sphere of influence. This is helped by the fact that at present most of Africa cannot be regarded as being firmly committed to any super-power. The EEC might, therefore, try to establish the sort of relationship of economic interdependence, and political leadership, that exists

¹ *op. cit.*, p. 1.

² See Zartman, *op. cit.*

between other super-powers and their client states, whose closest parallel is the relation between the USA and Latin America. At the moment this is mere speculation, but it is an aspect which the present and potential Associates may wish to take into account, and guard against.

In a very discreet way, the EEC is building up a relationship from which the African – and Mediterranean – associated states may find it painful and difficult to break away. There is no apparent attempt to extract political and commercial concessions as part of each association agreement or aid project. To the extent that a policy is being pursued, it is, therefore, a long-term one. This can, however, be expected to give the EEC commercial advantages – for example, relatively favourable investment opportunities, access to raw materials, and a welcoming attitude towards imports from the EEC – as well as support in big-power politics and, possibly, strategic advantages, particularly in the Mediterranean basin, but also in Africa.

The limits of association

The limitations to the present regional association policy arise from its selectivity. To the extent that it depends on giving special treatment to selected Associates it relies equally on denying this treatment to non-associates. The fact of association has tended to generate new arguments to justify it, and new supporters – particularly in the EEC Commission. From the point of view of the Commission it appears, on the face of it, to be one of the most successful examples of Community action.

In the long run, however, association is an obstacle to the development of a co-ordinated EEC policy towards developing countries. The main protagonist of the policy was, and continues to be, France. Of the other original EEC members, the Netherlands and West Germany have been least sympathetic to the association, seeing no convincing moral, political, or commercial reasons for basing a development policy on such a narrow group of countries.

The three new EEC members are likely to take a similar view. So long as the direction of the EEC development policy differs radically from that of individual EEC members, it will not be allowed to expand its scope in such a way as to dominate their policies. This feature clearly has implications for the amount of aid that can be expected by Associates, and for the commercial advantages they can hope to receive.

Even if the majority of ACWS join, the UK is unlikely to want to concentrate on Africa and the Caribbean to the exclusion of Asia. There will clearly be strong pressure to avoid diversion of aid from present recipients which are not Associates, or decide not to associate. Some degree of diversion is, however, bound to occur if the increase

in EEC aid in the next period of association goes substantially beyond what is needed to extend present EEC aid levels on a comparable per-caput basis to new Associates – or if very few Commonwealth Associates decide to associate. Similarly, there may well be a reluctance to strengthen trade advantages to Associates, if these involve any increased diversion of trade from underdeveloped non-associates. Indeed, if a regional policy of association is a fundamentally misguided basis for future EEC development policy, a case can be made for opposing all improvements in the benefits offered to Associates, on the grounds that these could only increase vested interests in maintaining the association and make future changes more difficult.

Is the EEC offer to the ACWS serious?

There is, of course, no single EEC view on association. The formal offer has been made clearly enough in Protocol 22, but it would be easy to deter certain Associates politically, or by refusing to make concessions in the negotiated terms. In this connection, it has to be remembered that the Commission Memorandum on association is merely a recommendation to the Council of the EEC. Individual member states could still, for example, prevent any liberalization of the provisions on reverse preferences, or insist that Associates should choose between formulae one, two and three before starting negotiations. It remains to be seen what political will there is to enlarge the present Yaoundé-type association.

It is very difficult to make any forecasts on this. Positions may not correspond with past attitudes towards association. Germany and the Netherlands, which have always been considered hostile to association, may support enlargement as this would bring in more important African trading partners, and reduce what they see as the near-irrelevance of the present association. France has no inherent interest in enlarging the association beyond her own sphere of influence. However, France is likely to support a limited enlargement, since it is widely felt that the association cannot survive in its present form beyond about 1980 unless it is sufficiently enlarged to attract support from those who want a 'global' EEC policy towards developing countries. The real question here is the extent of the desired enlargement, and the biggest question mark of all hangs over Nigeria. Nigeria is so much bigger, and economically more independent, than the other Associates and Associates that there are fears that it would dominate the association. This is primarily a French view, but it probably has supporters elsewhere, including the Commission and the present Associates.¹ On the other hand, the EEC member states that have been most hostile to

1. The current (May/June 1973) manoeuvrings between Nigeria and the francophone African countries in West Africa to form trade blocs illustrate this suspicion and the struggle to create rival economic power foci; they may also be more directly related to the forthcoming negotiations on association than appears at first sight.

association would probably welcome Nigeria, precisely because this would transform the association and add a more significant trading partner.

How do these factors affect the ACWS?

The individual ACWS have little to lose from the build-up of good relations between the EEC and Africa, so long as this is based on genuine advantages given by the EEC and does not involve intervention in internal decision making. It should be possible to take advantage of such a policy, and the ACWS should be capable of choosing rationally between a national goal and the benefits obtained from the EEC.

Association of the African ACWS would greatly strengthen the factions in the EEC that want an African sphere of influence – which is not necessarily in the long-term interests of either Africa or the underdeveloped countries outside the association.

On the other hand, the enlargement of the group of African Associates could be seen as a step towards African unity, and the removal of a divisive influence. But clearly a grouping of the same states without association would be even more conducive to African unity, and it would not be in the interests of inter-state co-operation in Africa if some African ACWS joined, but other major countries – particularly Nigeria – stayed outside.

Another factor, of which many people in the EEC member states and the Commission are aware, is that the Yaoundé style association has little chance of surviving in any meaningful form in an enlarged EEC without a substantial addition of ACWS. A plausible strategy for the ACWS would be to reject association *en bloc* in the hope that this will make the EEC's regional policy unacceptable for commercial, moral and political reasons. The present association, with about 85m inhabitants, is of very minor significance compared with the whole of the underdeveloped world (excluding China), with its population of 1,800m.¹ The worst of all worlds would be an association that split the ACWS and provided just enough new Associates to keep the arrangement functioning.

The non-African Associates are something of an irrelevance in the EEC's regional policy. Neither the Caribbean nor Pacific ACWS can really be considered to be in the European sphere of influence. Precisely for this reason, it may be in their interest and in that of the African ACWS to negotiate together and reject separate regional association arrangements. The non-African ACWS can benefit from the negotiating weight of the African ACWS; and the African ACWS would, presumably, prefer an association that was not part of a coherent European policy to create an African sphere of influence.

¹ In 1971; total population of the ACWS was about 120m, and of non-associable Commonwealth Asia (including Pakistan) about 715m.

Chapter 3

Aid in the Present Association

Principal texts

The main bases for aid under the present association agreements are:

The Second Yaoundé Convention. This agreement established the association between the eighteen independent AAMS and the EEC for the period from 1 October 1970¹ to 31 January 1975. It was preceded by a similar First Yaoundé Convention which covered the period 1964-69. The parts of the Second Convention concerning aid are Title II (Articles 17 to 30) on financial and technical co-operation, and Protocol 6 on the management of EEC aid.

Council Decision of 29 September 1970 (CD(OCT)) concerning association of the Overseas Countries and Territories (decision 70/549/EEC). This is the provision for association of the dependent Overseas Countries and Territories (OCT), and is almost identical to the Second Convention. The sections relevant to aid are Title II (Articles 16 to 26) on financial and technical co-operation, and Annex VI concerning the management of technical and financial aid.

The Internal Agreement (70/544/EEC) relating to financing and management of Community aid. This is an agreement of the EEC Council, not one between the EEC and any recipient countries. It covers aid under the Second Yaoundé Convention and Council Decision (OCT), and sets up the European Development Fund (EDF).

Financial Regulation (71/68/EEC) on the EDF. This regulation of the EEC Council deals with procedures for financial management and control of the EDF.

The most important policy document relating to aid is the Commission's **Memorandum on a Community Policy on Development Co-operation** (synoptic document and programme for initial action).² However this expresses a Commission viewpoint, which is not necessarily that of the member states. Moreover, it deals with rather broad policy issues and has had little impact on aid to Associates over the period of the Second Convention. (The 1973 Commission Memorandum on association is only concerned with policy for the *next* association period.)

The bodies managing aid – the Fund and the Bank

The two bodies responsible for dispensing and managing EEC aid are the European Development Fund (EDF) and the European Investment Bank (EIB).

¹ Date of entry into force. The duration of the Convention was determined as five years from the date of entry into force, or up to 31 January 1975, whichever was the earlier.

² Office for Publications of the European Communities, Luxembourg, 1972.

The European Development Fund is responsible for management of the EEC's grants and 'soft' loans. It is not a legal person, and all personnel working for the EDF are either employees of the Commission in the Directorate-General for Aid to Development (DG 8) in Brussels – in which case they are paid by the Commission – or control and field personnel on contract to the Commission, in which case they are generally paid from the aid funds provided to the EDF. The Director-General of DG 8 is the Principal *Ordonnateur*¹ of the EDF. With minor exceptions, all financing proposals have to be approved by representatives of EEC member states.

The European Investment Bank was set up in 1957 under the Treaty of Rome and has its headquarters at Luxembourg. Its main function is to grant loans to EEC member states or to private or public undertakings for investment projects to be carried out in their European territories 'to the extent that funds are not available from other sources on reasonable terms'.² Most loans have been for industrial or economic infrastructure projects, with a large proportion going to the least developed areas of the EEC – particularly Southern Italy. However it also has about ten years experience of special lending operations in Greece, Turkey, the AAMS, and the OCT. The EIB is a legal person in all member states, and its authority derives from a Board of Governors and a Board of Directors, almost all of whom are directly appointed by member states. The Commission nominates a single Director, but does not, in any sense, control the Bank.

In the last two periods of association, the EIB has been authorized to make loans on commercial terms to the AAMS and OCT. These may be given interest subsidies from the EDF. Most loans go to directly productive commercial projects. The EIB does some of the financial management and evaluation for projects financed by the EDF. For those projects that use only EIB funds it may reach financing decisions independently of the EEC Commission – except in so far as the latter is involved through its nominee on the Board of Directors. There are, however, few such projects in the associated states.

Amounts of aid

Over the five-year period of association, 1970-75, the EEC will provide 900m u.a.³ concessional finance to the AAMS and OCT, through the EDF. Of this, 828m u.a. is for AAMS, and the remaining 72m u.a. for OCT. Of the total, 810m u.a. is made up of EDF grants, and 90m u.a. of EDF loans on soft terms. In addition, up to 100m u.a.

¹ An *ordonnateur* authorizes accounts and payments, but does not actually make payments or have the responsibility for holding funds. There does not appear to be a single English equivalent of this word—presumably because accounting conventions are different. For the EDF, the role of *ordonnateur* is always strictly separated from that of accountant (*comptable*) and financial controller (*contrôleur financier*).

² Statute of the EIB, Article 18.

³ Excludes 5m u.a. to be provided through the EDF for Mauritius if and when her accession to the Second Yaoundé Convention is ratified.

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is available as loans on commercial terms from the EIB. Of this, 90m u.a. is available for the AAMS, and the remainder for the OCT. These EIB loans should probably not be regarded as 'aid'. The overall breakdown is given in the table below:¹

Table 3.1

Aid and commercial loans made available in the three periods of association (m u.a.)

	AAMS			OCT			Total		
	Treaty of Rome	YC 1	YC 2	Treaty of Rome	YC 1	YC 2	Treaty of Rome	YC 1	YC 2
EDF grants	485*	620	748	96	60	62	581	680	810
EDF soft loans	—	46	80	—	4	10	—	50	90
Total EDF	485*	666	828	96	64	72	581	730	900
EIB commercial loans	—	64	90	—	6	10	—	70	100
Total	485*	730	918	96	70	82	581	800	1000

Sources: Treaty of Rome, 1st and 2nd Yaoundé Conventions, and corresponding EEC Council Decisions for the OCT

*Amounts actually received; this fund was not divided formally between AAMS and OCT.

In addition, interest payments and repayments on loans from both the present EDF and the previous one are added to the amounts (*not* the case with EIB loans); and up to 50m u.a. of the EDF available funds may be lent to price stabilization bodies in the AAMS for periods of up to three years, interest-free. There is no prescribed timetable for disbursement or commitment.

Terms of aid

Loan terms

Soft loans from the EDF have no specified minimum interest rate, but in practice rates do not go below 1%, and the average is about 1½%. Repayment periods may go up to forty years, with grace periods of up to ten years.

Loans from the EIB carry the Bank's current rate of interest (currently around 7½%), but subsidies from EDF grants may be used to bring the rate down to a minimum of 3% (2% for loans through an intermediary). There are standard subsidy rates for certain types of project (see Chapter 8). Repayment periods may go up to twenty-five years. There is no provision for grace periods.

Tying

Aid provided by the EDF or EIB under the provisions of the Second Yaoundé Convention may be used to finance works carried out, or goods supplied, by firms in any of the EEC member states² or the

¹ Aid to the OCT is further divided between French and Netherlands territories, although this division is said to be 'indicative'—CD (OCT), Article 17 and Annex V.

² Excluding the three new member states, until the expiry of the present Convention of Association.

AAMS. In other words, aid is untied within the EEC and the AAMS. With minor exceptions, all contracts are subject to open tender for suppliers and contractors in these countries. In tendering for supplies, a preference of up to 15% may optionally be given to firms from the Associate concerned – or states ‘in the same region’.¹ Aid to the OCT is untied within the EEC, but not open to firms from AAMS. These rules on tying may be relaxed for equipment which is not available within the EEC or AAMS (e.g. Land Rovers). In practice the rules have sometimes been relaxed for projects jointly financed with international organizations.

An important point is that this aid may be used to finance local costs of projects. A limitation is that it may not normally be used to finance recurrent or maintenance costs.

Types of project

There are four types of project which may be financed – investments, technical assistance, aid to marketing and sales promotion, and emergency aid.

Investments are made in the fields of production, and economic and social infrastructure, and particular stress is laid on diversifying the economy and favouring industrial and agricultural development. **Technical assistance** includes study grants, training programmes, and the financing of experts, and studies. **Aid to marketing and sales promotion** includes studies, training, market research, and participation in trade fairs. **Emergency aid** is given in, for example, cases of famine, flood, or falls in export prices, and comes out of the EDF funds available in grant form. A fund of 20m u.a. was set aside initially and is replenished automatically each year up to a total of 65m u.a. (including the initial 20m u.a.). The Association Council (see below) can authorize expenditure in excess of this.

The EEC can finance risk capital (normally share capital) out of the 90m u.a. EDF special loans, but will make only temporary minority contributions, and is free to dispose of its interest on the best terms possible.² This may include equity participation in local development banks, but it is made clear that such participation would be exceptional.³ The EEC undertakes (Second Yaoundé Convention, Articles 19, 23, 24) to take into account:

- (i) the advantages of ‘integrated’ projects involving not only investment but also technical assistance, and attention to trade or marketing aspects;
- (ii) the need to promote regional co-operation between associated states, or between associated states and non-associated neighbouring states;

¹ The precise meaning of this is unclear.

² Internal Agreement (70/544/EEC), Article 19 (2).

³ Final Act (70/542/EEC) (signing of Second Yaoundé Convention), Annex XIII.

- (iii) the plans and programmes of associated states;
- (iv) the special needs and difficulties of different associated states and, in particular, the need to provide appropriate aid to those countries suffering the greatest disadvantages.

The EEC can enter into co-financing arrangements with member states, non-member states, or international financing bodies as well as with bodies in the associated states.

What bodies can receive aid?

Associated states can receive all types of aid provided by the EDF and EIB, including disaster aid.

Non-profit-making legal persons of AAMS or EEC member states, which operate in the general interest and are subject to government control, may benefit from all forms of aid except disaster aid.

Regional or inter-state bodies of which associated states are members may receive all forms of aid except disaster aid. Aid is not, however, provided for parts of projects outside associated states.

Organizations of producers or similar groups approved by both the EEC and the AAMS, or, exceptionally, producers themselves, may receive all forms of aid except disaster aid.

Institutes or similar specialized organizations may receive non-reimbursable aid from the EDF. Exceptionally, this may be granted to commercial enterprises training specialists not on their own behalf, students, participants in courses or training sessions, or in-service trainees.

Commercial or industrial enterprises of a profit-making nature (including co-operatives), registered in an associated state, may receive loans from either the EDF or the EIB, with or without interest subsidies, and may also receive grant aid for technical assistance connected with investment.

In all cases aid for projects must be requested by the associated state(s) that will benefit. The Associate is responsible for preparing all the necessary project studies, although these are eligible for technical assistance.

Institutions

Joint institutions representing EEC member states and associated states are provided for under the Second Yaoundé Convention. They are concerned with all aspects of the association, including aid.

The Association Council is a ministerial-level body consisting of the Council of the EEC,¹ the EEC Commission, and one member from the government of each associated state. The Chairmanship rotates between EEC member states and associated states. The Council meets

¹ Excluding representatives of the three new member states, until the end of the present period of association.

at least once a year, and reaches decisions by unanimous agreement. Its functions in the field of aid are confined to:

- (i) defining the general direction of financial and technical co-operation, on the basis of an annual report from the Commission (Second Yaoundé Convention, Article 29).
- (ii) deciding on any increases in disaster aid in excess of those provided for in Article 20.

The Association Council may also debate any issues, and may pass resolutions (unanimously), but has no part in considering or approving individual aid commitments.

The Association Committee is a permanent committee at ambassadorial level which consists of a representative of each EEC member state¹ and associated state, and one representative of the EEC Commission. Again, the chairmanship rotates, and decisions are reached by common accord. This Committee 'assists' the Association Council, which may delegate work to it, and is responsible for most of its day-to-day work.

The Parliamentary Conference is composed on a parity basis of members of the European Assembly and parliaments of associated states. It meets once a year and has no powers, but may raise issues and debate and vote resolutions.

The Court of Arbitration of the Association has five members: two nominated by the EEC Council, two appointed by the associated states, and a president nominated by the Association Council. The Court gives binding judgments on any issue regarding interpretation or application of the Convention. So far, no issue has ever been taken to the court.

There are no equivalent joint institutions for the association of the Overseas Countries and Territories.

Institutions in which Associates are not represented

The executive decisions concerning EEC aid to Associates are all taken by bodies on which the Associates are not represented. The most important of them are the Committee of the EDF, and the AAMS-financed working group of the EEC Council.

The Committee of the Fund is not an institution of the association, as it derives its powers from a decision between EEC member states,² and is not mentioned in the Second Yaoundé Convention. It does, nonetheless, play a vitally important part in the running of the EDF. It consists of a representative of each of the six original EEC member states, and a representative of the European Investment Bank. The EEC Commission provides the Chairman and the Secretariat. No

1 Excluding representatives of the three new member states, until the end of the present period of association.

2 The provisions concerning this Committee are contained in the Internal Agreement (70/544/EEC) and the 'Internal Regulations' agreed by the EEC Council.

representatives of associated states participate in the Committee, which has to give an opinion on all financing proposals submitted by the Commission (the EDF) or the EIB, except those which are financed solely by the EIB out of its own funds without any interest subsidy from the EDF.

Financing proposals for presentation to the Committee are drawn up either by the services of the Commission (EDF) or the EIB, depending on the type of project (see p. 21).

If the Committee is unwilling to approve a proposal, the Commission may withdraw it altogether, or may re-submit it with modifications, or may send it to the EEC Council for a final decision.

There are accelerated procedures for disaster aid (Second Yaoundé Convention, Article 20) and aid for price stabilization (Article 21), and the Committee can authorize block sums for certain types of technical assistance and aid to marketing, to avoid waiting for a Committee decision in each individual case.

The AAMS/Financial Group has a less formal basis than the EDF Committee, being only a working group of the EEC Council. As its name implies, it is concerned with financial matters arising from the association of the AAMS. These include, for example, the financial impact of monetary upheavals; the annual report from the Commission to the Council on the running of the EDF; the drawing up and amendment of the Internal Agreement on financing and control of EEC aid, and important matters of principle like the decisions to finance repairs or maintenance costs. The members of the group are delegates from the member states and are often the same people as the country representatives on the EDF Committee.

Positive and negative aspects of association aid

Before the detailed study of the ways the EEC aid organs function, it may be useful to provide a check-list of their positive and negative aspects, and the chapters in which these will be dealt with:

Positive aspects

- (a) high proportion of grants and high overall grant element (Ch.8)
- (b) willingness to finance local costs (Ch.9)
- (c) untying of aid within EEC and AAMS (Ch.12)
- (d) willingness to co-finance with other donors (Ch.9)
- (e) co-ordination with other aid to AAMS and OCT (Ch.9)
- (f) promotion of regional (inter-state) projects (Ch.9)
- (g) relative lack of political interference (Ch.2)
- (h) relative independence of private commercial interests (Chs.2,9)
- (i) preferential treatment for AAMS firms (Ch.9)
- (j) willingness in principle to finance local development banks (Ch.9)

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- (k) care over technical (not economic) preparation of projects (Ch.10)
- (l) acceptance of the principle of providing aid within a coherent planning framework (Ch.6)

Negative aspects

- (a) slow and over-centralized procedure (Ch.11)
- (b) delays in ratifying and negotiating new conventions (Ch.11)
- (c) perverse and unpredictable inter-country allocation (the richest countries tend to get the most aid) (Ch.7)
- (d) weak and expensive technical assistance (Ch.9)
- (e) general weakness in dealing with poorest countries (Ch.7)
- (f) theoretical weaknesses in economic appraisal (Ch.10)
- (g) inadequate ex-post evaluation and follow-up of completed projects (Ch.10)
- (h) inability to finance recurrent costs (Ch.9)

Some of these points are more important than others. So far as the recipients are concerned, the greatest benefits are the high grant element, willingness to finance local costs, untying in the EEC and associate states, and relative absence of political and commercial interference in the choice of projects. The main problems are the unsatisfactory inter-country allocation, the uncertainty at the country level (how much EEC aid will be available), the slowness of the whole procedure, and the long gaps between association conventions.

Generally, the advantages to Associates in the aid field outweigh the disadvantages. It is better to have association aid than not to have it, and it is better to have a given value of EDF aid than an equivalent gross amount of aid from most of the bilateral donors.

Chapter 4

The Role of the EIB

Responsibility for aid to AAMS is shared uneasily between the 'aid' directorate of the Commission – Directorate-General VIII (DG 8) – and the EIB. There is no clear division of responsibility, either by type of finance or type of project, although the EIB'S main responsibilities are for 'industrial'¹ projects and those financed from its own resources.²

These arrangements have proved unsatisfactory. One reason is the geographical separation of the two organizations, the EIB being in Luxembourg and DG 8 in Brussels. Apart from this, they tend to look on each other as rivals, in much the same way as do government ministries with overlapping functions. Each is concerned to guard its own resources and expand its influence at the expense of the other.

The EIB can reach financing decisions independently of DG 8 only for the comparatively rare projects which it finances wholly from its own resources. Financing proposals for all other projects have to go before the Committee of the EDF and the Commission. The division of responsibility for preparing financing proposals is, therefore, very important.

The EIB prepares proposals for all projects to be financed from its own resources, and also for industrial projects for which EDF soft loans, or risk-capital participation, are proposed. Whenever any EDF funds are involved, for either capital expenditure or interest subsidies, DG 8 adds its opinion (*avis*) to the proposal. Non-industrial project proposals involving a mixture of EDF and EIB capital finance are prepared jointly by DG 8 and the EIB; when they disagree they present separate proposals. Other project proposals are prepared by DG 8, but the EIB has to add its opinion to all soft loan proposals, whether or not EIB finance is involved.

These rules generally require a preliminary judgment on the most suitable forms of financing before project proposals can be prepared. The provisions affecting financial terms (see below) limit the choice to some extent, but still leave a wide range of decisions to be made. If DG 8 and the EIB cannot agree, the Committee of the EDF allocates the responsibility to one or the other body.

The philosophy of the two organizations is very different. This is hardly surprising. The EIB is meant to be run on commercial lines. It raises most of its capital on the international capital market. Although it is not obliged to make a profit, it is under a statutory obligation to cover its costs and accumulate a reserve. The loans it makes to AAMS

1 In practice this is taken to include manufacturing, processing of agricultural goods, and mining, but not construction, power generation, water, or public utilities.

2 See *Internal Agreement* (70/544/EEC), particularly Articles 8-10, and *Internal Regulation of the EEC Committee*, particularly Article 3.

and OCT come out of resources which might have been used elsewhere with less risk.

This gives rise to suspicions that the EIB prefers to use EDF resources rather than its own for projects whose repayment capacity is not absolutely certain and, conversely, that DG 8 attempts to reserve its funds for its own projects. On the other hand, when there is a very 'good' project there may be competition to finance it between the two bodies.

The weakness of the co-operation between the EIB and DG 8 is illustrated by the failure to co-ordinate in the aid programming exercise at the beginning of each association period. The EIB does not take part in DG 8's programming missions or programme formulation. The EDF does not earmark any funds for interest subsidies on EIB projects; nor does the EDF's programming cover industrial projects which might be financed by the EIB. This means that if an industrial project 'comes up', some other project which the EDF has already approved in principle has to be set aside.

The EIB and DG 8 also have very different approaches to the question of aid terms. The EIB philosophy is that directly productive projects *should* be financed by loans rather than grants, and that the terms of the finance should be adjusted to what the project can bear.¹ The rationale of this is that grants and soft finance are so scarce that they should not be thrown away on projects that can support loan aid. Consequently, the EIB may propose loans from its own resources for very safe projects, even in very poor countries, so long as their creditworthiness is adequate.²

DG 8, by contrast, appears to have moved from a position which was rather similar to that of the EIB, to the view that the basic criterion for aid terms should be 'the socio-economic level and situation of the country concerned, including its own efforts and potentialities'³ and the Commission has recommended that the next Convention of Association should state this. DG 8 has increasingly come into conflict with the EIB over the appropriate terms for financially profitable projects in the poorest countries. It is, however, at a disadvantage, because these are often industrial projects for which the EIB has the main responsibility, whereas DG 8 does not even include an industrial division.

Up to now, however, the choice of terms seems to have been influenced more by the EIB's philosophy than that of DG 8. In general, EIB finance has been given to projects that could bear EIB terms - i.e.,

1 A striking example of this view is given in EIB, *Les activités de la banque Européenne d'Investissement en faveur de l'industrialisation des EAMA*, p. 2, which states that the absence of loan aid in the first period of association prevented the EEC from financing industrial projects.

2 It happens that among the AAMS some of the poorest countries have very comfortable external debt positions. This may well be a sign of development consciousness (rather than financial wisdom); it is not, however, a reason for making them use their meagre incomes on debt repayment.

3 Commission Memorandum on association (COM (73) 500/fin.) para 2.2.4.2(b).

down to 4–5% interest paid by the final recipient and up to twenty-five years repayment. EDF soft loans have gone to projects that were directly profitable, but could not support EIB loan terms, and EDF grants tended to be reserved for projects that provided no commercial pay-back. This approach to the choice of financial terms is implied by the legal texts,¹ and it is not clear to what extent DG 8 concurred, and to what extent these terms have been imposed by member states and the EIB.

This combination of rivalry, distance, and difference in aid philosophy does not make for easy co-operation, and delays the already slow progress of project development. A figure for the average length of these delays is difficult to obtain, but for joint projects may be of the order of six months more than for projects prepared by the EIB or EDF alone.

The arrangements for collaboration and formulation of 'opinions' by EIB and DG 8 on each other's financing proposals were intended to make full use of the EIB's expertise in loan management and industrial projects, and to balance the liberal (but largely intuitive) approach of DG 8 and the more conservative (but technocratic) approach of the EIB. In the event it seems unlikely that these joint arrangements have improved project preparation enough to offset the attendant problems.

Moreover, from a purely administrative point of view it can only be regarded as an extraordinary practice to give the EIB – a commercial organ of the EEC – any control at all over its central administration. The EIB's near-independence of the Commission appears to be something of an anomaly, but it is a recipe for confusion to have two independent bodies competing – and being at the same time obliged to co-operate – in the same field.

The obvious conclusion is that there should be a much clearer separation of responsibilities and functions between DG 8 and the EIB. It is less clear exactly how this should be done; a whole range of options is open, for example:

(i) Division of responsibilities according to type project

The EIB would probably favour a division in which it was given sole responsibility for industrial projects (possibly including mining and tourism) and a free hand with various types of hard and soft funds earmarked for this type of project. This solution would not, however, be wholly satisfactory, because of the EIB's excessively commercial outlook. Moreover, there is no logic at all in this division. There would still be borderline cases – for example, agricultural schemes involving processing. The most telling argument is that no-one de-

¹ It is never stated clearly as a general principle in the texts, but in a rather ambiguous way for specific cases—particularly in Second Yaoundé Convention, Protocol 6, Article 7, paragraph 1. There would be no difficulty in ignoring this principle in practice, if the member states agreed.

signing the system from scratch could conceivably propose such a structure.

(ii) Separation of DG 8 and EIB without division of responsibilities

It would be possible to widen DG 8's field of operations to cover all forms of development finance, and create an industrial capacity in DG 8, but still leave the EIB to operate independently with specific commercial funds earmarked for use in the AAMS. This is quite an attractive possibility because it could probably be negotiated without great internal opposition. However, there are two major disadvantages: first, it would be difficult to use EDF grants, as at present, to soften EIB loans; second, the absence of unified control over all the funds available would reduce the scope for adjusting financial terms to the needs of recipient countries.

(iii) Hiving-off part of EIB and placing it under DG 8 control

This is the logical solution, but is liable to meet the most opposition. It is desirable that a single organization controls all funds officially available for developing countries – including those on non-concessional terms. There is no reason why the funds presently available through the EIB should not be included. Further, the EIB has developed some expertise in dealing with loan finance to developing countries, and industrial projects in developing countries, which DG 8 lacks. If the funds and the personnel were brought into DG 8, a special financing organ could be set up under the control of the Commission to deal with hard loans and risk capital – rather on the lines of the relationship between the World Bank, the International Development Association, and the International Finance Corporation. There is no reason why funds should not continue to be channelled from the existing EIB to such a new lending organ; probably making borrowing both simpler and cheaper.

Options (ii) and (iii) are supported by the fact that the type of industrial project coming up is changing in a way that makes it more suitable for financing by an aid organization, and less suitable for bankers. At first, EIB loans in the AAMS went largely to firms owned and managed by non-nationals of the associated states. It was very easy for a European bank to deal with these firms; but as economic independence has become a reality, such firms have become less interested in new capital investment. New industrial projects are often locally owned and involve government participation. This will certainly be equally true of the ACWS.

Other variants on these options could, clearly, be thought up, but these three provide a fair representation of the choices open. It is self-evident that the present system is inefficient and requires radical changes.

Chapter 5

How Much Aid?

Global aid totals are bound to be one of the main issues in negotiating for the renewal of the Convention and the enlargement of the association. In theory, this may not be the best procedure; it might be preferable to negotiate first on a 'grant equivalent' basis, then work back *via* decisions on terms to implied amounts. However, the practicalities of negotiation rule out such complications.

Possibly there will be radical changes in the arrangements for funding and negotiating the EEC's aid budget, as the Commission has now recommended that EDF aid should be brought within the Commission's own budget¹ (see Chapter 6). It is, however, most probable that specific sums will be negotiated as in the past, for at least the next five-year period, and this assumption is made throughout this chapter.

No reliable predictions can be made as to how much aid will be offered. The commitments entered into by the various parties give plenty of scope for interpretation and negotiation. The Commission has committed itself – although not necessarily the member states – to the position that Commonwealth Associates should receive 'similar treatment in comparable situations'² to the present AAMS. The member states have firmly committed themselves in Protocol 22³ to the principle that enlargement of the association 'should not be the source of any weakening in the Community's relations with the Associated African and Malagasy States' which are parties to the Second Yaoundé Convention; and to the 'safeguarding of what has been achieved'. The UK has made it clear that it expects to be able to make its contribution to EEC aid out of the planned increase in the total UK aid programme, without reducing the absolute size of the UK's bilateral programme (presumably, in terms of sterling at current rates). It has also been publicly stated that the UK's participation 'will depend on a number of factors, including, in particular, the number of Commonwealth countries who become associated and qualify for such aid'.⁴

These statements represent the progress so far in indicating what the negotiating parties on the EEC side think is negotiable, but all are open to various interpretations.

We may assume that the Commission's principle of similar treatment in comparable situations will be adopted by the EEC member states. However, this does not get us very far, because it implies that in the

1 Commission of the EEC Memorandum to the Council of 4 April 1973 (COM (73) 500/fin, Luxembourg).

2 *Ibid.* para 2.2.4.1.16.

3 Treaty of Accession, HMSO, Cmnd 5179 (London, 1973), Protocol 22, para. II, 2 and II, 3

4 Foreign and Commonwealth Office, *Britain and the EEC—Economic Relations with Developing Countries*. FCO, November 1972, p. 3.

past there were some consistent principles for allocation. In fact the only consistent aspect has been that the richest countries have received the most aid (see Chapter 7). Neither the EEC nor the ACWS are likely to want to raise this situation to the level of a general principle.

Table 5.1 shows per caput GNP and *oda* receipts of the AAMS, OCT, ACWS and Commonwealth OCT. The GNP figures for the AAMS and ACWS demonstrate both the overall similarity and the individual diversity of the two groups. In the AAMS group, per caput GNP ranges from \$630 in Gabon to \$60 in Burundi and Upper Volta. Among the ACWS, the range is from \$860 in Trinidad and Tobago to \$80 in Malawi. Overall the ACWS appear to have per caput GNP about one-third higher than the AAMS. Average GNP is, however, a very fallible measure of well-being, as it takes no account of income distribution. Some of the richest of these countries have very unequal distributions, and even in the poorest countries, per caput income figures may be greatly distorted by the incomes of an expatriate community supported on technical assistance.

Other possible indicators of aid need, or aid entitlement, would be present *oda* receipts, the level of social development, existing infrastructure, excessively high or low population density, external debt capacity, and transport costs of imports and exports. However, there is no rigorous way of using all these factors to establish relative aid entitlements. Currently, the AAMS receive far more aid per head than the ACWS, whereas the ACWS probably have the lead over the AAMS in provision of education and health facilities. Both groups include some countries or areas with extremely low population densities, and others that are suffering from land shortage. Both groups include landlocked countries, or countries with other serious transport problems. In neither group is there any clear relation between wealth and external debt problems. Both groups include some very small states which, it may be argued, need higher per caput aid than larger states – but we have no idea of the relationship between economic size and economic need. In fact, we cannot measure the effects of most of these factors, and we certainly cannot attach weights to them. Yet there is a real danger of negotiations getting bogged down in a fruitless discussion of these points.

The simplest and most defensible negotiating position is to demand an overall total which produced an average per caput figure equal to that of the AAMS, and reject, rather than compete with, any claims that the AAMS deserve more favourable treatment on the grounds of one or more of these criteria.

An attempt may well be made on the Community side to treat Nigeria as a special case. There appear to be two distinct factors. Firstly, Nigeria's size and political weight might make her a difficult partner in the association, and there clearly are some fears on the EEC

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Table 5.1

Aid and GNP of Associates and Associates

	Population mid 1970 millions	GNP per head 1970 \$	Net <i>oda</i> per head, 1969- 71, annual average, disbursements ¹ \$	EDF/EIB commitments per head, u.a. 2nd EDF from 1 June 1964 to end of 1972	EDF/EIB commitments per head, u.a. 3rd EDF from 1 Jan. 1971 to Jan. 1973
AAMS					
Burundi	3.54	60	5.01	6.34	4.47
Cameroun	5.84	180	9.05	12.18	5.23
Central African Rep.	1.55	140	10.70	18.11	8.77
Chad	3.64	80	7.24	9.98	5.77
Congo (Brazzaville)	0.90	300	22.76	34.69	20.85
Dahomey	2.71	90	7.06	9.62	7.53
Gabon	0.49	630	41.96	50.73	36.08
Ivory Coast	4.94	310	11.23	17.97	6.56
Madagascar	7.31	130	7.22	11.39	4.45
Mali	5.02	70	5.05	6.84	6.14
Mauritania	1.17	140	11.34	17.38	7.53
Niger	4.02	90	8.90	8.76	8.42
Rwanda	3.60	60	5.86	6.67	6.05
Senegal	3.87	230	13.29	17.58	8.74
Somalia	2.83	70	10.99	10.52	7.92
Togo	1.96	140	9.10	11.82	7.42
Upper Volta	5.38	60	4.72	8.52	5.51
Zaire	18.80	90	4.90	4.69	2.37
Weighted average AAMS	77.57	123	7.67	10.12	5.76
OCT and Overseas Departments					
Comoro Islands	0.25	140	28.41	11.36	6.41
Fr. Territory of the Afars & Issas	0.10	670	118.28	24.39	4.10
Fr. Guyana	0.05	940	—	69.60	51.68
Fr. Polynesia	0.11	1,890	183.90	10.00	24.53
Guadeloupe	0.33	760	175.46	14.87	6.65
Martinique	0.34	910	209.91	11.21	—
Netherlands Antilles	0.22	1,380	108.81	81.50	20.98
New Caledonia	0.11	2,430	263.98	62.91	0.73
Reunion	0.45	800	225.57	21.91	11.30
St. Pierre & Miquelon	0.01	—	—	104.80	1.50
Surinam	0.39	530	61.15	40.68	22.06
Wallis & Futuna	0.01	—	—	69.44	31.50
Weighted average OCT	2.37	874	147.56	29.66	11.90
Weighted average AAMS, Overseas Departments & OCT	79.97	145	11.79	10.72	5.95

HOW MUCH AID?

	Population mid 1970 millions	GNP per head 1970 \$	Net <i>oda</i> per head, 1969-71 average ² (disbursements)
ACWS			\$
Barbados	0.26	570	9.88
Botswana	0.61	110	24.21
Fiji	0.52	430	17.45
Gambia	0.36	120	7.19
Ghana	8.64	310	7.34
Guyana	0.75	370	24.36
Jamaica	1.89	670	9.71
Kenya	11.25	150	6.54
Lesotho	0.92	90	13.75
Malawi	4.44	80	7.24
Mauritius	0.84	240	7.50
Nigeria	55.07	120	1.80
Sierra Leone	2.56	190	3.84
Swaziland	0.42	180	15.80
Tanzania	13.27	100	4.23
Trinidad & Tobago	1.03	860	7.73
Tonga	0.09	290	10.24
Uganda	9.81	130	3.13
Western Samoa	0.14	140	8.36
Zambia	4.14	400	5.02
Weighted average ACWS	117.01	166	4.16
<i>Commonwealth OCT</i>			
Bahamas	0.17	2,300	0.73
Bermuda	0.05	3,540	0.20
Br. Honduras	0.12	590	50.77
Br. Solomon Islands	0.16	180	47.55
Br. Virgin Islands	0.01	—	—
Brunei	0.12	1,220	0.09
Cayman Islands	0.01	—	—
Gilbert & Ellice Islands	0.06	390	36.36
Montserrat	0.02	—	—
St. Helena & Dependencies	0.01	—	—
The Seychelles	0.05	70	85.29
Turks & Caicos Islands	0.01	—	—
West Indian Assoc. States	0.51	1,850	55.42
Weighted average CW OCT	1.24	1,439	39.15
Weighted average ACWS & CW OCT	118.25	179	4.53

Main Sources: World Bank Atlas IBRD, Washington 1968 and 1972; OECD, Development Co-operation 1972 Review OECD, Paris 1972, various EEC publications.

¹ Includes EDF receipts.

² DAC (OECD) data - excludes aid from Communist countries.

side that the inclusion of Nigeria would change the whole nature of association. It would, however, be wrong to represent this as a general EEC view, as there clearly are interests that would support Nigeria's association on the same basis as the other ACWS. Secondly, it is argued that Nigeria, with her oil revenues, does not require the same sort of aid on the same sort of terms as the AAMS or the ACWS.

The second point is a difficult one to resolve. At the moment, Nigeria's foreign exchange position is excellent, and her absorptive capacity for further capital aid may well be low. On the other hand, Nigeria has a lower per caput GNP than the average of other ACWS, and it can be argued that the present abundance of foreign exchange will soon disappear as absorptive capacity catches up. Nigeria is not in the position of an oil sheikhdom, with abundant revenues and a tiny population. In such a large and populous country, oil revenues can have only a very limited direct impact on incomes per head: in fact the impact in Nigeria's case is very much smaller than that of raw material exports on per caput incomes in Gabon – yet Gabon is generously aided by the EEC. With this precedent, the EEC would be in a very weak position to press for special – and less favourable – treatment for Nigeria.

This leaves the Commonwealth OCT. Treatment separate from independent Associates is illogical – but politically inevitable. The associated OCT have lower average per caput incomes than the Commonwealth OCT, but these averages are even more meaningless than in the case of the independent AAMS and ACWS, covering enormous differences between and within individual territories. The associated OCT receive more than three times as much *oda* as the Commonwealth OCT, but this can hardly be used as an argument for giving more aid to Commonwealth OCT, since virtually the only donors are the respective metropolitan powers, and it may be assumed that they will simply rearrange their bilateral programmes in the light of the EEC programme.

At present, the associated OCT receive far more aid per caput than the AAMS, and the justification for this allocation is certainly open to question, but so long as it continues, the Commonwealth OCT can legitimately claim equal, or nearly equal, treatment to the presently associated OCT.

French Overseas Departments of French Guyana, Guadeloupe, Martinique, and Réunion receive EEC aid on the same basis as the associated OCT. It is difficult to see any justification for this. These four departments are as much a legal part of France as Corsica. They are certainly underdeveloped but, to the extent that this is an EEC responsibility, it should be dealt with through the EEC's regional, not its aid, programme. Between them, these four departments contain 49% of the population now benefitting from EEC aid for OCT. Their exclu-

sion would, therefore, make a significant difference to the total Community aid bill.

The Protocol 22 commitment to maintain the present benefits of the AAMS is also open to widely different interpretations. At its least generous, it could be taken simply as a promise to maintain EDF and EIB finance at the present level in terms of units of account. However, the unit of account has declined substantially in purchasing power in the member states since the negotiation of the Second Yaoundé Convention, and may confidently be expected to go on declining in value at least until a new Convention of Association comes into force. The Commission's Memorandum recognizes this point¹ and recommends that 'the nominal amount of the 3rd EDF must be increased in proportion to the lowering of the purchasing power of the unit of account since 1969'.

It is debatable exactly how this adjustment should be made. However, a very large part of any EEC aid is destined to be spent in the EEC. It therefore seems reasonable to adjust the EDF aid totals with reference to inflation in member states. This still leaves a largely arbitrary choice of time period. The most relevant consideration would be a comparison of purchasing power over the life of the next Convention with that over the life of the last Convention – but this would be guesswork.

Whatever criteria are used, however, one needs to correct for rather over five years' inflation in member states. The correction will of necessity be rather crude and the broad orders of magnitude involved will not be very sensitive to small changes in methods. The main danger, against which it is difficult to guard, is that European inflation may have accelerated since 1969, and the associated states will lose in real terms if this factor is not taken into account. As illustration, one may take the date the Commission apparently has in mind – the expiry date of the First Yaoundé Convention in May 1969 – and estimate the loss of purchasing power of the u.a. between then and the entry into force of a new Convention, which we may (perhaps optimistically) take to be July 1975.

Correcting for the effects of currency realignments, average inflation rates up to January 1973 were about 4.5% per year for industrial goods.² In general, inflation rates have tended to increase; so if we assume a rate of 5% per year for the remainder of the period, prices, in terms of u.a., will have risen by about 33%. If present ECC financial flows are increased to take account of this, and are also extended on an equal per caput basis to all ACWS and associable OTCs one obtains

¹ *op. cit.* para. 2.2.4.1 (a).

² The series used was from the International Monetary Fund *International Financial Statistics*, country tables, line 63 (or 63a—domestic only—where available). This index refers to industrial wholesale goods. In many cases it is probably less than ideal, as it must include an import content. However it is more appropriate than a consumer price index (consumer prices rose much faster). The national averages, corrected for devaluation with respect to gold, were weighted by GNP.

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a total EDF of 2,908 m u.a. plus 320m u.a. of EIB hard funds divided between OCT and associated independent states as shown below.

(m u.a.)	AAMS and ACWS	OCT	Total
EDF grants	2,495	126	2,621
EDF loans	267	20	287
Total EDF	2,762	146	2,908
EIB loans	300	20	820
Total EDF and EIB	3,062	166	3,228

This calculation assumes that all ACWS and OCT will associate; if some do not, the amounts involved would, naturally, be smaller. Of these totals 41m u.a. in EDF grants, 6.5m u.a. in EDF loans, and 6.5m u.a. in EIB loans would be attributable to the four French Overseas Departments.

This still does not necessarily provide the upper limits to the increases that could – on quite a reasonable interpretation of Protocol 22 – be demanded in order to maintain the acquired benefits of the AAMS. It could quite plausibly be claimed that their share of EEC aid must be kept constant as a proportion of EEC Gross National Product, rather than constant in absolute terms. Since the expiry of the First Yaoundé Convention, the combined GNP of the six original EEC members has grown in real terms by rather over 4% a year, or, at current prices, over 10% a year. If this continues until the expiry of

Table 5.2

Percentage increases in EEC aid and GNP¹

	From 1st period to 2nd period	From 2nd period to 3rd period
GNP of 6 original EEC members in current u.a.	77	60–85 (estimate)
Total EDF and EIB aid to AAMS	51	26
Total EDF and EIB aid to OCT	–27	17
Total EDF and EIB aid to AAMS and OCT	38	25
Total EDF grants to AAMS	28	21
Total EDF grants to OCT	–38	19
Total EDF grants to AAMS and OCT	26	23
DAC grant equivalent ² of EDF and EIB finance offered to AAMS and OCT	24	22

¹ The EDF and EIB amounts used are the amounts on offer, not those actually disbursed in the periods in question.

² See p. 60. The grant equivalents used here are the averages given in footnote 1 of p 60.

the Second Convention, the total growth, at current prices,¹ will be over 70%.

In fact, it is quite clear that throughout the three periods of association since 1958, EEC aid through Community organs has grown much slower than the EEC's capacity to give aid, measured in terms of GNP. The first fund (under the Rome Treaty) ran from 1958 to 1962, the second from 1964/65 to 1968/69, and the third from 1970 to 1974.² Total GNP expressed in u.a. at current exchange rates and prices was about 75% higher in the second of these periods than the first, and the increase between the second and third periods can be expected to be between 60% and 85%. By contrast, total financial flows from the EDF and the EIB rose only 51% between the first and second periods, and 26% between the second and third periods. In terms of 'grant equivalent' as defined by the DAC the respective increases are only 24% and 22%.

In this respect, however, the AAMS and OCT have only shared the experience of the EEC's other aid recipients. Total official development assistance (*oda*) from EEC member states has fallen from about 0.75% of their collective GNP in 1960 to about 0.44% in 1971. The share of the total going to AAMS and OCT through Community organs has remained approximately constant.

From the point of view of developing countries it is desirable that this decline in *oda* relative to GNP should be reversed, but this needs to be done for all recipients, not just for this particular group. Given the hard reality of the total amount of *oda* EEC donors are willing to provide, maintenance of EDF flows to the AAMS as a proportion of donors' GNP would cause a diversion of funds from other recipients; the more ACWS associated, the worse this diversion would be.

In fact it appears most unlikely that any EEC member states would agree to maintain EDF flows as a proportion of their GNP – because they are unwilling to accept either substantial diversion of aid from other recipients, or the increase in their aid programmes that would be necessary to avoid such diversion. The most that can realistically be expected is maintenance of the purchasing power of EEC financial flows to the AAMS and associated OCT, plus similar per caput aid to associated Commonwealth ACWS and OCT, with, possibly, some small 'bonus' on top of this.

No fixed amount can, however, wholly eliminate the risk that future increases in the rate of inflation, or changes in exchange rates, will reduce the purchasing power of EEC aid. The EEC could safeguard against this by agreeing on a review of aid amounts if the purchasing

¹ On the assumption that there will be no major changes in exchange rates *vis-à-vis* the unit of account.

² In fact, the Second Yaoundé Convention was not fully ratified until January 1971, so that formally this third period of association will last only four years. This delay had little effect on disbursements, which continued to be made from the remainder of the previous fund.

power of the U.A. fell by more than, say, 25% over the course of the next five years.

What will the UK have to pay?

There is a possibility that EEC aid will be transferred to the Community's own budget, which is partly financed from direct contributions and partly from tax and customs revenues (see Chapter 6). At the moment this seems relatively unlikely in the next association period.

Assuming that the present system continues for at least the next five years, the UK will, presumably, include its EDF contributions in its aid programme. EIB finance is mostly raised on the international capital market and on-lent at commercial rates. It should not, therefore, be charged against member states' aid budgets.

At the moment EEC contributions are divided in the following proportions (percentage):—

France	33.16
West Germany	33.16
Italy	15.62
Belgium	8.89
Netherlands	8.89
Luxembourg	0.28

The UK has to negotiate its share with the other EEC members. The statement that the UK's contribution will depend on the number of ACWS that associate seems to indicate that no prior understanding has been reached on this point. It is, however, a view that is unlikely to be popular with the six original member states. Up to now contributions have been roughly proportional to GNP, and West Germany, which 'brought in' no Associates, contributed equally with France.

The most likely outcome, for political and economic reasons, is that the UK, France, and West Germany will contribute similar shares; Italy, Belgium, Netherlands, and the Luxembourg will probably maintain their contributions relative to the other original EEC members; Denmark will probably come in at about half the level of Belgium and the Netherlands, and Ireland at about 10% of their level. This would give the following breakdown of contributions (percentage):—

France	23.95
West Germany	23.95
UK	23.95
Italy	11.28
Belgium	6.43
Netherlands	6.43
Denmark	3.21
Ireland	0.60
Luxembourg	0.20

On this basis, if one assumed a total EDF of 2,200m u.a. (see p.36) the UK contribution would be 527m u.a. On 1972/73 prices, assuming 4-5% inflation, and no major exchange-rate changes, this averages £50-60m a year in terms of commitments – but disbursements may be expected to lag behind.

The UK position is that its contribution will not result in any reduction in present bilateral programmes and will be accommodated within the expected increase in the overall programme. The latter is expected¹ to increase from disbursements of £270m in 1973/74 to £294m in 1975/76 and £324m in 1976-77, at 1972/73 constant prices. If disbursements equalled commitments, it obviously would not be possible to fit in a UK contribution of £50-60m per year (1972/73 prices) without some reduction of bilateral programmes in the first one or two years. As it is, there is likely to be a substantial lag between disbursements and commitments, particularly in the first years after enlargement, and commitments themselves may get off to a slow start. Together these features will probably allow the UK to maintain the nominal level of the bilateral programme.

The question arises, whether the ACWS will lose UK aid to the extent that they gain EEC aid. It seems inevitable that the UK will reduce bilateral aid programmes to at least some of those countries which receive EEC aid. There would be no justification in doing otherwise unless it was felt that the countries concerned presently got too little aid relative to other recipients.

Unless only a small number of these countries decide to associate, the UK contribution to the EDF will be below the countries' total gains from the EDF: if they all associated, the UK would probably contribute a quarter of the EDF, but Commonwealth Associates would receive about three-fifths. Even if the UK took the extreme and improbable step of reducing bilateral aid to the extent that Commonwealth Associates received EEC aid, those Associates would still gain, because the terms and conditions of EEC aid are better, in the long term, than those of UK aid. There cannot conceivably be an overall aid loss for Commonwealth Associates – barring a politically impossible misallocation of EEC funds between old and new Associates. There is, however, a slight danger of aid loss in the first one or two years, if EEC aid to Commonwealth countries gets off to a slow start. It is therefore important to guard against any compensatory withdrawal of bilateral aid to individual countries until EEC aid disbursements are taking its place.

¹ *Public Expenditure to 1976/77*. HMSO, Cmnd 5175, London 1972. These figures do not represent any commitment by the UK, but are an indication of intentions.

Chapter 6

Development of Projects and Programmes

EDF projects in the AAMS normally get their first tentative approval in the 'programming' exercise at the beginning of each five-year period of association. After this, project files have to be prepared and accepted by DG 8 and/or the EIB. A financing proposal is then prepared by DG 8 or the EIB, and submitted to the EDF Committee. If it is approved, DG 8 is responsible for drawing up a financing convention, and the recipient country may put the project out to tender. Projects to be financed by the EIB are not included in the programming exercise and only go through the other stages of this procedure if EDF finance is also involved.

The programming exercise

This exercise has now become an important element in EDF aid planning. The aims are: to fit EDF aid into the broad programmes and policies of the associated states; to improve project effectiveness by avoiding scattered and unco-ordinated efforts; to spend EDF funds at an even rate and organize work over the five-year period so as to avoid accumulations of unprocessed projects.

Under the Second Yaoundé Convention (Article 22), the AAMS agree to inform the EEC of their programmes and plans. Most of the work of programming is, however, done by programming missions sent out by DG 8. The cost of these missions is borne by the Commission budget, not the EDF, and they are therefore able to start work before the Convention of Association to which they relate comes into force.

DG 8 first prepares background papers on the economy of each associated state and on other aid received by them (background papers are now being prepared on ACWS). A high-level mission then visits the country and, through negotiations with the government, determines the main fields for EDF aid. For example, in one case, the emphasis may be on a particular region whose development is lagging behind the rest of the country; in another case, it may be decided to concentrate on particular crops and related infrastructure. The associated state presents a list of projects related to these priority areas, and the programming mission gives an opinion on whether they are likely to be acceptable - i.e. whether they are compatible with the texts of the Convention and likely to prove viable. In practice, the missions can give a fairly firm approval or refusal for many of the projects; some others are accepted in the programme as at least meriting further investigation. These studies and projects are then ranked according to their priority.

In principle, there is no discussion of project costs, but it seems inevitable that the programming missions should have a rough idea of the funds likely to be available and bear this in mind when drawing up the programme. Indeed, the programmes may well state that, in view of the priority attached to other projects, a particular project is unlikely to be financed. In general, industrial projects are not included in the programmes. There are two reasons for this: first, most industrial projects are presented through the EIB, which is not involved in the programming missions; and second, programming missions work at a government level, without contact with the private sector. A programme may, however, state that industrial projects are under consideration and that other priorities will have to be changed if these are subsequently granted EDF finance.

DG 8 has made a principle of insisting that the choice of priorities belongs to the associated state. Effectively, this means that DG 8 may rule out projects which are totally unacceptable, but the choice between acceptable projects and priority areas is the associated state's. If a high priority is attached to a project which the mission thinks is not viable, it may still be included in the programme, with a note stating the reservations. When this happens, however, DG 8 will try to convince the government concerned of the validity of its case against the project, and it is most unlikely that the project will get financed.

The programmes are entirely the responsibility of DG 8, but documents outlining the programmes and the projects envisaged are sent to the Committee of the EDF. In theory, DG 8 has no obligation to consult the Committee on the programmes and merely does so out of courtesy; nor does the Committee give a formal opinion on the programmes. In fact, however, DG 8 is concerned to obtain the Committee's approval at this stage, and may even re-open negotiations with the associated states concerned if the Committee wishes this. The Commission would be ill-advised to attempt a show of strength at this stage, since the member states have the power to reject projects later on through the EDF Committee or, ultimately, the EEC Council.

Formally, no commitment has so far been made, but in practice agreement to programmes by DG 8 and the Committee of the EDF involves a very important moral commitment. Moreover, if the Committee does not object to a project at this stage, it often does not have another opportunity to do so until expectations have been built up, and substantial sums have been spent on preparation of project files. Associated states do not commit themselves, and are free to alter their priorities, change projects, or add new projects, but this nearly always creates additional delays in implementation.

Preparation of project files

Once the programme has been agreed, DG 8 arranges processing. The

aim is to obtain a smooth flow of commitments and expenditures over the association period. Expenditures naturally lag behind commitments, but DG 8 tries to minimize the lag. There appear to have been pressures from EEC member states to slow down the rate of commitments, so that uncommitted funds will still be available when the Convention of Association expires. This, naturally, eases the pressure to conclude a new Convention, and economizes on aid – for example, five years' aid can be 'stretched' to cover six years. The Commission, however, appears to resist these pressures.

In principle, responsibility for preparing project files rests with the recipient country. In practice, the files presented are seldom, if ever, regarded by DG 8 as complete, and most of the work is done by experts and consultancy firms financed through technical assistance funds from the EDF. (These arrangements are dealt with in detail in Chapter 11.) Project files are extremely comprehensive. There are, in fact, four sub-files to be prepared for each project, detailing administrative aspects, technical design and specification, financial aspects, and economic aspects. Even when a project is actively being prepared, it can easily take two years to complete the file. This is, therefore, a major source of delays.

Financing proposals

A financing proposal has to be prepared and submitted to the Committee of the EDF for all projects in AAMS that will use EDF funds as grants, loans, or interest subsidies on EIB loans. The only exceptions are TA studies and minor increases in costs of agreed projects. (The division of responsibility between the EIB and DG 8 for preparing these financing proposals is dealt with in Chapter 4.)

A financing proposal is, in fact, a summary project evaluation. It is only fifteen to twenty pages long, but it outlines the nature and purpose of the project, other sources of finance, and ownership of assets. Brief details are given of the economic and financial consequences: rate of return, and the effect on employment, balance of payments, and government revenue. For a commercial project, the proposal sketches out market prospects and goes into detail on problem points, like competition from imports or substitutes.

Technically, these are generally competently prepared documents which set out to answer in advance the questions that may be asked by the representatives of the member states. The proposals cannot, however, be better than the project files on which they are based, and would be valueless if the Committee of the EDF lacked confidence in these. It seems unlikely that the new EEC member states will be happy with the current practice of stating the economic rate of return on a project, without any indication of how this rate has been calculated.

The Committee of the EDF

The Committee consists of one representative of each member state of the EEC, plus a non-voting representative of the EIB. The Chairman (non-voting) is the Director-General of DG 8, or his deputy, and DG 8 provides the Secretariat. The Committee meets about once a month, and all documentation, including financing proposals, has to be circulated at least three weeks in advance.¹

The Committee does not derive its powers from the Convention, but from the Internal Agreements.² It is, therefore, a creation of the EEC member states, not an institution of the association. Associate states are not represented in any way at its meetings, and its proceedings are secret.

The Committee has, in theory, a wide advisory role. It is consulted on the country programmes and kept informed of the progress of agricultural projects (which typically go on for several years) and the use of funds committed in the past. However, its only power is that it can sanction projects using EDF funds in AAMS or OCT that have been proposed by the Commission. Approval is given by a qualified majority of 67 votes out of a total of 100, the votes being roughly in proportion to contributions and distributed between member states as follows:

Belgium	9
France	33
West Germany	33
Italy	15
Netherlands	9
Luxembourg	1
	—
Total	100

This division of votes ensures that no single country has a veto, but either France or West Germany, plus any other country, can block a project. If the present arrangements for financing the EDF are continued, and if, as has been suggested below, the UK, France and West Germany each contributed about 24% of the total, each would also have about 24% of the votes in the EDF Committee. The required qualified majority of 67 could, however, be retained, as the important principle that no single EEC member country should possess a veto would still be satisfied. In this connection, the most likely outcome would be that various combinations of member states would be able to prevent a qualified majority vote in the EDF Committee and the EEC Council, and thus block a project, but that this would always have to include at least one of the three largest countries – France, West Germany, and the UK. Moreover, any two of these, or any one,

¹ Exceptions are made for disaster aid.

² Internal Agreement (70/544/EEC), Articles 14 to 16.

plus Italy, would be able to provide the 34 votes required to block a project.

The Committee is not the final arbiter; if it does not approve a proposal, the Commission (DG 8) can take it to the full EEC Council (Council of Ministers) which gives a final decision, using the same weighted voting system as the EDF Committee.

The only exceptions to these procedures are technical assistance projects (including dossiers) and changes in agreed projects that add no more than 15% to their costs. For these, specific sums of money are, from time to time, made available to the Commission, on the basis of a proposal from the EDF Committee. Decisions on the use of these funds are made by the Director-General of DG 8, who subsequently reports back to the Committee for its approval.

The individual members of the Committee do not have powers to reach decisions on behalf of the countries they represent. The agenda and financing proposals are invariably sent to their capitals, which give lists of points and instructions to their Committee member. A Committee member is not, however, a mere cypher. He is generally senior enough to help formulate his country's position and often has freedom to make his own points, and pick and choose among the more minor items on his official list.

Before the meeting, each national representative indicates to the Secretariat the projects that he will support. All proposals are listed under either 'A' (they may pass without discussion) or 'A?' (although there is a generally favourable view, a question will be asked) or 'B' (a discussion, and possibly a vote, will be demanded).

If a project gets only As, and any A? questions are answered satisfactorily, it passes without a vote. If there is a single B, again no vote is needed, but the country concerned may be given an opportunity to state its position. In other cases there will be a discussion and, normally, a vote, unless the Chairman prefers to avoid a negative vote by withdrawing the project from the agenda. The Commission's representatives may, on the other hand, agree to changes which allow the Committee to approve the project conditionally.

In practice, most projects are accepted. In the five years 1968 to 1972, 332 projects were presented. Of these, 300 were unanimously accepted, fifteen were accepted by a majority vote, twelve were withdrawn by the Commission and accepted either unanimously or by majority when resubmitted later after amendment, and only five were totally rejected by the Committee. Three of these went to the EEC Council, which accepted them, and the remaining two were dropped by the Commission.

Although the Commission has no vote on the Committee of the EDF, it has enormous effective power through its control of the programming, the technical side of project preparation, and the agenda.

DEVELOPMENT OF PROJECTS AND PROGRAMMES

The general impression is that the Commission stage-manages the meetings of the EDF Committee. It is able to present its proposals from the superior position of the technocrat and is skilled in anticipating questions. It frequently produces its experts to deal with points. Moreover, member states' representatives on the Committee normally come from finance ministries (and normally also head the national delegations to the 'AAMS/finance' working group of the Council). Their expertise on development questions is, therefore, rather limited. As a result, most of the discussion in the Committee is on finance and tendering arrangements, not economic or technical aspects. Moreover, by the time a project has reached the stage of a financing proposal, expectations have been aroused, and a great deal of expenditure has already taken place on its preparation, from funds that the country concerned would otherwise have had available for other projects. The political objection to rejecting a project at this stage would be enormous, since the associate country concerned could, with some justification, claim to have been misled by the EEC. The Committee has to take this into account, and even if it refuses approval on a point of principle, the Commission may well be able to prevail on the EEC Council through political arguments.

It must not, however, be thought that the EDF Committee lacks power. Its presence prevents some projects from even coming to the stage of a financing proposal. It forces changes and 'improvements' in projects – either before they are presented, or afterwards, by sending them back. It has certainly forced more thorough, and more standardized, project appraisal, although this is a mixed blessing when it means unnecessary expenditure on consultancy groups. It has also insisted on hardening terms for projects with a financial pay-back, and must take much of the blame for the Commission's apparent tendency to adjust terms to project-profitability rather than to the economic situation of the country concerned.

The question obviously arises whether the Committee members of the EDF act to promote the interests of their respective member states. It is very difficult to check on this point, because if it were the case, no-one involved would admit it. With this qualification, the answer seems to be that direct national self-interest plays very little part in the choice of projects. There is little doubt that from time to time attempts have been made to promote particular projects; but even if one is sceptical about the disinterestedness of the EEC member states, it has to be remembered that it would be very difficult to push through a project that benefitted one member only. No single EEC member country can promote a project. It has first to be requested by an associate state, then be accepted and promoted by DG 8, then receive qualified majority assent from the member states. Even when it has passed these obstacles, it has to be put to open tender. Unless there are

straightforward project-sharing bargains between EEC member states – which one can confidently discount – the opportunity for promoting projects that will benefit individual EEC member countries is very limited. The co-operation of the associate state concerned would make it more feasible, but the gains for a member state would seldom be worth the effort. The most convincing argument is that those ex-French associate states that have poor relations with France appear to regard the Committee of the EDF as a safeguard.

The Committee might also be suspected of looking after the general interest of the EEC by favouring projects that increased or cheapened the supply of primary products needed by the EEC, and discouraging industrial projects that competed with EEC exports. The high proportion of infrastructure projects, which facilitate primary product exports, and the low share of industrial projects might appear to bear out such an interpretation, but it seems to be unjustified. The EEC has financed industrial and agricultural projects that competed with EEC production and there has certainly been no link between the EEC's agricultural policy and the agricultural projects financed by the EDF. The emphasis on infrastructure was at the request of the AAMS, and generally had little effect on exports of interest to the EEC. It has, however, been suggested that the Committee tends to push up the import content of projects – which naturally favours the EEC – and to harden financial terms.

The area where national interests have, apparently, intruded most is in ensuring equal access to tenders for firms that are not already experienced in the associate country concerned. This generally works in favour of the associated countries.

Projects for OCT go through the same procedure, but the initiative for presenting projects rests with the metropolitan power. The amounts available are divided up 'indicatively' between French and Netherlands OCT.

A comparison of UK and EEC aid allocations

Since all ACWS have experience of UK aid, a comparison of UK and EEC systems of aid allocation is relevant.

Global totals

The UK's Public Expenditure Survey Committee (PESC) draws up each year a five-year 'rolling' public expenditure plan, at constant prices, broken down into main programmes. 'Aid' is one of these programmes. This plan has no legal force, but is a public document approved by the Cabinet, and drawn up after consultation with the Overseas Development Administration and other interested ministries. The total for each year represents expected disbursements, not commitments. No distinction is drawn between grants and loans, and totals are given gross of any repayments.

DEVELOPMENT OF PROJECTS AND PROGRAMMES

About every five years the **EEC** agrees on total aid to be given by the EEC to the AAMS over the next five-year period of their association. The amount is decided as a result of negotiations between the EEC on the one side, and the AAMS on the other. The negotiation of aid has been part of a package deal involving other things beside aid – particularly trade. The amount agreed on is announced in the Convention of Association, which is a public document with legal force. The totals are given in current EEC units of account, which are defined in terms of gold. There is no provision to compensate for losses in value due to inflation, and the Conventions ensure that associated states will not benefit from general increases in the price of gold. No breakdown is given between recipient countries. The global totals represent expected commitments over the next five years, not expected disbursements.

Financial estimates (budget) and provisions for carrying forward unspent sums

The **UK** Financial Estimates are based on the PESC totals presented earlier in the year. They give spending authority to the government for the next financial year only. For most programmes, sums voted but not spent within the year are irrevocably lost, but for the 'aid' programme up to £5m (about 2.5%) may be carried forward to the following year.

For the **EEC** there is no equivalent to the annual financial estimates. There is no yearly schedule for disbursements or commitments, although the intention is to commit the sums available at an approximately constant rate over the five years of the Convention of Association. EDF grants and loans unspent may be carried forward indefinitely beyond the expiry of the Convention. Unspent EIB loan facilities expire when a new Convention comes into force.

Financial terms

The **UK's** financial estimates and PESC estimates do not specify the terms of aid or indicate the proportions in loan or grant form.

For the **EEC**, the Convention of Association indicates how much is to be committed in grant form, in soft loans, and in hard EIB loans.

Inter-country allocation

For internal planning purposes, the **UK** Overseas Development Administration draws up annually a detailed aid framework for the next four years which includes targets, or 'framework' figures, for bilateral aid to each individual recipient country. As targets are, on average, underspent, the total of targets may exceed the PESC total by about 25%.

There is no fixed formula for dividing up the aid budget. It is fought out between partisans of different interest in Whitehall. The pattern

is very much affected by past ties and commitments. From time to time, the ODA prepares 'country policy papers' analyzing the economic, financial, and administrative situation for about forty-five principal recipient countries, in order to arrive at conclusions on aid targets, terms, and main sectors for aid. These figures and papers are confidential to the UK government.

In the **EEC**, towards the beginning of each five-year association period, DG 8 draws up indicative targets for each of the associated states for its internal planning purposes. There is no fixed formula for dividing up the aid available, but the Commission has recently started to take a more rational and systematic account of population growth, GNP per caput, exports and imports, social development (schools, hospitals etc.), the trend of budgetary expenditure, geographical disadvantages, debt-capacity, and absorptive capacity. The indicative targets are confidential.

At the beginning of each five-year association period the Commission prepares a 'programme' paper for each associated state, identifying main areas where EEC aid should be concentrated, and listing projects which have been agreed in principle. A confidential programme document containing this information, but with no data on likely project costs or country targets, is circulated to EEC member states and presented to the EDF Committee. Its contents are known to the associated states concerned. One would presume that a more confidential version must exist including rough country cost estimates.

Profit-making projects

Commonwealth Development Corporation projects do not come within the **UK's** country framework figures. Industrial projects to be financed by the EIB do not come within the **EEC's** country programmes or the indicative country targets.

Technical assistance

For the **UK** most technical assistance is not included in the country framework figures, and is dealt with separately under regional or general programmes.¹ In the **EEC** technical assistance comes within the indicative country figures; an increase in technical assistance must, therefore, either displace investment expenditure or be accommodated by revising the indicative country total.

Pledges and commitments

On the basis of country policy paper and framework figures, the **UK** Overseas Development Administration makes 'pledges' and 'commitments' to recipient countries. A pledge is a verbal or written undertaking. A commitment is a more formal written agreement between the

¹ This situation is changing, and, in future, technical assistance will go into national programmes.

DEVELOPMENT OF PROJECTS AND PROGRAMMES

UK and the recipient after high-level negotiations. Commitments normally indicate that a certain amount of financial aid (loans or grants) will be made available on various stated conditions, which may include sector emphasis. A timetable may be indicated, but normally commitments remain open until the funds provided are exhausted. New commitments are normally opened before old ones expire, and countries often have several commitments open at the same time. The practice with most African Commonwealth countries is to make commitments every two or three years.

The Overseas Development Administration is, therefore, in the position of having spending authority for one year, but making spending commitments for several years. A commitment does not, however, mean that funds will be made available on demand. Disbursements are made only after individual projects or programmes have been specially approved.

Commitments of **EEC** funds are made only for specific projects, after obtaining project approval. The nearest equivalent to the UK system is the country programming. No financial estimates are shown, and no binding commitment made, but a strong moral and political commitment is created. The programme can be stretched out over a very long period, just like a UK commitment.

Project approval

UK Overseas Development Divisions and Geographical Departments of ODA have limited powers of project approval. However, all projects costing more than £400,000 (for Africa) have to be passed by a high-level project committee and then go to the Minister for approval.

The **EEC** Commission has limited powers to approve finance for small modifications to projects, and technical assistance like project studies, project preparation and planning, technical supervision of works, and initial specialized personnel. All other projects must, however, go to the Committee of the EDF for approval, and failing agreement here, may go to the EEC Council. It is only after this stage that the EEC regards any funds as having been committed.

Tendering and contracts

The **UK** does not participate in putting out contracts financed by UK aid (although this may be done by the Crown Agent on behalf of the recipient). Most UK aid is tied to procurement of UK goods and services, and the appraisal of the project is a sufficient safeguard on efficient use of funds.

The **EEC** is very much involved in putting out contracts for projects it finances. It normally finances a very large proportion of a project, including local costs, and is concerned that participation in tenders should be open to all EEC member states and AAMS. It insists on

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allocating technical assistance contracts (with the consent of the associated state) and examines all contracts and tender documents. It must agree to the associated state's choice of contractor.

Underspending of country targets

In the **UK**, failure by a country to spend the whole of its annual framework figure within the year results in a permanent and irrevocable loss of funds. The current commitment is not affected, but there is no compensatory adjustment in the following year's country framework figure (more likely the reverse), and the timing and amount of subsequent commitments is affected.

In the **EEC** system, there are no annual country targets. Failure to put projects forward for commitment may lead to funds allocated under the indicative target being shifted to another country. Once funds have been committed to projects, they are retained even if spending is slow. However the latter situation may be taken to indicate low absorptive capacity, and so affect future allocation of funds in the same or the subsequent association period. (There is, however, some evidence that in future DG 8 intends to react by increasing technical assistance to overcome the problem of low absorptive capacity, rather than by reducing allocations.)¹

Possible changes in the EEC system

In general, the UK system of aid planning and programming appears to be preferable to the EEC system. The EEC country programmes are too vague to be of much use for planning. It is never clear how much of a programme will be achieved, or how much expenditure DG 8 envisages for a country. The system of negotiating five-year block sums makes it impossible to plan projects involving EEC finance beyond the end of the current five-year period. Up to now there have been long intervals between association periods when the EEC has virtually had to stop making new commitments.² No guarantees have been given against losses in purchasing power which could, over such a long period, wreak havoc with any attempt to plan long-term expenditure. Moreover, the current-valued GNP of member states undergoes such enormous changes over five- or six-year periods that it is difficult to negotiate appropriate increases in aid.

A precondition for changing this system is that EEC aid cease to be negotiated every five years. Given the present need for full-dress diplomatic negotiations involving long ratification delays, more frequent negotiations would seem intolerable, but a feasible alternative is to transfer responsibility for EEC aid to Associates to the Commission's own budget. This is fed partly by direct contributions (the UK's share

¹ e.g. Commission Memorandum of 4 April 1973 (COM (73) 500/fin.), para. 2.2.1.1.

² Disbursements have not been greatly affected, but this is due largely to an excessively long lag between commitments and disbursements.

of which will rise to 20.56% by 1978) and partly by tax and customs receipts, for which it is very difficult to determine a meaningful UK share.¹ The Commission has made it clear that it is in favour of such a change and has undertaken to make a detailed proposal.²

This change would enable the Commission to go on giving EEC aid even when no Convention of Association (on the present model) was in force; and it would entail either replacing the present type of Convention with a new model or taking aid outside the Convention altogether. Either possibility might make it easier to untie the EEC aid programme from the policy of association – which would represent an important step towards a global EEC development policy. In the eyes of the Commission, the change would have the added advantage of increasing its financial independence of the member states. For this reason it may well meet opposition from those EEC member states that are opposed to a further increase in ‘Communitized’ activity.

The drawback of such a system would be that associated states would, in effect, have to enter into continuous aid negotiations – although this is considered ‘normal’ in most donor-recipient relationships. Moreover, a firm precedent would need to be established for the scale of EEC aid, by making an initial commitment for several years ahead.

The best approach is, probably, to go for a switch to funding from the Commission budget, but negotiate firm amounts for the next five years (with guarantees of the type recommended in Chapter 5 to guard against unforeseeable losses in purchasing power), and give assurances that each year a new final-year total will be negotiated, so that there is a five-year rolling global commitment.

The Committee

Given the inevitability of political control, the Committee of the EDF appears to work reasonably well as a safeguard against abuse of the aid provided by DG 8 or the member states. Similar arrangements should continue in the enlarged EEC. However, it is quite unnecessary for all minor projects to go through the Committee of the EDF. This process increases costs and delays, and there would seem to be no serious risk of abuse in a system whereby projects up to a certain capital value – say 800,000 u.a. – could be decided on by the Commission, and approved subsequently on the basis of a report from the Commission to the Committee of the EDF. (An analogous arrangement works satisfactorily in the UK.) The basic mechanism for this already exists, in the arrangements for the Director-General of DG 8 to take decisions on technical assistance and project modifications within the limits of global sums approved by the Committee. Its extension to small capital projects would not be difficult.

¹ See *The United Kingdom and the European Communities*, Cmnd 4715, HMSO, 1971, para. 91 *et seq.*

² Commission Memorandum of 4 April 1973 (COM (73) 500/fin.), para. 2.3.

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A major flaw in the present EEC procedure is its very incomplete coverage of possible industrial projects. This is partly a result of the unsatisfactory division of responsibilities between the EIB and DG 8 that was described in Chapter 4, although in fact neither agency seems to have made much effort to plan for industry, preferring instead to wait for these projects to emerge spontaneously and unplanned. Many industrial or mining projects, however, take years to prepare, and can benefit from grant-aid at the preparatory stage and preliminary agreement on their acceptability for financing – particularly if they are being promoted by government organizations in the associated states. Apart from such obvious cases, it should be feasible to reserve funds for financing of industrial projects.

The present arrangements for inter-country allocation and country programming clearly present a number of other serious problems, which will be dealt with in the next chapter.

Chapter 7

Inter-country Allocation of EEC Aid

Under the first EDF fund, set up under the Treaty of Rome, the colonies of each individual EEC member state were allocated separate amounts, but allocations were not made to individual recipient countries. The First Yaoundé Convention made specific allocations for aid for 'production and diversification', which were given to compensate individual countries for the loss of privileged access to the French market, and the Decision of the Council on the association of the OCT specifies indicative allocations for French and Netherlands OCT. This is the only remaining inter-country allocation indicated in the text.

The Commission has tried to avoid making any public commitments on allocations to individual countries and has never made it clear how country allocations were arrived at. The clearest statement of policy is:—

'... EDF does not make a predetermined total allocation for each associated country, but bases its decisions exclusively on specific projects. It is, nevertheless, true that the total funds available are subject to a ceiling; all the AAMS must receive a reasonable volume of financing; and accordingly the amount of aid on which an individual associate country can count lies within minimum and maximum limits, which are in practice some way apart, but which are not determined in advance.'¹

The inter-country allocation that has emerged has, however, been extraordinary, and unjustifiable on any rational criteria. Firstly, it is clear that the OCT have, on average, received very much more aid per head than the AAMS, although their average per caput GNP was seven times as high. This is largely a political question. There is quite a good case for excluding assistance to dependencies — particularly assistance to overseas departments — from aid statistics; but if there is any economic justification for the high aid receipts of OCT, it is that many of these dependent territories are too small to be economically viable. They have, therefore, come to depend on aid to maintain their standard of living, rather than using it to promote new development.

The most important issue is, however, allocation between the AAMS countries. The fairest way to compare this is in terms of per caput receipts (see Table 5.1). This is very unequal, with the richest countries in general getting the most aid, and the poorest, the least. For example, under the First Yaoundé Convention, commitments per head to Gabon, which had the highest income per head, amounted to 40 u.a., while

¹ J. Ferrandi (Assistant Director-General of DG 8) *Association News*, January–February 1973, p. 20.

those to Zaire, Burundi, Mali and Rwanda which all have very low incomes per head were between 5 and 7 u.a.¹

One can illustrate this statistically for the whole group of AAMS by correlating EEC aid per head with GNP per head.² If we denote per caput GNP as 'y', and aid under the First Yaoundé Convention as 'a₁', we get:

$$a_1 = 2.57 + 0.76y; r = 0.94$$

This indicates a close positive relationship between income per head and aid per head – when the former rises, so does the latter – whereas if aid was closely related to need, one would expect to find exactly the opposite relationship.

It is frequently said that the Second Yaoundé Convention will be a corrective to past misallocations. So far, there is no sign of this happening. By the end of 1972, almost half the funds available under the Convention had been committed (over half of EDF funds and one-third of EIB funds), but if one repeats the correlation for commitments so far under the present Convention one obtains a result very similar to the previous one.³ Denoting aid commitments per head as 'a₂', this gives:

$$a_2 = 1.11 + 0.49y; r = 0.88$$

It would be unfair to pass a final judgment when half the aid available has still to be committed, but if the Second Yaoundé Convention really is going to correct past misallocations, this should be evident by now. Clearly, the more there is committed, the more difficult it becomes to make a radical change of direction with the remainder. This pattern of allocation might be more understandable if it could be shown that EEC aid offset opposite imbalances in aid from other sources, but in fact *oda* receipts of the AAMS from other OECD sources also show a strong bias towards the richer countries.⁴

DG 8's system of indicative allocations

How did this situation arise, and what is being done about it? To an outsider, the statement that there is no prior allocation between

1 These figures include EIB and EDF loans and are gross of repayments. Although conversion to grant-equivalent basis would change the amounts, it would make very little difference to the ranking.
2 This is a simple mathematical technique to find the most likely relationship between two or more variable factors: in this case the factors are aid per head and income per head. If the coefficient for the latter (y) is positive, this shows that as income rises, aid receipts also rise. The correlation coefficient, r, indicates how exactly the relationship 'fits' the two variables. The maximum value of r is unity. The two coefficients given here, of 0.94 and 0.88, indicate a very close relationship.

3 It might be argued that there had been a slight improvement. The regression coefficient is certainly slightly lower. However the reduction from 0.76 to 0.49 in the positive coefficient of y cannot be interpreted as an improvement, as the total sum involved in the second equation is only 60% of that involved in the first. If the relationship was identical, one would therefore expect both the constant term, and the coefficient of y, to be reduced to 60% of their former level. In fact the constant term goes down more than this, and the coefficient of y slightly less, though not enough to justify an assertion that the situation had actually worsened.

4 Denoting per caput *oda* receipts from OECD donors between 1969 and 1971 (table 5.1) as A, we have:

$$A = 1.50 + 0.059y; r = 0.94$$

For ACWS, the analogous result is

$$A_1 = 9.056 + 0.0026y; r = 0.084$$

This cannot be regarded as a particularly satisfactory outcome; the regression coefficient is so low as to indicate there is no relationship at all between income per head and aid receipts. However, at least it does not show the strong positive relationship that exists for the AAMS.

countries seems hard to credit, particularly when it is coupled with the statement that there are maxima and minima. It is understandable that aid donors do not wish to publicize their planned allocation of aid, but it is barely conceivable that there should be no preconceptions at all on inter-country allocation.

In fact while the EIB appears to use only a project-by-project approach, DG 8 tries to arrive at a compromise between this, and a planned country allocation. The process seems to be that, at the beginning of each five-year Convention period, DG 8 makes a tentative allocation. For each country it draws up a list of indicators including total population, rate of growth of population, total GNP (or trade), per caput GNP, value of and projections for main agricultural and mineral exports, school enrolment rates, health facilities, distance between capital and main port, and budgetary expenditure.

These indicators are not combined mathematically into a single index of aid entitlement, but are assessed intuitively, and on the basis of this, and qualitative judgments on absorptive capacity, a first indicative amount is decided. In general, DG 8 feels obliged not to decrease aid compared with earlier periods, and can only correct previous misallocations by manipulation of any increase in the fund.

Logically, one would suppose that the programming missions would know this allocation and use it in their planning. It appears, however, that the programming missions make very little attempt to estimate the cost of projects at this stage, and make little – if any – use of the indicative allocation. Certainly, not much further attention is paid to inter-country allocation until about mid-way through the five-year period, when the situation is reviewed, and – so far as existing commitments permit – corrective measures may be attempted. In extreme cases special missions may be sent to look for more projects.

The results of the indicative allocation seem to be known to very few people, even within DG 8. There do not even appear to be confidential or secret policy documents available to personnel dealing with countries or individual projects, as there are in, for example, the corresponding UK situation.

It is clear that despite these attempts at allocation, aid still tends to go predominantly to the countries that have the best absorptive capacity and negotiating ability. There are a number of possible explanations. One is the differing ability of Associates to put up convincing projects. This seems to be at the root of accusations that the EDF favours those countries which have the largest numbers of French technical assistance personnel. Personal contacts, and familiarity with common procedures, can speed up the acceptance of projects, without there being anything improper about the relationship. Donors should be sufficiently aware of this problem for it not to dominate the direction of their aid programmes. However, the doctrine that Associates should

take the initiative in suggesting projects prevents DG 8 from taking an active role in developing projects for those countries that are least favoured – or is an excuse for inactivity.

Countries with well-developed internal administrations – which tend to be the richer ones – are also favoured, because they can provide the repair and maintenance services which are a precondition of EEC aid. Finally, the richer countries have more profitable projects and the budgetary capacity to meet recurrent costs.

Changes in the system

Unless the allocation procedures for EEC aid are improved, the ACWS may feel obliged to safeguard their share by requesting a separate fund. This would be both divisive and administratively inconvenient.

DG 8 has recently become more aware of this problem of inter-country allocation, and is sensitive to criticism. It was intended to use the Second Yaoundé Convention as a corrective to the misallocations of the First. So far, however, the pressures that determined past allocation seem to have been too strong to permit any improvement. More determined efforts need to be made if this pattern is to be changed. There appear to be four necessary elements to this: first, acceptance of the principle that the most needy should receive the most aid; second, giving planned inter-country allocation priority over a project-by-project approach; third, a willingness to take more initiatives in the countries least able to generate their own projects; fourth, greater flexibility on recurrent and maintenance costs.

On the first point, the present Convention commits the EEC in very general terms to take into account the difficulties of each associated state, having regard to its natural conditions, and to bear in mind the special problems of the least developed countries (Articles 19 and 23). The Commission's Memorandum on association goes slightly further and speaks of possible attribution of greater importance to the level and conditions of development of the different countries.¹ However, this still provides no usable general guidelines for inter-country allocation. If the aim of the EEC's aid policy really is 'the systematic pursuit of a more harmonious distribution . . . of well-being throughout the world',² the member states should be able to agree on the much firmer guiding principle that the primary criterion for determining the quantity of aid, as well as its terms, should be need, indicated principally by income per head. This criterion should be adjusted, where necessary, to take account of income accruing to non-nationals. Account should also be taken of the availability of other sources of concessional finance, and other foreign exchange resources; and of the country's

1 Memorandum of 4 April 1973 (COM (73) 500/fin.), para. 2.2.2.2.

2 Commission of the EEC, *Memorandum on a Community Policy on Development Co-operation*. Luxembourg, 1972, p. 27.

ability to absorb further concessional finance to promote its own development.¹

It is possible that some of the more developed existing or potential Associates may not be willing to agree to these principles, as they would probably work against their individual interests. The statement of principle should not, however, be watered down or omitted from the texts of the association on this account. A decision to favour certain aid recipients at the expense of others must essentially be the donor's decision, and even if it is not possible to write this basic principle into the Convention of Association – to which the Associates are all parties – it could be included in the texts concerning the operation of the association, which are drawn up by the member states alone.

Once the principle is established in the texts, its realization depends on the good-faith and energy of DG 8. Although there can be no rigid formula for country allocations, a more energetic and more imaginative approach needs to be taken towards poorer countries. It is particularly important that low absorptive capacity should not become an excuse for failing to implement the guiding principle of allocation in relation to need. DG 8's past principle that no country should receive less, in absolute terms, than in previous association periods has no defence beyond the political one that countries worry far more about what they lose than what they never had. The past misallocations are too large to justify maintaining this principle.

On the second point (priority to inter-country over project-by-project allocation) far greater importance must be given to the indicative allocation. The Commission's reluctance to acknowledge the existence of, or the need for, inter-country allocation is understandable. It would be impossible to get agreement on any detailed allocation from associated states, because they have conflicting interests. Nor would it be easy to reconcile the positions of member states. Besides, even an indicative allocation reduces flexibility in responding to future events.

The present allocation arrangements, however, have even greater disadvantages: they do not work, and they are politically untenable. The proof that they do not work is the record of past allocations. It might be protested that all that would be necessary would be to lay down new criteria for the Commission to follow, and everything would then change. This argument is very questionable. There may have been gaps in the Commission's thinking on inter-country allocation, but there were also quite practical reasons for the failure of the system. First and foremost, there was too much flexibility, and too little commitment to any prior allocation. To the extent that such an allocation existed, it depended on the secret decision of a handful of senior civil

¹ This is not dissimilar to the Commission's proposed criterion for financial terms: 'the social-economic level and situation of the country concerned, including its own efforts and potentialities'—Commission Memorandum of 4 April 1973 *op. cit.*, para. 2.2.4.2. (b).

servants who were not in any way bound by their decision. Furthermore, because it was secret – even to most of DG 8 – it gave inadequate guidance for day-to-day policy decisions and could not even provide a public justification for refusing aid to a country that had already exhausted its allocation.

The arrangements are politically untenable, because they rest on a tacit agreement between member states that, to avoid controversy, the Commission shall take important policy decisions without reference to them. However, since the issue is highly controversial, it is inevitable that member states will, eventually, demand the right to take part in this important policy decision on how their contributions should be spent – just as they demanded a say in decisions on individual projects.

At least at the beginning of the association period, and possibly every year, a detailed confidential paper on proposed inter-country allocations should be presented by the Commission to the Committee of the EDF, and if not approved by them, this should either be modified by the Commission and re-submitted, or be presented to the EEC Council for its decision. This would introduce more rigidity, and would inevitably lead to controversies and compromises, but would have the advantage of adding weight to the allocation procedure.

The question arises, to what extent this allocation decision should be kept secret. It is clear that the indicative allocation needs to be taken into account in all decisions on country or project policy (starting with the country programming exercises), and that extreme secrecy *within* the Commission would defeat the object of the exercise. It is an open question whether it should officially go further than this and be made public knowledge.¹ This might lead to publicized disputes which would harm EEC relations with Associates, although the Commission may well over-estimate the dangers of this; on the other hand, informed public debate on policy questions is, in principle, as desirable in this field as in any other.

On the third question – that of taking more initiatives – DG 8's present position is not entirely consistent. It does, in fact, take initiatives – for example, sending special missions to particular countries that have had especially low aid receipts. Moreover it is naive to suppose that programming missions and resident aid controllers (*controlleurs délégués*) can or do act in a perfectly passive way. So long as donors do not impose aid on unwilling recipients, there is nothing objectionable about taking initiatives to help countries with low absorptive capacities. In fact, far too often low absorptive capacity is used as an excuse for ignoring recipients that need special attention. The Commission's Memorandum shows some recognition of this point, but this awareness needs to be translated into practice.

¹ There would, of course, be 'leaks', but with a policy question of this type, there is a great deal of difference between the effect of a leak and the effect of a public document. Some Associates already think they know their indicative allocations.

INTER-COUNTRY ALLOCATION OF EEC AID

On the fourth point – more flexible treatment of recurrent and maintenance costs – although the Commission Memorandum on association recognizes this need,¹ it does not go far enough. The principle of not financing recurrent costs need not be sacrosanct, and certainly does not need to feature in the texts of the association. This point will be discussed in more detail in Chapter 9.

¹ *Ibid.* para. 2.2.2.2.

Chapter 8

Financial Terms of EEC Aid

Overall, the terms of EEC financial flows to AAMS and OCT are excellent. 81% of the total amount is in grant form, and of the remainder 9% is soft loans from the EDF. Only 10%, from the EIB, is on commercial terms. The EIB and DG 8 have some powers to vary interest rates and repayment periods and could, within their rules, have provided an even higher grant element than they do at present, but even so the average terms for loans to AAMS under the Second Yaoundé Convention, up to the end of 1972, involved a grant element of 67% for EDF loans. Taking the whole EDF and EIB package of grants and loans together and applying the actual average rates used in 1971 and 1972, the overall grant content on DAC criteria would be 88%.¹ This grant content is approximately the same for both AAMS and OCT.

The main problems about financial terms are, firstly, a tendency to vary the terms according to the nature of the project rather than the economic situation of the recipient country and, secondly, an unnecessary proliferation of rules that do not benefit the recipient, but tie the hands of the donor. The latter is a general fault of EEC aid to Associates, and applies equally to the rules on eligible projects, sectors, and recipients.

Rules on terms

There is no systematic body of rules on the financial terms to be given to different types of project. Scattered throughout the texts are a number of general principles. The most important of these are:

(i) the Community will take account of the specific problems of the least-favoured countries and provide aid in ways suited to their situation.²

(ii) EDF soft loans will be given for projects of 'general interest', 'to the extent that the profitability of the project, and the credit-worthiness of the country permit this form of financing'.³

(iii) the EIB will take account of the credit-worthiness of the country concerned and will give loans in accordance with its statutes. These, naturally, require the ability to repay capital and interest. They also limit the extent of EIB participation, in normal circumstances, to not more than 25% of the total capital required.

¹ The DAC (Development Assistance Committee of the OECD) uses a 10% rate of interest as its criterion for a commercial loan. Any loan on softer terms is considered to have a 'grant element'. EDF soft loans in 1971 and 1972 had an average twenty-eight years repayment period, six-year grace period on repayments (not interest) and 1.5% interest rate. On DAC criteria, these have a 67% grant element. Even commercial EIB loans at 8%, with a ten-and-a-half-year average repayment period and no grace period, have a 9% grant element.

² Second Yaoundé Convention, Article 23.

³ Second Yaoundé Convention, Article 7.

A number of more specific rules limit the range of terms which can be offered to different types of projects or donors. Profit-making enterprises may not receive aid in grant form¹ but may receive loans from the EIB or the EDF, or contributions to risk capital from the EDF amount set aside for this purpose. Aid for technical assistance and disaster aid can only be provided out of EDF grant funds.

Limiting rules are also laid down for subsidies from the EDF on loans made by the EIB. EIB loans for manufacturing industry receive a standard subsidy² of 2% of the capital cost for the first five years, if they are in the most highly developed areas³ of the AAMS, and 3% over the whole life of the loan for similar projects in other areas, or for investment in tourism anywhere. A 2% standard interest subsidy is given on all loans made through a development financing intermediary (additional to any other subsidy granted) but this must then pass on to the ultimate beneficiary (even if this is a private company) at least the subsidy the latter would have received from a direct loan.⁴ Apart from these cases, subsidies are granted on a project-by-project basis, subject to a minimum effective rate of interest for the beneficiary of 3%, or 2% for loans made through an intermediate borrower.⁵

It is difficult to see the purpose of these rules. They provide no safeguard to associated states, for once the amounts of EDF grants and EIB loans have been laid down, no amount of juggling of interest-subsidies can make the package either more or less liberal. Since there is no incentive for the Commission to 'economize' by giving hard terms, these rules on standard and maximum subsidies merely tie the hands of the donors. And since the donors – in the shape of the EDF Committee – pass judgment on all these subsidized loans, one can see no reason why they should want to tie their own hands. Even if the rules provide for reasonable terms in normal cases, they are more likely to be a nuisance than a benefit. It would be preferable to eliminate these rules and allow DG 8 complete flexibility to respond to recipient needs, within the limits of the various funds available.

There is, however, a case for additional rules on the terms of EDF soft loans. At present, the EEC can give any interest terms, grace periods up to ten years, and repayment periods up to forty years, but

1 This is the negative implication of the Second Yaoundé Convention, Article 23. It is not clear whether they could receive grant aid through a non-profit-making state intermediary, but this does not appear to be the intention.

2 Standard subsidy rates given in Internal Agreement (70/544/EEC). These percentages indicate the size of the subsidy, not the effective rate paid by the recipient as a result of the subsidy. For example, if an EIB loan at 7½% receives the 2% standard subsidy, the effective rate paid by the recipient becomes 5½%.

3 These have been specified as Dakar, Abidjan, Douala-Edea, Kinshasa and Lubumbashi—see EIB, *Les activités de banque européenne d'investissement en faveur de l'industrialisation des EAMA*. Luxembourg, January 1973 Ler/pb/ch, p. 4.

4 This is a very questionable general principle. One advantage of a two-stage arrangement should be that funds can be given on terms which are appropriate to the situation of the country concerned, without at the same time giving a present to private promoters. One country actually asked the EDF not to provide a standard interest grant, because it could see no reason why the enterprise concerned should benefit.

5 Second Yaoundé Convention, Protocol 6, Article 8.

it has normally given far less favourable terms than, for example, IDA.¹ Up to now, interest payments and repayments on these loans have been added to the amounts available for new loans, but there is no assurance that this will continue after the end of the Second Yaoundé Convention. If the EEC charges 4% instead of 1%, the associated states get harder aid terms without, in the short run, any increase in the amount of aid, and without any guarantee that this will lead to more aid in future. It would be preferable to agree standard terms for EDF soft loans – for example IDA terms of ten years grace *plus* forty years repayment, with an interest charge of $\frac{3}{4}$ %.²

Choice of terms for individual projects

The EIB and DG 8 have compromised between adjusting terms to the situation of the recipient country, and adjusting them to the profitability of the project. The EIB normally takes the view that financial terms should be adjusted to what the project can pay, and that profitable projects should, when possible, be financed by loans. DG 8 generally takes the more liberal view that the main criterion on terms should be the economic and social situation of the country concerned. However the Yaoundé Convention requires DG 8 to take account of the profitability of the project³ and the debt capacity of the country. The EDF Committee has also pushed DG 8 towards the same position as the EIB. Two principal reasons are given for the EIB's attitude: firstly that scarce grant-finance should be reserved for projects that cannot support any other form of financing; and, secondly, that the EDF should not make gifts to private entrepreneurs. For example, EIB loans to mining projects have never had interest subsidies, because they are regarded as too profitable to justify them.

If these views prevail, there is a real danger that poor countries will receive unduly hard aid terms. If a very poor country – say, Niger – has a very profitable project, it is reasonable that it should be able to use the surpluses created itself, and not turn them over as interest to the donor. There is also a risk that some countries will fall between two stools. A poor country with a profitable project might be unwilling or unable to accept loan finance, but might not be offered grant aid because of the project's profitability.

DG 8's requirement that the recipient country should have sufficient credit-worthiness to support a loan is not, in itself, an adequate safeguard. The poorest countries are not necessarily those with the worst credit-worthiness. Moreover, if a poor country refuses the offer of a loan on the grounds that it cannot support interest payments or repay-

¹ See footnote 1, p. 00 for average repayment and grace periods and interest rates.

² The Commission's Memorandum on association of 4 April 1973 (COM (73) 500/fin.) does recommend standard terms on a slightly harder basis than IDA: ten years grace *plus* thirty years repayment at 1% interest—para. 2.2.4.2. (b)—but also recommends zero interest for the least developed countries.

³ Second Yaoundé Convention, Protocol 6, Article 7.

ments, there is no guarantee that a grant will be offered instead. Even if there were, it would be somewhat invidious to penalize credit-worthiness in poor countries.

The general provision that aid to the poorest countries should be suited to their needs is also too vague to provide adequate safeguards. In fact, the poorer countries receive relatively few EDF loans, and hardly any EIB loans, but they also get less aid per caput, and a lower proportion of aid goes to directly productive projects (see Chapter 9).

DG 8 has, however, increasingly adopted the constructive solution of two-stage loans for the poorest countries. Under this system, a soft EDF loan is granted to a government organ in an associated state, which passes it on to the final recipient, on harder terms. The recipient government agrees to use interest receipts and repayments for purposes approved by the EEC. For example, under the previous Convention, a loan was made to the government of Chad to finance a textile factory. The terms were 1% interest on a thirty-year loan with a ten years grace period. This was passed on to the textile company as a loan for fourteen years, with five years grace, and 4.5% interest.

This system is not, apparently, used for grants that will directly benefit profit-making corporations.¹ There are, however, several examples of grants being made to governments for on-lending to peasant farmers for the development of specific productive activities.

These two-stage arrangements should be extended, particularly for the poorer countries; and it should be possible for the first stage to be a grant to the government of the country concerned, not a loan, even when the final beneficiary is a profit-making enterprise. This would effectively dispose of the objection of making gifts to private entrepreneurs, although DG 8 would still need to approve the terms on which the capital was then made available to the individual or enterprise concerned. To establish this change, agreement in principle needs to be negotiated, and appear in the text of the Convention.

The requirement that the EDF approve the re-use of interest and repayments received by the associated governments, as intermediaries in two-stage loans, might be abolished. Donor interference in the use of relatively small funds of this sort involves additional management efforts on the part of both the donor and the recipient, and could be a serious irritant, without having many practical benefits.

It should also be possible to carry out two-stage financing through local development banks. The Second Yaoundé Convention guardedly admits the possibility of lending to, or participating in, local development banks. There is only one case so far of a loan being made through a development bank, but there is a good possibility of extending activities in this direction – particularly in cases where a development

¹ This is to say that grants are not given for on-lending to, or investment in, profit-making corporations. Such corporations may, however, benefit indirectly if, for example, grants are given for on-lending to the peasant producers who supply raw materials for a processing enterprise.

bank acts as an intermediary for two-stage loans, or for loans to rural production, which involves too many small local loans for DG 8 to manage the project. If the next Convention follows the previous practice of specifying particular types of aid that may be given, the possibility of making such loans should be written into a new Article in the text. Annex XII to the Final Act of the Convention, which states that shareholdings in local development banks will only be taken up in exceptional cases, could, with benefit, be dropped from the text. As with so many other provisions, it can only tie the donors' hands and detract from the general principle that aid should be given in the form best fitted to the needs of the individual recipient. A practical consequence of the use of local development banks is that it would also be necessary to relax the EEC's principle of only making payments to contractors and suppliers, and not to organs of recipient governments.

The Commission's Memorandum on association has now come out firmly with the view that the next Convention should specify that 'the basic criterion for aid terms must be the socio-economic level and situation of the country concerned, including its own efforts and potentialities'.¹ This is a move in the right direction, although the last six words are dangerously ambiguous. Is 'effort' the same as ability to put up projects, or to negotiate effectively, and does it qualify for softer or harder terms? Similarly, what is meant by 'potentialities'? Does this mean a high average return on projects, and if so, how is this supposed to affect terms?

This wording should be tightened up, and there is no reason why the criterion for terms should be any different from the primary criterion for volume, suggested in the last chapter, i.e. need, indicated principally by income per head, adjusted where necessary to take account of income accruing to non-nationals; account also being taken of other sources of concessional finance, other foreign exchange resources, and the country's ability to absorb further concessional finance to further its own development. No case can be made for having one set of criteria for amounts, and another for terms. The two decisions have to be inter-related.

Risk capital

The Second Yaoundé Convention accepts the principle that EDF soft loan funds may be used to finance to risk capital. The main method proposed is the acquisition of shareholdings. However, the Convention states that such participation has to be on a minority basis, and temporary;² the EEC will dispose of its participation as soon as possible, and on the most favourable terms. Revenues arising return to the

¹ Memorandum of 4 April 1973 (COM (73) 500/fin.), para. 2.2.4.2 (b).

² Second Yaoundé Convention, Protocol 6, Article 9; DC (OCT), Annex VI, Article 9; Internal Agreement (70/544/EEC), Article 19; Financial Agreement (71/68/EEC) Section IV.

funds available for soft loans. Proposals are evaluated and prepared by the EIB. So far, the EEC has shown a reluctance to use these facilities. There has, however, been a single example involving a shareholding of almost 1m u.a. in a company which has also received an EIB loan.

There is no question that risk capital is needed – in public or private sector enterprises. It would, however, seem desirable to set up a separate revolving fund on the Commonwealth Development Corporation model to undertake this specialized activity, rather than mix it up with EDF special loans and attempt another extension of EDF-EIB co-operation.

The Second Yaoundé Convention (Final Act, Annex XII) envisages that, *exceptionally*, the EDF might contribute share capital to local development banks. It may be assumed that the reason for this caution was that DG 8 had mixed views about some of the development banks being set up, and did not wish to be under a political obligation to invest in all of them. This fear is probably exaggerated; DG 8 has shown that it can refuse projects without giving offence. However, this problem – real or imagined – would probably be eased if responsibility for taking shareholdings in development banks were also passed to a separate risk-capital financing organ of the EEC. Two-stage financing of specific projects through development banks could, however, continue to be the responsibility of DG 8.

Maintenance of grant element

An important point of principle in re-negotiation is the maintenance of the present overall grant element. It is clear that the DG 8 and the Commission generally will support this,¹ but EEC member states may, as in the past, try to make an increase in the amount provided conditional on a greater loan element. The first fund, provided under part IV of the Rome Treaty, had no loan element. Under the First Yaoundé Convention 15% of aid to AAMS was loans; and under the present Convention 18½% of the aid is in loan form (including EIB loans).

Check-list of recommendations

The recommendations on financial terms for a future Convention of Association may be summarized as follows:

- (1) A stronger commitment to fit aid terms to the economic condition of the recipient countries, rather than to the profitability of the project.
- (2) Removal from the Convention of those rules that limit terms of aid without providing safeguards to the Associates – notably the standard and maximum subsidies on EDF loans and the limitations on grant-

¹ For example, see *Association News* No. 17, January–February 1973, interview with M. J. Ferrandi, Assistant Director-General, DG 8, 'We think it indispensable that . . . Community aid should, as in the past, be granted in the most liberal manner possible—i.e. in the form of grants'. The Commission's Memorandum on association is, however, rather weaker on this point, and speaks only of the need 'to maintain a predominance of subsidies' (*op. cit.*, para. 2.2.4.2 (a)).

EUROPE'S CHOSEN FEW

financing (through governments, using two-stage loans) for profit-making enterprises and on loan-financing for technical co-operation.

(3) Maintenance of the present overall grant element.

(4) Extension of the system of two-stage financing to permit grants or soft loans to be used for directly productive projects, including mining projects, particularly in the poorest countries.

(5) Positive acceptance in the Convention of the principle of making two-stage loans through development banks.

(6) Establishment of a new EEC aid organ on the model of the Commonwealth Development Corporation to provide risk capital to enterprises, public or private, and local development banks.

(7) Negotiation of standard terms for EDF soft loans.

(8) Abandonment of the principle of retaining EEC control over revenues and repayments accruing to AAMS from two-stage loans.

Chapter 9

What Types of Aid Will the EEC Provide?

In principle, the EEC may finance most capital investment projects through grants, loans, or contributions to risk capital. It does not, like some bilateral programmes, rule out *a priori* particular types of investment like residential housing. In principle, it does rule out recurrent and maintenance expenditure, but in practice there are important exceptions to this rule. The EEC can also finance a wide range of technical assistance, any appropriate form of disaster relief and aid to price stabilization schemes.

The broad types of activity that may be financed are listed in Article 19 of the Second Yaoundé Convention, and the first four articles of Protocol 6 to that Convention. Article 19 also calls for particular emphasis on 'diversification', industrialization, and agricultural development. This emphasis appears to derive directly from a resolution of the Association Council.¹ It reflects the wish of the associated states to see more activity in these areas, and is the latest stage in a gradual increase in the emphasis placed on directly productive projects in the texts.

Despite the provisions to allow associated states to participate in policy-making and take the initiative in determining their individual aid programmes,² the EEC still has the ultimate power to determine the direction of its programme. Faced with potential demands which are far in excess of its funds, it inevitably reveals an implicit policy by rejecting certain projects and encouraging others. This is true, to some extent, of all donor agencies.

The policy that emerges is not necessarily the result of considered decisions within the donor agency. It may, simply, be the result of unexpressed and even unconscious prejudices and preferences. If the agency is enthusiastic about a certain type of project, it will find ways of solving the problems that arise; it will be willing to devote technical assistance efforts to project development, and it will create a staff capacity to deal with these projects; it will promote those projects in the list of those waiting for funds, and so on. Conversely, it is very easy to let an unconvincing project die of delays and lack of promotional enthusiasm. In this situation the donor agency may, in good faith, deny the existence of a policy that may be evident to recipient countries.

The EEC does not have any official body of doctrine for its aid policy, beyond the general statements in the texts, and officially has a wholly pragmatic policy towards different sectors and types of project.

¹ Council Resolution 1/66 in *Report to the Association on Financial and Technical Co-operation*, 1 January to 31 December 1968 (5466/VIII/FED/69-E).

² Second Yaoundé Convention, Article 29.

There are, however, a number of statements and articles by senior officials in DG 8 which have been distributed by the EEC, and have some authority in indicating the general philosophy of DG 8. Most of these are by the Assistant Director-General of DG 8 – Mr. J. Ferrandi – who is in charge of co-ordinating activities of the EDF.¹ In general, they stress a very pragmatic approach to projects. Their most controversial aspect, however, relates to policy on industrialization, where they are quite specific in saying that the main responsibility lies with the private sector. This will be dealt with in more detail below.

At the outset, the EEC's aid programme was probably very much influenced by French policies on aid and public investment in the former French colonies. These countries made up the majority of the AAMS, French civil servants were still in post and former French colonial civil servants made up the largest and most experienced group in DG 8.² It was almost inevitable that the EEC aid programme concentrated on the same sort of projects as the colonial administrations – particularly transport infrastructure, schools, and hospitals. At the request of associate states, the EEC has progressively moved towards a greater concentration on directly productive projects.

Table 9.1 gives some indication of sectoral division of projects. It shows commitments to AAMS, not expenditures. It does not cover commitments from the First Yaoundé Convention after 1970, and the commitments shown from the Second Convention still amount to only about half the total sum available. It is, therefore, too early to draw final conclusions on changes between one Convention and the next, but the figures for the two periods, taken together, are indicative of the general emphasis of EEC aid to the AAMS. It can be seen that there is still a very heavy emphasis on transport and communications; the share of directly productive projects, though substantial, may still leave something to be desired. Commitments for industry³ are only about 11% of the total.

A major reason for industry's low share appears to be DG 8's belief that industrialization is primarily ‘the affair’ of the private sector’ and that ‘if one says “private sector”, one implies private capital and profits’.⁴ According to this policy, the role of the EDF is to:

- 1 The principal titles are:
Association News, No. 17, January–February 1973, Articles by Mr. J. Ferrandi and Mr. E. Wirsing.
 J. Ferrandi, *Agriculture et Industrialisation* (Conference paper at the Agronomic Institute of Gembloux, 15 September 1972).
 J. Ferrandi, *Industrialisation des pays associés*, EEC document ref: VIII/1190/72-F.
 J. Ferrandi, *L'efficacité de l'aide au développement* (no date or source quoted; available from DG 8).
 J. Ferrandi, *La politique routière du FED*, Fifth World Congress of the International Transport Federation, London, 18–24 September 1966, EEC Document Ref: 11.748/VIII/FED/66-F.
 J. Ferrandi, *Assistance et Association*, Communication à l'Académie des Sciences d'Outre Mer, Paris, 22 May 1964.
- 2 It is not intended to imply that ex-French civil servants recruited to DG 8 continued to carry out French policy, but that the bulk of the acquired experience was still based on French colonial practice – both in DG 8 and in the Associates.
- 3 This is taken to cover mining, manufacturing, agricultural processing, and electrical energy. There may be a slight element of over-estimation for the Second Yaoundé figures, as ‘industry’ includes all expenditure on ‘integrated’ projects that are primarily industrial.
- 4 J. Ferrandi, *Agriculture et Industrialisation* (*op. cit.*), pp. 13 and 14 (unofficial translation).

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Table 9.1

Funds Committed to Main Sectors under the First and Second Yaoundé Conventions (million u.a.)

Sector	Funds committed 1/6/64-31/12/70, First Yaoundé Convention			Funds committed during the Second Yaoundé Convention up to 18/4/73 ¹		
	EDF	EIB	% of total EDF & EIB	EDF	EIB	% of total EDF & EIB
Industry (incl. energy) ²	36.0	46.8	11.3	29.8	33.9	11.3
Tourism	—	—	—	0.6	1.4	0.4
Rural production (excl. price support)	263.7	—	36.1	155.9	—	27.7
Total directly productive	289.7	46.8	47.4	43.8	21.5	39.4
Transport & communications	190.2	2.3	26.3	207.6	—	36.9
Water, sanitation, urban infrastructure	42.4	—	5.8	18.0	—	18.0
Health	26.2	—	3.6	5.1	—	0.9
Education and training	70.4	—	9.6	62.1	—	11.0
Trade promotion	1.0	—	0.1	3.3	—	0.6
Emergency aid	2.1	—	0.3	29.7	—	5.3
Price support	40.7	—	5.6	—	—	—
Miscellaneous and unallocated	7.3	—	1.0	15.4	—	2.7
Total	681.9	49.1	100.0	527.5	35.4	100.0
Advances to stabilization funds	10.2	—	—	—	—	—

Main Sources: Reports of the Commission to the Association Council.

European Investment Bank, *Les activités de la banque européenne d'investissement en faveur de l'industrialisation des EAMA*, op. cit.

1 The totals for the EIB cover only commitments up to the end of 1972.

2 For definition, see footnote 3 p. 68.

'Finance infrastructure which directly affects the success of industrial investment; provide, in appropriate ways, the necessary means for carrying out large-scale projects in co-operation with the private sector; help finance small and medium-scale enterprises by aiding local development banks; help – in a realistic way – to provide European potential investors with better information; provide TA required by AAMS to plan the fiscal regulations, customs regulations, etc. that they decide to offer to private investors; to ensure that projects of national interest which have levels of profitability too low for private investors are, nonetheless, studied and prepared; and to accelerate the development of projects in which associated states and private investors are jointly interested.'¹

The general justifications given for these views are that 'the state is not a very good industrialist',² that private capital is more effective than aid,³ and that the interest of private capital guarantees that a project is meaningful.⁴ These are qualified to some extent. It is accepted that 'in a certain number of cases the state can – or should – carry

1 J. Ferrandi, *L'industrialisation des pays associés* (op. cit.), pp. 29–30.

2 op. cit., p. 14.

3 op. cit., p. 22.

4 op. cit., p. 24.

out the functions of a private promoter and, for example, take partial or total control of certain vital industrial sectors'¹ and there are a few cases in which EEC finance has been used for state-controlled enterprises (for example, in Zaire). However the general philosophy is clear enough.

It is not the purpose of this study to take sides for or against private investment – but nor would this appear to be the duty of DG 8. It is legitimate for DG 8 to refuse to finance enterprises that, in its view, cannot be managed, but this is not a justification for it to tie its hands by adopting a dogma. It seems unlikely that all ACWS or AAMS would share the views of DG 8, and in view of the importance of EEC-based firms in the AAMS, the DG 8 must lay itself open to the charge of attempting to favour such firms. As a general principle, policy on private or state ownership of industry should be wholly the responsibility of the recipient government.

It follows, to some extent, from this attitude to private investment that the EIB should have been given the main responsibility for industrial projects. Over two-thirds of the industrial project finance supplied under the Second Yaoundé Convention has come from the EIB, and this share would have been still higher if one excluded electricity projects, which might well be classed as infrastructure. The extent of EIB participation is, however, limited by the rule (arising from the EIB Statutes) that it may not normally provide more than 25% of the capital cost of a project. The EIB's primacy in the industrial field also reflects the philosophy that financially profitable projects should, where possible, be financed by interest-bearing loans.

The other side to the problem of the low share of industrial projects is that there are not many viable industrial projects to be financed. Most of the AAMS have small populations and limited markets. There is no guarantee of access to markets in neighbouring associated states. When viable projects do appear, there is no problem in finding finance; in fact there is competition between donor agencies to finance 'good' industrial projects.

This situation does, however, indicate the need for DG 8 to take over more – or even all – responsibility for industrial projects. It is essential to create a positive interest group for industrial projects in DG 8, capable of taking more initiatives (with the consent of recipient countries), of developing project ideas into projects, and of providing two-stage finance without the constraints imposed on the EIB by its role as a bank. At the same time it seems essential that DG 8 avoids pre-conceived ideas about the role of private capital, and concentrates instead on the viability of each individual project, whether under private or state control.

Rural productive projects are, in contrast to industry, a well-

¹ *op. cit.*, p. 22.

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established and apparently well-run interest of DG 8. They have included plantations and peasant agricultural production. The latter may be either general agricultural improvements, or schemes for specific crops such as tea, including extension work, training, investment, and material inputs like fertilizers. There are no promotional problems in this sector. The same is true of transport and communications, which has always received more aid than any other sector.

Technical assistance

The EEC is willing, in principle, to provide a very wide range of technical assistance (TA) from the EDF's grant funds. The five main categories are: preparatory aid for projects, aid for project execution, trade promotion, general studies, and education and training. The only important category of TA which is, apparently, ruled out is provision of operational staff like teachers, doctors, and nurses. On occasions, such personnel has been provided, but only during the initial training period of EEC-financed projects (particularly hospitals and technical schools). This is characteristic of the EEC's wish to avoid open-ended involvements with recipients.

A substantial proportion of EEC aid to associate states has been devoted to TA. Over the three years 1969 to 1971, TA accounted for 21% of commitments made by the EDF. Of this, 63% was related to investment projects (the larger part being included in the costs of those projects). Even this may be an under-estimate of the proportion of EEC technical assistance which is really linked to specific investment projects. The EEC has, in fact, always preferred technical assistance which has had some visible end result.

Preparatory aid for projects

In theory, associated states are responsible for preparing projects to a stage where DG 8 and/or the EIB can reach a financing decision. In practice, most of the project preparation is normally financed by the EDF - particularly for large projects. The only important exceptions are industrial projects presented by well-established and technically competent firms.

Associated states may present good project ideas, or project files which, in the view of DG 8 or the EIB, are incomplete. They may then be offered grants from the EDF to complete the project file. The EDF has an accelerated procedure for making such TA grants, and they do not have to go to the EDF Committee for approval. The preparation of the project is then contracted out. DG 8 is responsible for proposing experts or consultancy groups to the recipient government, and is required by member states to do this in such a way as to ensure that all EEC member states get fair shares of consultancy contracts. An associated state is normally offered a choice of two or three experts or

consultancy firms. Even if it does not find any of these suitable, it may decide to accept one, because of the time lost by a refusal. This principle of fair shares for member states is a feature of all consultancy contracts financed by the EDF, and has, on occasions, led to the choice of inappropriate consultants, and given rise to problems and complaints from AAMS.

Despite the accelerated procedures for the financing decision, and the absence of tendering, the appointment of experts and consultancy groups is a major source of delay. This is partly because of the procedures that have to be gone through in order to obtain agreement from the associated states, first on who should receive the contract, and then on the contract (normally signed between the expert or consultancy group and the associated state). Moreover, the accelerated procedures do not apply for hiring consultants for short-term TA work, or to give specific advice.

Project files have to be extremely detailed, and cover administrative aspects, technical design and specification, financial aspects, and economic aspects. The EEC insists on much more detailed documentation than other bilateral donors (for example, France) that use comparable – though more limited – tendering procedures. This may well cause complaints, as it benefits firms in the EEC, eats into the EDF's grant funds, and gives rise to suspicions that the EEC is indulging in delaying tactics.

The need for highly detailed specifications is at least partly dictated by the Commission's obligation to open tenders as far as possible to EEC firms that are unused to operating in the AAMS. This responds to a requirement of the member states, not of the Associates, and there might, therefore, be a case for shifting some of the costs incurred on this account out of the aid budget. The Commission, on the other hand, argues persuasively that thorough project preparation and increased competition have led to significantly lower project costs than for comparable bilateral projects. This question of whether the benefits to Associates really justify the costs is complicated, and cannot be dealt with adequately here, but is sufficiently important to warrant more investigation.

There is also a feeling that, after fifteen years of EEC aid, it is time that the associated states played a larger part in preparing project files. DG 8's position is that it would accept project files presented by associated states if these were good enough. The situation is similar for experts or consultancy groups from associate states. DG 8 has not appeared to encourage associate states to take more responsibility, probably because it wanted to avoid the embarrassing necessity of repeating the work. A fundamental question, however, is whether DG 8's insistence on very exacting standards of project preparation has hindered the development of local initiatives. The Commission's

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Memorandum on association now recognizes the need to 'supply the various logistical means which the state lacks in order that it may carry out these studies on its own authority',¹ and, if necessary, finance the employment of local personnel. This solution is well-intentioned, but – unless there are suitable unemployed local personnel – is a very long-term one.

Aid for project execution

The two largest elements here are TA experts to supervise projects on behalf of recipient governments, and technical assistance in rural development projects. The latter frequently involves a very high proportion of technical assistance – 40% in some cases.

Trade promotion

Activities in this field started during the period of the First Yaoundé Convention, but were specifically brought into the range of activities that could be financed under the Second Yaoundé Convention. They have included studies of particular products, assistance in establishing trade promotion centres in associated states, provision of marketing experts, training of experts in foreign trade and trade promotion, and financing participation of AAMS in international trade fairs. One potential problem is the EEC's unwillingness to finance participation in trade fairs by individual AAMS countries. This rule probably needs to be abandoned. There can be no objection to joint promotion of the AAMS if that is what they want, but there is no point in pretending that the AAMS are not in competition with each other for foreign markets. It is legitimate for a single associated country to ask for EEC aid for its individual export promotion.

General studies

These are relatively unimportant, partly because of DG 8's unwillingness to finance studies which do not lead to any obvious project, and partly because multi-state projects require multi-state approval, which is difficult to obtain.

Education and training

This large programme consists mainly of scholarships for students at recognized institutions and for correspondence courses. In 1970/71, for example, 2,172 students from AAMS received scholarships to attend institutes, and a further 1,811 scholarships for correspondence courses.

An interesting aspect of the scholarships given for full-time education is that, as far as possible, studies are financed at institutions in associated states. Slightly over half the students attend institutions in

¹ *op. cit.*, para. 2.2.3.2.2.

associated states – 75% of them in their country of origin.¹ Almost all the remainder attend institutions in the EEC member states, although a small number of scholarships have been given for courses in Israel.

An increasing proportion of the scholarship holders do degree-level studies. It is typical of the EEC emphasis on 'practical' results that two-thirds of the scholarship holders are doing agricultural or technical courses. It is not, however, clear how these scholarships are allocated. Up to now, applications seem to have been made for, or on behalf of, individual students, and there has not been a structured programme. A three-year programme has, however, been formulated for the remainder of the present association period.

In addition to these more or less conventional scholarship programmes, special training programmes in the associated states accounted for about 1% of the second European Development Fund. These were very varied, ranging from training factory workers to extension work for women. Some have been related to investment projects financed by EEC aid.

There are also short programmes of visits and in-service training in the EEC Commission and public services of the EEC member states.

Supply of TA experts

The EEC has been willing to provide TA experts on a fairly long-term basis to assist associated states in preparing project dossiers. At the end of 1971, there were twenty-five experts working for the governments of associated states, although this was probably a special effort connected with the drawing up of programmes for the second EDF. The supply of TA experts to supervise project execution has also become a fairly standard practice (see below).

DG 8 is not, however, an enthusiastic provider of TA experts. It has no TA personnel of its own that it can send on missions, and has had difficulties in recruiting suitable personnel – no doubt partly because of its obligation to share out contracts between member states. Although it does respond to requests for TA personnel, it has done so reluctantly, preferring to let associated states rely on TA supplied under bilateral programmes. Moreover, DG 8 does not want to encourage the associate states in the view that having an EEC expert will advance their claims on aid.

This attitude is very questionable. It is arguable that some of the associated states need technical assistance personnel as much as they need investment and that when associated countries fail to put up enough acceptable projects to obtain the aid to which they would be entitled, the EEC should be able to offer them personnel to permit them to improve their absorptive capacity.

¹ See: *Report of the Commission to the Association Council on Financial Technical Co-operation, 1/1/71 to 31/12/71 (VIII/419(72)E—FED/C-3)* and *Information de la commission au conseil des communautés sur les conditions d'utilisation des aides par les pays associés, Année 1970 (VIII/398(71)E—FED/1)*.

There is a strong case for the EEC to develop a small 'core' staff of permanent TA experts who are not on shifting contracts, and who can be moved from post to post or between DG 8 and overseas postings. The supply of young former colonial civil servants has dried up and the EEC has difficulty recruiting suitable personnel. The short-term contracts offered by the EEC are unattractive to the sort of people required, so that new skills are not being developed. The aim should be not to rely wholly on full-time EEC staff, who would be too expensive unless fully used all the while. However, contract TA is itself so expensive that even if the core staff was supported from EDF funds this would probably reduce the burden on funds otherwise available for investment, in addition to ensuring a continuing supply of experts, and easing the problem of allocating consultancy contracts.

Emergency aid

The provisions for emergency aid were outlined in Chapter 3. A special fund of 20m u.a. is set aside out of EDF grant funds and may subsequently be 'topped up' to some extent. For example, in 1971 14m u.a. were spent in fighting the cholera epidemic in Chad and Niger, and in drought relief in Niger, Senegal, Somalia, and Upper Volta. The latter programme included emergency feeding, measures to prevent livestock losses, and provision of seeds. Emergency aid can be provided within ten days to two weeks of the first request, using special EDF procedures.

Price support

Table 9.1 shows expenditure on price support under the First Yaoundé Convention. There is no specific provision for this form of aid under the Second Yaoundé Convention, but it can be covered by the emergency aid provisions. Under the First Yaoundé Convention, about 30% of the aid funds provided to the AAMS was designed to compensate former French colonies for the loss of French price-support measures and access to French markets. These funds were designated as aid to production and to diversification and were divided between AAMS in fixed amounts, depending on the trade benefits lost. They could include a certain amount of diminishing price-support. The aid received bore no relation to the value of the markets lost, even over the period of the First Yaoundé Convention; and it replaced a long-term scheme with one that gave palliative aid on a diminishing scale for five years.

Advances to price stabilization funds

The First and Second Yaoundé Conventions¹ allowed loans of up to

¹ Second Yaoundé Convention.

50m u.a. from EDF resources for official price-stabilization funds in associated states. These loans were interest-free for up to five years.

This provision is little more than symbolic. One can never predict when commodity price declines will be reversed, and stabilization schemes simply cannot be financed with any certainty on a five-year basis. This means that DG 8 has to be very cautious about accepting requests. Over the life of the First Yaoundé Convention a fifth of the sum available was lent, but there was still some difficulty in obtaining repayment. Furthermore, 50m u.a. is an insignificant sum compared with the losses caused by price fluctuations. This provision can do little harm, but it certainly does very little good.

The Commission has now recommended schemes to stabilize export receipts from sugar, groundnuts, groundnut oil, cotton, cocoa, coffee, bananas and copper as part of the next association agreement.¹ It is not clear to what extent these proposals will have the support of member states, but the outline proposals appear to involve real and substantial guarantees. It is clear that any negotiation on commodity price stabilization should centre on these proposals, not on the present, almost useless, loan facilities.

Inter-state projects

The EEC has made serious efforts to promote regional projects between associated states and, to a lesser extent, between associated and non-associated states (this is administratively difficult, given that EEC aid under the Second Yaoundé Convention can only be spent in associated states). There are two reasons for doing this. First, the EEC has consistently advocated regional co-operation, even to the extent of trying to persuade AAMS to operate a customs union among themselves² and has written the principle of promoting inter-African co-operation into the preamble and the text of the Second Yaoundé Convention (Article 19). Secondly, the small size of many associate states means that many possible projects have to be on such a small scale as to be inefficient, unless they serve several states.

These efforts have led to some inter-state educational institutes and roads that link several states, but on the whole the AAMS have shown little interest in such projects. DG 8 has taken the view that this lack of interest arises from co-ordination problems, and from the knowledge that funds spent on multinational projects are funds lost for national projects, rather than from a dislike of multinational projects. The Commission has now suggested setting aside specific amounts for inter-state projects in a future association period.³ This is a reasonable proposal, so long as it is acceptable to most associate states (present

1 Memorandum of 4 April 1973 (COM (73) 500/fin), para. 1.2.2.2.

2 Zartman, I. W., *The Politics of Trade Negotiations Between Africa and the EEC* (Princeton U.P., 1971).

3 Commission Memorandum on association (*op. cit.*), para. 2.2.2.1.

and future).¹ A necessary aspect of this would be co-ordination of the programming exercises undertaken by DG 8 for each associate state at the beginning of each association period.

A more ambitious proposal is that the Community should encourage inter-regional productive enterprises by providing 'appropriate compensation' to associated states which open their markets to the products of such undertakings not located on their territory.² It is suggested that this compensation could consist of giving the importing state a share in the capital of the enterprise. It is very questionable whether this is a practical proposition. Clearly the EEC is unlikely to consider making annual compensatory payments, and purchase of a share in the capital appears to be the only plausible alternative. Although this would entitle the importing country to a share in any profits, profits are not normally felt to be the most important advantage of having a productive enterprise on one's territory. Employment, balance of payments, linkage, training and national income effects are probably given far greater weight. Unless there was a very strong political will to establish multi-national industries – in which case the incentive would be largely unnecessary – it would be difficult to give adequate compensation.

Moreover, it is questionable whether it would be politically prudent for the EEC to become responsible for paying one country to abstain from competition with another – particularly if production is, as it may be, in the hands of European private interests.

Co-ordination with other programmes

DG 8 has a good record on co-operation with other donors – in particular EEC member states, but also other bilateral and multi-lateral donors. There are meetings and exchanges of information with other major donors to associate states, and the EEC is a member of the advisory group for the Zaire Republic and of the Development Assistance Committee (DAC) of the OECD. Contacts with the UN family of multilateral agencies appear, however, to have been rather limited. Under the Internal Agreement on Finance³ member states undertake to inform the Commission regularly of the assistance they are giving, or planning to give, to associated states. Co-operation of some member states in providing this information is, however, very weak.

One might expect the Commission to try to extend its influence over the bilateral aid programmes of EEC member states. However, the Commission Memorandum on development co-operation⁴ rules out – at least for the present – the possibility of achieving uniform policies,

¹ It has to be admitted that past inter-state projects have often failed to achieve their objectives because of an apparent lack of political interest. One may question whether inter-state projects can create the political will rather than vice-versa.

² *loc. cit.*, para. 2.2.2.1 (b).

³ Internal Agreement, 70/544/EEC, Articles 14 and 17.

⁴ EEC Commission, *Memorandum on a Community Policy on Development Co-operation* (Luxembourg, 1972), p. 31.

and limits its goal to increasing the coherence and effectiveness of EEC aid.

DG 8 has entered into a number of joint financing arrangements with other agencies – the USAID and the IBRD, as well as EEC bilateral agencies. The difficulties and the delays involved in finalizing projects are increased, but projects can be financed that would otherwise be outside the scope of the EEC's aid funds.

Co-operation with the IBRD has been particularly useful, because of the IBRD's obligation to receive a more or less commercial return on its normal lending. The IBRD has been able to finance those parts of a project which had returns that satisfied its criteria, leaving EDF to provide grants or much softer loans to finance parts of the projects with lower returns. EEC aid has thus had an important catalytic effect. One must, however, have certain reservations about this technique. It can only be justified when the economic return on the whole project (including both the EEC- and IBRD-financed parts) is satisfactory compared with other possible uses in the recipient country. Moreover this technique probably cannot be extended to hard loan financing by bilateral agencies, without encountering understandable objections to using soft Community aid to subsidize hard bilateral aid.

The EDF has also taken part in multi-country projects extending beyond the associated states. There have been three rinderpest campaigns under unified control, in which EEC aid was, in principle, confined to expenditure in associated states, with USAID covering other areas.

One difficulty that arises with jointly-financed projects is co-ordination of tying and tendering arrangements. This problem may be solved by splitting a project up into separate parts for each agency, but the EEC has, on some occasions, allowed tenders to be opened to non-EEC countries on the same basis as IBRD tenders. Normally this concession has been largely formal, because firms from EEC member states were in a position to make the best bids, but this has not invariably been the case.

Recurrent and maintenance costs

The EEC has ruled out, in principle, the financing of recurrent costs and maintenance costs.¹ This is understandable; the EEC, like many other donors, did not want to be under an open-ended moral obligation to associated countries that had received aid in the past. It was apprehensive that, once involved in recurrent or maintenance expenditure, it would be difficult to withdraw.

The policy has, however, caused problems. Some of the countries that have the greatest development needs also have the greatest difficulties in supporting recurrent and maintenance costs. The EEC does

¹ Second Yaoundé Convention, Article 28, and Protocol 6, Article 13.

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not want to refuse 'good' development projects because the recipient lacks the budgetary resources, or the skilled personnel, or the equipment necessary for their maintenance and running. At the same time, it does not wish to waste resources on projects that do not function. There have, in particular, been problems with schools and hospitals, which do not function without teachers and medical staffs, and roads which, in tropical conditions, deteriorate very rapidly without regular maintenance.

Faced with these problems the EEC has modified its position to some extent. In April 1971 the Community declared its readiness to supply aid for major or emergency repairs to infrastructure financed by the EDF in associated states, provided that those states have done all that lies within their powers.¹ The EDF is also willing to assist the training of skilled staff and the purchase of necessary equipment. Where difficulties may arise, the EDF designs the project to minimize maintenance costs. For example, it now normally finances only bitumenized roads. This is, however, an unfortunate solution, since bitumenized roads can only be justified economically for fairly high traffic flows. This decision may lead to economically unjustified projects, and to a reduction in the total benefits that can be obtained from the limited aid funds available. In some cases it would be more appropriate to provide maintenance costs over a given period for earth or gravel roads.²

The other way in which the rules may be relaxed is by providing assistance to cover wages and salaries and material inputs for the 'start-up' period of a project. This can cover recurrent and maintenance costs for quite substantial periods – for example two to three years for schools, and five to seven years for agricultural projects. It may even cover the 'projectized' costs of local personnel. Normally, one of the main aims of such projects is to develop personnel and organizations to ensure that the project will be an independent, going concern by the end of the start-up period. The EDF has also, on occasions, been willing to finance health or education projects on the understanding that some other aid agency (e.g. France or the UNDP) will provide the necessary personnel.

The Commission Memorandum on association suggests that these possibilities should be expressly provided for in the texts of the next Convention³ but does not propose any further extension except a 'particularly flexible' application of the rules to the least developed among the associated states.

The EEC has, therefore, taken a fairly liberal attitude towards stretching its rules. The intractable problem still remains, however,

1 *Report of the Commission to the Association Council on Financial and Technical Co-operation from 1/1/71 to 31/12/71* (VIII/419(72)E—FED/C-3).

2 The return flows to EEC member states would be extremely small. It is to be hoped that this is not a factor in the EEC's unwillingness to finance such operations.

3 *op. cit.*, para. 2.2.1.2.

that some associated states need amounts of recurrent, or even budgetary aid that cannot be provided under the EDF's rules.

The EEC has probably exaggerated the dangers of financing recurrent and maintenance costs. Recipient countries are usually very aware of the dangers *for themselves* of becoming excessively dependent on individual donors which may, at any time, cut off aid. Moreover, recurrent aid normally involves a scrutiny of on-going policy that is an affront to national dignity. Recipient countries are, therefore, unlikely to want recurrent aid on a permanent basis. The other side of the question is that DG 8 seems to underestimate its ability to refuse aid. Other donors have given recurrent aid, and have been able to run it down or cut it off. There is no reason to suppose that DG 8 is incapable of doing the same.

It is desirable that, rather than add further exceptions to the principle of not financing recurrent or maintenance expenditure, the principle itself should be scrapped, and replaced by the much more general principle that aid will be given to finance those expenditures that best promote the economic and social development of the country concerned. In most cases this would not be recurrent expenditure, but if the most urgent need is, for example, assistance for an agricultural extension service, or operational medical staff, EEC aid should be able to fill this need. Clearly, this is a question that most affects the least developed countries, which may well be incapable of absorbing a fair share of EEC aid – or of increasing their ‘absorptive capacity’ – unless the present principles are abandoned.

Simplification of the texts

This raises the related general issue of the way in which various types of expenditure are authorized by the texts. At present these contain *positive* lists of activities that can be financed, and specify areas of particular emphasis such as diversification, industry, and agriculture (Second Yaoundé Convention, Article 19). These lists can be interpreted to cover most types of developmental activity – except for straight-forward recurrent and maintenance costs. However, the necessity still arises of finding an authorization in the texts for each individual case.

This approach makes for an unnecessarily complicated text, and runs the risk of unintended omissions. Moreover, very little is gained by attempting to specify priority areas common to eighteen – let alone thirty-nine – very diverse states; either they are so comprehensive that they are useless, or so specific that in some cases they are quite inappropriate. Nothing would be lost if all these positive authorizations were replaced by the general principle of financing those expenditures that best promoted the economic and social development of the country concerned, plus a clear ‘negative’ list of any types of expenditure that were ruled out.

Chapter 10

Appraisal and Evaluation of Projects

The following section will focus only on the main points of the EEC's practice, indicating where its aid organizations stand in relation to the theories and doctrines of appraisal.

DG 8 has in the past been criticized by EEC member states, through the EDF Committee, for its lack of standardized principles on project appraisal. The criteria it used varied from project to project. This situation was compounded by the fact that the appraisals were (and still are) done by the geographical divisions of DG 8, and not by a unified economic division. The result was a confusion of methods, which still persists to some extent.

Until recently, DG 8 appears to have relied to a surprising extent on an intuitive approach to the economic assessment of projects. The view was taken that the need for certain types of projects in certain countries was so evident that formal appraisal methods were not important. If there were no hospitals, hospitals had to be built; if there were no roads, roads had to be built. The problem of borderline cases did not arise, because there was always an excess of these 'obvious' projects.¹

This philosophy still prevails to some extent, but its influence is decreasing. It has met with opposition on a number of grounds: the lack of standard methods meant that projects could not be compared, and precisely because there was an excess of fundable projects, reliable methods were needed in order to choose between them; furthermore, even 'obvious' projects like roads, railways, and hospitals frequently turn out to have very low priority when they are subjected to crucial examination; and, finally, 'obvious' projects are not equitably distributed between associated states.

The principle of leaving associate states to take initiatives in putting up projects has also led to a belief that the role of project appraisal was rather limited. This principle has been interpreted to mean that DG 8 is not confronted with a choice between several alternative projects, but with one specific project. It can try and improve this project, but in the last analysis its function is to accept or reject. It is, however, difficult to see how this doctrine is relevant when DG 8 is confronted with more projects than it can finance, and when it accepts a responsibility to avoid wasting the limited funds at its disposal.

Technocratic views are, therefore, gaining ground, and there has been a lot of work on the standardization of project appraisal. But it is doubtful whether the principle of formal economic project appraisal has been fully accepted by DG 8, or whether the criteria being develop-

¹ See, for example, EEC, *Evaluation Criteria for Projects Submitted to the EDP* (Studies, Overseas Development Series 3, Brussels 1966, and *Association News*, January-February 1973 (No. 17), 'Discussion with M. Jacques Ferrandi', p. 17.

ed take fully into account recent developments in methods. DG 8 seems to be lagging behind some bilateral agencies – for example, the UK's Overseas Development Administration and West Germany's Kreditanstalt für Wiederaufbau. This is not surprising; DG 8 has far too few economists and very few of these are concerned with critical analysis and development of methods. Responsibility for these questions lies with the *Specialized Service for Sectoral Analysis and Co-ordination of Aid* in the Directorate for EDF Programmes and Projects. This 'Service' has only five professional staff, and of these, two deal with co-ordination questions only.

The quality of appraisal seems to vary according to the type of project. For social infrastructure – schools, hospitals etc. – DG 8 appears to be as good, or as bad, as any other agency. Measurement of costs and benefits is difficult, and DG 8 – like other agencies – does not try to calculate internal rates of return, and uses instead a cost-minimization approach. Objectives are specified on the basis of declared national policies, comparison with other countries, comparisons between regions of the country concerned, etc.; and performance standards are set in terms of costs, or of efficiency indicators like degree of utilization of classrooms. However, such efficiency and cost standards are little more than rules of thumb, and it is unclear how much effort is devoted to the search for alternative solutions.

For infrastructure projects, like roads, DG 8 does not appear to make full use of the available appraisal methods. There seems to be too much reliance on non-economic criteria, including a persistent belief that certain investments are 'obviously' necessary within some economic-political strategy, too much dependence on indices to which no financial values are attached – e.g. the number of vehicles per day using a road – and too little attempt to calculate economic rates of return. This is not so great a condemnation as it might appear, as appraisal methods for economic infrastructure are still very unreliable.

The most controversial area, however, is in directly productive investments. DG 8 tries to produce a number of different indicators, each of which gives a view of some critical aspect of the project, so as to allow a balanced judgment to be made. This contrasts with attempts to absorb all major factors into a single economic rate of return – as in the OECD Manual.¹

Proponents of DG 8's approach would claim that a single economic rate of return hides information on important aspects of a project by lumping it together (in ways which are still open to controversy) into a single figure. However, the advantage of the other approach is that a conscious attempt is made to give relative weights to each individual aspect of the case. Moreover, calculations of rates of return do not

¹ I. M. D. Little and J. A. Mirrlees; *Manual of Industrial Project Analysis in Developing Countries, Volume II*, OECD Development Centre, Paris, 1969.

normally hide the data used; and it would be naive to suppose that a proponent of this method would base decisions only on the final figure without going back and looking at important identifiable factors like unemployment – even if he thought they had been properly taken into account by the shadow prices used.

DG 8 does accept, in principle, that the most important criterion is the internal economic rate of return on a project, but the level – and the economic significance – of this depends entirely on how it is calculated. The theoretical basis used in DG 8 still seems to be uncertain, and although it uses some features of the OECD Manual, it either ignores or rejects some of the principles of this system. For example, border prices may be used, but this does not appear to have been elevated to a general rule, and DG 8 does not seem to go as far as the OECD Manual in ensuring that the treatment of traded, tradable, and non-tradable goods is consistent. The situation is similar for shadow-pricing of labour. It is, in fact, unclear why DG 8 should have gone so far towards the principles of the Little-Mirrlees method without making full use of its exhaustive methodology. It is not at all clear that it is using the criterion of internal rate of return in a way which is internally consistent, or which is comparable from one project to another.

DG 8 does not have a target rate of return for all projects or for each country. It accepts the principle that the rate of return used should be a market-clearing rate, but takes the rather unusual view that the supply of capital is not the limiting factor for the AAMS, and therefore accepts rates of return which appear to be well below commercially fixed rates. This contributes to the appearance of rather lax attitudes towards project appraisal. There appears to be a need for a more purposeful assessment of average rates of return in the different AAMS, so as to reduce the risk of wasting funds on sub-optimal projects.¹

Other criteria used by DG 8 include financial rate of return, capital output ratio, capital/labour ratio, overall impact on GNP, balance of payments, employment, and qualitative analysis of indirect effects. The appraisals also take into account the recipient country's financial and technical capacity to run them, and a positive assessment may be conditional on complimentary technical assistance.

The European Investment Bank

The EIB has, up to now, been responsible for appraisal of all industrial projects. It appears to be highly competent in the sort of analysis one would expect of a banking organization, and calculates, among other things, the internal financial rate of return.

¹ If one accepts the assumption that the main criterion for aid allocation is need, it would be inconsistent to have a single target rate of return for all recipient countries. It would be necessary to have a different rate for each country, setting a different market-clearing rate for each in function of its economic potential. In general, this would mean that the poorer countries would have the lowest target rates.

It also carries out an economic assessment, but appears to be theoretically weaker in this area than DG 8. There is, in fact, no solid basis of principles. The EIB may or may not decide to use border-pricing,¹ there are no declared principles for economic pricing of labour, and too much weight appears to be given to indicators which are really only rules of thumb.

There is some reason for anxiety over the quality of the EEC agencies' economic appraisal of projects. It is desirable that they should be given more economic staff in order to develop and maintain appraisal standards.

Evaluation of completed projects

Under Article 29 of the Second Yaoundé Convention, the Commission must submit an annual report to the Association Council on the management of EEC aid, and under Article 21 of the Internal Agreement² it reports annually to the EEC Council on the execution of projects and the use made by the recipient countries of EDF-aided projects.

These reports consist, for the most part, of fairly general and superficial sector-by-sector and project-by-project accounts, but, in addition to this, DG 8 picks out each year a few sectors for a more detailed investigation of past projects. The general conclusions of the studies are given in these two annual reports. For example, in 1971, studies were made of road infrastructure, rural and domestic water-supplies and health infrastructure.³ It would appear from these that evaluation of completed projects is done on a rather broad sectoral basis. This yields useful conclusions about technical failures, problems of maintenance, inappropriate design, etc. but no attempt seems to be made to re-work the original project appraisals on the basis of actual data, or to compare actual with projected results. A case can be made for extending this review to include more detailed evaluation of individual projects. However, there can be no doubt that the present exercise has yielded extremely useful – if often very simple – results; compared with many other donors, the EEC seems to have quite a good record of following the progress of completed projects.

1 See European Investment Bank (Research Department) *Methods and Criteria for Economic Analysis of Projects* (Luxembourg, 18/2/72, Ler/cl—mimeo), para. 4.3.1 and 4.3.2.

2 Internal Agreement (70/544/EEC).

3 Conclusions published in:

EEC Commission, *Rapport au Conseil des Communautés sur les conditions de mise en oeuvre et d'utilisation des aides par les Etats associés, les pays et les territoires bénéficiaires* (SEC(72)2666 final, Brussels, 26/7/72) and: EEC Commission, *Report of the Commission to the Association Council on Financial and Technical Co-operation from 1 January to 31 December 1971* (VIII/419(72)E—FED/C-3. Orig: F).

Chapter 11

Delays

How long does the EEC take to get results?

The EEC has been criticized for the slowness of its aid procedures. Its reputation probably still suffers from the very slow start it made in 1958; two years passed before commitments reached a significant level, and three years before expenditure became significant. Less than a fifth of the funds available had been spent by the time the Implementing Convention expired. Clearly, there have been improvements since then, but difficulties remain. These fall into two distinct groups: problems arising from the re-negotiation of the Convention of Association and from the length of the project pipeline.

The first association period expired at the end of 1962. The Treaty of Rome stated simply that negotiations for a renewal of the association should start before the expiry of the Implementing Convention. The First Yaoundé Convention was finalized and initialled by plenipotentiaries a mere eight months after the expiry of the Implementing Convention, but it took another ten months before it was ratified and could come into force. The aid that was negotiated for five years was thus stretched to cover six and a half.

The First Yaoundé Convention laid down that re-negotiation should start one year before its expiry on 31 May 1969, and the new agreement was initialled only two months later. However, again there were problems of ratification, and the agreement did not come into force until 1 January 1971, so that there was a seventeen-month period without any valid agreement.

It was not only the negotiations that were long-drawn-out; there were administrative delays in ratification by EEC member states (not by associated states). These are, apparently, inevitable so long as association has to be based on formally negotiated agreements between governments.

The Second Yaoundé Convention stipulates that negotiations for its renewal should start eighteen months before the date of its expiry. On past form, with all the additional problems of enlargement, even this apparently generous margin is likely to prove inadequate. If – as seems probable – aid in the next period of association depends on the formal ratification of some type of convention, a further long period seems inevitable between the expiry of one convention and the coming into force of the next. If, however, aid is put onto the Community budget, such gaps between funds could be avoided in future.

If a convention is negotiated for another five years, on the present basis, it should specify the date of its expiry, thus limiting the possibility of stretching the funds over a longer period by failing to ratify

the Convention. This was done in the Second Yaoundé Convention, and although it reduced the period of application from five to four years, it has meant that a new allocation of aid will be negotiated a year earlier than if the Convention had been given a fixed duration of five years after coming into force. For the Second Convention, the latest expiry date was five and a half years after the expiry of the previous Convention. It would, in future, seem more reasonable to set the expiry date exactly five years after that of the previous Convention.

As a result of these long delays between funds, uncommitted EDF funds have been almost exhausted by the time a new Convention came into force. There were virtually no new commitments in 1970, and it was only because disbursement lagged well behind commitments that it was possible to keep up a reasonably even flow of disbursements. Interim arrangements have, however, allowed DG 8 and the EIB to go on committing remaining funds after the expiry of the Convention which authorized them, and the interim period has been used to start the programming exercises for the next period of association, and prepare projects, so as to permit a rapid start once the new convention came into force. In consequence, expenditure has never been interrupted, even though commitments have almost come to a halt.

The other source of delays is the project 'pipeline'. All agencies have a pipeline of projects in various stages between their first introduction and final expenditure. Delays in the pipeline have been a problem for the EDF's expenditure, and have been most serious for joint EIB/EDF projects. It is, however, very difficult to gauge the size of the problem, or make objective comparisons between agencies, as it is not at all clear where a pipeline begins or ends. The EDF gives its first token acceptance to a project at the programming stage, then takes some responsibility for aiding project preparation. It may well deal with a project for years before it reaches the investment decision stage. One cannot, therefore, compare the length of the EDF pipeline with that of an agency that refuses or accepts projects when they are first put up to it.

The length of the pipeline does not necessarily affect the rate of commitments. A given *rate* of commitments is consistent with a pipeline of any length, and commitments are in fact being made at a rate which will allow total commitment of all outstanding EDF funds by the end of the present association period. There are, however, complaints that the pipeline is, at present, inconveniently long, that projects move extremely slowly, and that the recipient countries face long periods of uncertainty as to when – or whether – projects will emerge with EEC finance.

The problem of delays in the pipeline can be examined by looking at its three main stages: from programming to financing decision, decision to contract, and contract to execution.

The first is by far the longest stage. Naturally, if an agency has a

policy of stockpiling projects to last for the next five years, some projects should not reach the financing stage until the end of that period. However, it appears that projects which are not being stockpiled, but are – in principle – actively being processed, still move extremely slowly.

Major sources of delay at this stage are: consultation with AAMS, recruitment of experts, and preparation of project files.

Consultation with AAMS is necessary at many stages because of the doctrine that the AAMS take the initiative. In effect this often means that they approve relatively unimportant decisions – sometimes at a very high level. Each time Brussels sends an official letter to a civil service department in an associated state and awaits a reply, there is a delay of ten days to a month – and sometimes much longer. Some associated states reduce this delay by delegating many powers to their ambassadors to the EEC, but the position varies from case to case. The effectiveness of the local Deputy Controller (*contrôleur délégué*) also makes a difference to the time required for replies.

Appointment of experts is one of the worst bottlenecks. Again, a major factor is the need to consult with AAMS. For example, if the government requests an expert to study a possible project, DG 8 selects a panel of three experts and sends details to the government. The government selects one name, and informs DG 8. DG 8 draws up a contract and sends it to the government for agreement. It accepts the terms and replies to DG 8. DG 8 may then conclude the contract. Even in the best of cases this procedure can easily take six months, although the contract may be for a period of only a few weeks. The same process may well have to be repeated for a study in depth.

Preparation of project files apparently takes as much as twice as long as in some other agencies, because of the need to open projects to new firms. For example, 100km of roads may require eighteen months of study.

A further important factor that has already been mentioned is the problem of co-operation between DG 8 and the EIB (Chapter 4). When both agencies are involved, six months can be added to the period of project preparation.

Apart from these specific delays in the first stage of the pipeline, which arise when DG 8 is actively working on a project, associate states sometimes complain of uncertainty as to whether DG 8 really intends to develop a project. This problem arises when, in the opinion of DG 8, the project file submitted by the associate state concerned is incomplete, and DG 8 has to decide whether to complete the file. However, as was explained in Chapter 6, this situation is the rule rather than the exception. It appears that projects may stay on the files for years without making any apparent progress. There are, naturally, suspicions that DG 8 works slowly with projects it dislikes, rather than face the political embarrassment of rejecting them.

The second important stage in the pipeline is the period from the financing decision to the conclusion of contracts. Again, it is difficult to measure the average length of this gap, and apparent changes in it can be largely illusory. In the early days of DG 8, commitments were frequently given before the project file was complete. Now, the project file is normally completed before any commitment is made. The effect is thus to shorten this gap, at the expense of lengthening the previous one.

One can find several explanations for delays at this stage. Once a commitment has been made, it is normal to have a delay of three to six months before a project goes to tender.¹ For works contracts – which are the most important – there is then a period of four months for the submission of bids, although this may be shortened to one month for works contracts worth less than 0.5m u.a. – which are considered to be of interest only to local suppliers,² and require only local publication of the tender. The examination of bids normally involves two meetings – the first to ensure that contracts are on a comparable basis, and the second, after any modification needed to make them comparable, to select the best bid. There may be a period of several days, or even weeks, between meetings. The delay is even longer if the procedure of limited tenders after pre-selection is used (see Chapter 12). The result of the tender then has to be agreed with DG 8, and a contract drawn up, and accepted by all parties. Since the financing decision precedes the tender, the lowest bid may exceed the amount committed. A contingency reserve of 15% is set aside for each project, but if the excess is more than this, the project has to go back to the EDF Committee. In the circumstances, it would be difficult to sign a contract within six months of reaching a financing decision, and it is fairly normal for this period to be one year.

The final stage in the pipeline, between the signing of a contract and payment for completed work, is quite short, averaging only about one year, but varying enormously according to the type of work undertaken. There are occasional delays at this stage if technical faults are found in the project, or major modifications are required which would exceed the contingency reserve, but this is not a stage that can easily be shortened.

Can the delays be reduced?

With the possible exception of contracts for experts, a big improvement seems to have been made over the last two or three years in reducing delays at all stages. There is no doubt that DG 8 is sensitive to criticism on this point and is trying to cut delays without cutting corners on project appraisal. There does, nonetheless, still seem to be a problem

¹ DG 8 has had some success in reducing this period.

² The authority for this is Article 49 of the Financial Regulation of the FED (1969) which is intended to give a degree of preference for local suppliers—see below, p. 91.

of over-centralization and bureaucratic perfectionism. All project files and all decisions follow clearly programmed routes, but simple procedures seem to take too long.

It may be possible to do away with some of the written consultation between DG 8 and the AAMS without reducing the AAMS' formal responsibility for the choice of projects. IBRD teams do not have to be so laboriously chosen. It may also be possible to reduce the time required for submission of bids for tender. Two-stage limited tenders can probably be largely abandoned, and the discretionary powers of the Commission and the local Deputy Controllers in AAMS could probably be widened by a few more percentage points. It has already been suggested that the sharing of responsibility between the EIB and DG 8 could be abandoned or reduced, that the Commission should be able to approve projects costing less than about 800,000 u.a. without prior submission to the EDF Committee, and that such projects should be approved subsequently on the basis of a report. The Commission's Memorandum on association recommends that the ceiling for purely local tenders on works contracts, and reduced periods for submission of bids, should be extended from the present limit of 0.5m u.a. to 1m u.a.¹

There are, in fact, many points at which action could be taken to simplify procedures and to shorten delays. Not the least important of these is to ensure that people clear their correspondence fast. Related to this is the general question of staffing. It seems probable that DG 8 is already understaffed for the work it has to do, without taking into account the needs that will arise from enlargement of the association. At the moment, DG 8 is working along the right lines in increasing the powers of local Deputy Controllers and standardizing TA contracts; and the introduction of the General Specifications may allow the period for submission of tender bids to be shortened, but it is clear that more needs to be done.

One clear conclusion for the Commonwealth countries that do associate is that there is a risk that they will receive very little EEC aid during the first eighteen months or so of their association. Ways of avoiding this would be for the EEC aid organs to relax their standards on project files for an initial period of association, or for projects to be prepared before the new association comes into force. If there is another long period between finalization and ratification of a new Convention, this should certainly be used to build up a stock of projects for new Associates. With some bending of the rules, it might be possible to finance project preparation from the EDF - otherwise a good case could be made for a special UK aid effort to help with this.

¹ Commission Memorandum of 4 April 1973 (COM (73) 500/fin), p. 42.

Chapter 12

Contracts and Project Control

Access to contracts¹

Contracts for works or supplies financed under EDF aid to the AAMS are – with few exceptions – open only to firms of EEC member states and AAMS. Contracts under EDF aid to the OCT are open only to firms from EEC member states. Supplies provided under these contracts must originate in the countries whose firms are eligible to fill the contracts.² Apart from consultancy and very minor works, all contracts must be put out to open tender, and the Commission is obliged to ensure that the ‘economically most attractive bid’ is selected.

There are, however, important exceptions to the principle of open tenders. These include: restricted tenders after pre-selection; local or regional calls to tender; and direct contracts. There are, also, provisions that allow preference to be given to firms from associated states for supply contracts.

For large, or technically complicated, projects, the Commission may use a two-stage procedure of restricted tender after pre-selection, and it is obliged to use it for all public works contracts exceeding 5m u.a.³ The Commission first publishes a pre-selection notice, which gives a short description of the nature of the tender and invites firms to provide references and documents demonstrating their technical and financial capacity to carry out the project and to apply for permission to tender. The recipient government then selects firms which it thinks capable of carrying out the contract and this list is approved by DG 8, which may reinstate firms on the list. The firms on the final approved list are then invited to tender.

This procedure is used by organizations other than the EEC – in particular the World Bank – but it is difficult to see much justification for it. One factor which encouraged its use is that it favoured the formation of inter-country groups of firms that, together, could provide the necessary assurances, and thus could increase participation by non-French firms. This latter aim has apparently been achieved.

The disadvantages of the system are that it increases delays, and that it prompts fears that firms may be unjustifiably excluded from the tender. This view appears to be shared by the Commission Memorandum on association, which states that ‘the present obligation to pre-select for all projects of more than 5m u.a. retards certain projects,

¹ This analysis draws heavily on a much fuller account of tendering procedures in *The European Development Fund: Access to Contracts* (EEC, 16764/5/70/1, 1970).

² Exceptions may be made, but each case requires specific authorization from the Commission, and naturally has to be agreed to by the EDF Council. In practice, exceptions have been made for projects jointly financed with other agencies, urgently needed disaster aid, specific equipment that could not be supplied by EEC or AAMS countries, and a few other similar cases where a rigid application of tying rules would have nullified the offer of aid.

³ Financial Regulation (71/68/EEC) *op. cit.*, Article 49.

without effecting any practical improvement in the conditions of competition', and recommends that the Commission should have discretion in deciding when to use this procedure.¹ Except where very good reasons can be found for this procedure in particular cases, it should no longer be used.

Limited local tenders for public works contracts have been permitted at the discretion of the Commission, on the authority of the Financial Regulation² (Article 49), which, in turn, derives from a very vague provision in the Second Yaoundé Convention to permit 'measures intended to encourage the participation of public works contractors or industrial or small-scale manufacturers of the associated state concerned, or of another associated state in the same area, in works contracts of limited size or supplies of goods of which there is local production' (Article 26). The ceiling on such tenders has been fixed at 0.5m u.a. Experience has shown that such small tenders are of little interest to firms from Europe. The provision does not, however, extend to contracts for the supply of goods. The Commission Memorandum on association recommends that the upper limit for these limited local tenders should be raised from 0.5m u.a. to 1m u.a.³ This is to be welcomed, both as a way of helping local firms in the AAMS, and because it will help speed up the administration of aid.

Direct contracts are used occasionally when either the small size of a contract or the urgency of the operation makes tendering impractical.

Preference for local suppliers

In order to comply with the provisions in the Second Yaoundé Convention regarding measures to encourage local industry (Article 26 quoted above), the Financial Regulation also permits a preference of up to 15% for goods supplied by local infant industries 'providing a sufficient degree of local value-added'. The degree of preference is decided on a case-by-case basis by the EDF Committee, acting on a proposal of the Commission. The provision applies only to supply contracts.

The optional provision is too vague to be satisfactory, and is less generous than the rules of the IBRD, which provide an automatic 15% preference on works and supply contracts. It should be possible for the EEC to provide a similar automatic preference for Associates on both types of contract.⁴

The Commission has paid considerable attention to ensuring that contracts genuinely are open to all eligible firms. This preoccupation arose from complaints that firms from the respective colonial powers – particularly France and Belgium – were getting almost all the con-

¹ Commission Memorandum of 4 April 1973 (COM (73) 500/fin) para. 2.2.1.2, p. 42.

² 71/63/EEC.

³ Memorandum of 17 April 1973 (*op. cit.*), para. 2.2.1.2.

⁴ The Commission's Memorandum on association recommends an automatic preference for all supply contracts, but not for works contracts (*op. cit.*, para. 2.2.3.2.1).

tracts. This policy is, however, generally beneficial for associated states as it ensures that contracts go to the tenderers who offer the best terms. French and Belgian firms still obtain a disproportionate share of contracts, but the other original member states now appear to be satisfied that the provisions for tender have been opened to such an extent that failure to participate is largely due to lack of interest.

Tender dossiers may be consulted in the capitals of all EEC member states. Invitations to tender are published in all four languages in the Official Gazette of the EEC and of the associated state concerned. Details of customs and taxation requirements in the associated state and, if necessary, a Commission note on transport services, are attached to the dossier.

In order to help firms unfamiliar with local conditions, the period for submission of bids is unusually long – generally three months for supply contracts and four months for works contracts. A new type of tender 'by public consultation' has been introduced in which most of the details of the dossier are included in the invitation to tender, and for these the period for submission of tenders is generally two months.

General specifications

The specification of a tender has two parts: the general rules, or 'general specifications', and the requirements of that particular contract. In the AAMS and OCT, each country had its own standard set of general specifications. This was seen as a possible source of discrimination, and during the period of the Second Yaoundé Convention a single standard set of general specifications for EEC-financed contracts has been agreed by all AAMS, OCT, and EEC member states.

There have been fears that this would cause problems for ACWS and Commonwealth OCT, as it involves legal acceptance of the EEC standard specifications and might, conceivably, have been interpreted as an encroachment of sovereignty. These fears appear to be unjustified. The standard general specifications have been agreed for the period of the Second Yaoundé Convention only, but can probably be re-adopted with little change by an enlarged association. The best course would, probably, be for new Associates to negotiate for the right to choose between their present standard general specifications and the EEC set, pending such examination and alteration of the present EEC standard set as will make it generally acceptable. The only possible sources of difficulty are clauses regarding employment of non-nationals on EEC-financed projects and rules on the temporary importation of machinery. These do not, however, go beyond the normal practice for individually negotiated work contracts.

Discrimination by source

In order to avoid discrimination by source, goods supplied under EDF-financed contracts must not be specified in such a way that they predetermine the country or firm that produces them. This rule has been very difficult to apply. A compromise has to be reached between specification so precise as to pre-determine the source and descriptions so general that they cause confusion and uncertainty among companies that might tender.

Lack of servicing facilities for non-French equipment has favoured French suppliers in the AAMS that are former French colonies, even when they could not offer the lowest terms. It has been accepted as legitimate for associate countries to refuse equipment that cannot be serviced, and contracts normally require a guarantee of after-sales service. Poor after-sales service has, nonetheless, caused serious problems for some EDF projects.

Grouping of contracts

Similar contracts are often grouped under a single call for tender. The aim of this is two-fold: to get lower tenders by interesting larger firms and reducing overheads on consecutive projects; and to pursue a Commission policy objective which has nothing to do with developing countries, namely the 'grouping' of firms. In many cases it is possible to tender for individual contracts or batches within the contract; the general effect, however, is to favour large firms and groupings.

This is not a practice which helps firms from associated countries to obtain contracts and, although it may be impossible to cover this issue in a future convention of association, assurances are needed that this practice will not nullify those provisions that give preferences to firms from associated states.

Tender dossiers

The drawing up of tenders is the responsibility of the associated state concerned, not the Commission. Because of the complexity of the task, it often has to be done by consultants, financed from the EDF. It does not seem fair that such costs should be wholly borne either by the associated states or by the EDF. The complexity of the tender document results largely from a desire to satisfy member states, not the Associates. At least a proportion of the costs of preparing tender dossiers – for example 50% – should be borne by the Commission and not be attributed in any way to aid funds.

Award of contracts

Tender bids are examined, and contracts awarded by the associate state concerned, but the EDF's Resident Deputy Controller (see

below) is present as an observer. The principle of choosing the bid that is economically most favourable means, in practice, that the lowest bid is normally chosen, unless there is reason to doubt whether the firm concerned can fulfil the contract. The Commission has full power to veto the associated state's choice of contractor, but there have been no complaints of partiality.

The question may be raised whether the EEC ought to insist on open contracts and on supervising the procedure. Associated states would, doubtless, prefer to be entirely free to award contracts according to their own procedures, subject to EEC approval of the tender price. It is possible to put forward quite a good case for this, but it seems most unlikely that the original EEC members would agree – both because of fears of abuse and wastage of aid, and because the return benefits to EEC firms would be further reduced. Certainly, if such a system were used to favour local industry, it would also probably lead to a rise in the average cost of projects and hence a reduction in the number of projects financed, although this is not necessarily a conclusive argument for the present rather paternalistic supervision exercised by the Commission.

Tax treatment

The EEC made efforts over a number of years to reach agreement with all AAMS on a code of customs and tax treatment of EEC-financed contracts in associated states. In 1971 agreement was reached in the Association Council on a common system, the main features of which are:

1. All tenders exclude stamp and registration duty (apart from some temporary exceptions);
2. Surveys, supervision and control of work on projects are not taxed on turnover, but profits are taxed if the contractor owns a permanent establishment in the country concerned, or if the duration of the contract is greater than six months;
3. Consumer goods are exempt from customs duties, import duties and taxes, but materials to be used in projects, including fuel, lubricants and building materials are liable to such duties;
4. Specialist equipment for carrying out construction work benefits from temporary entry regulations up to three months after the completion of the project;
5. Specialist equipment imported temporarily for surveys, supervision and control work, as well as the personal effects of private individuals engaged on the work, are exempt from customs and excise duties;
6. In all other cases local legislation applies.

These tax and customs regulations do not, however, exclude the possibility of a state granting more favourable conditions to a firm

engaged on a project involving EEC finance, as a part of its investment policy.¹

These arrangements are relatively generous in providing recipient countries with fiscal and customs revenues from aid-financed projects. The only feature which is liable to cause problems is the exemption of consumer goods imports from customs duties, import duties and taxes. This could be open to abuse.

Project control²

DG 8 gives formal responsibility for project execution and supervision in AAMS to the associate state concerned, but maintains its own permanent control on the spot. Payments may not be made without specific authorization from a Commission representative; none pass through the government organs of associated states.³

The Financial Controller (*contrôleur financier*) of the EDF is the Director-General of DG 8. In each associated state, the EEC has a Deputy Controller (*contrôleur délégué*), who is responsible for supervision of works. Under him is a small staff of three to five people, normally including technical staff.

With the agreement of the Commission, the associated country concerned names a Local *Ordonnateur*⁴ (*ordonnateur local*) who is frequently a government minister, and who makes financial commitments, issues tenders, and signs contracts. However, all commitments that may give rise to expenditure have to be countersigned by the local Deputy Controller.

The associate country also names a Chief Contractor (*maître d'oeuvre*), again normally a minister, who may combine this function with that of Local *Ordonnateur*. He is responsible for project execution. It is very common for the Chief Contractor to request assistance from the EDF for technical supervision.

The Deputy Controller is the most important local EEC representative. He, and his technical staff, have access to sites of EDF-financed projects and supervise execution from the technical and financial viewpoint. In practice, however, the Deputy Controller also effectively fills the role of local head of an aid mission. He maintains permanent contact between the associated state and DG 8, and wields a great deal of influence; he can greatly affect the ease and speed with which an associate state obtains EEC aid.

It is, therefore, somewhat anomalous that the Deputy Controller — as well as his subordinate staff — are on fixed contract terms, and have

¹ EEC Commission, *The Second Yaoundé Convention: Great Possibilities for Private Investment in Africa* (undated), p. 21.

² The fullest account is given in *Le Fonds Européen de Développement; de l'introduction du projet à son exécution* (Services des publications des Communautés Européennes), 8186/1/V11/1966/5.

³ Except payment for work carried out by local public works departments.

⁴ See p. 19, footnote 1, for fuller explanation of this term. The Financial Controller in DG 8 — its Director-General — is formally the Chief *Ordonnateur*.

no permanent place in the civil service structure of the Commission. It may be argued that greater security of tenure for Deputy Controllers would increase the temptation to pursue independent policies, and that, given the difficulty of recruiting suitable personnel, it is as well to keep open the option of not renewing the contracts. However, the absence of security of tenure is one of the factors that makes it difficult to find personnel of the right calibre. The answer is to recruit good personnel in the first place and not to keep them under constant threat. The Deputy Controller's lack of diplomatic status also makes contact between DG 8 and the governments of associate states slightly more difficult.

A local paying agent (*payeur délégué*) is appointed by the Commission – normally a bank – and makes payments direct to the supplier or contractor, without passing through the local finance ministry or any other government organ of the associated state.

EIB expenditures do not normally come under this system; in their case, control is normally based on examination of documents which are sent to the EIB in Luxembourg. It is understandable that the desire for safeguards is not so great in the case of repayable commercial loans, which are subject to government guarantee in associate states. The EIB is also responsible for financial management and control of all EDF loans, under mandate from the Commission. According to the type of project, the Commission may give either a wide mandate – which makes the EIB responsible for control of the execution of the project as well as financial management – or a narrow mandate under which the Deputy Controller is responsible for local control of project execution.

Chapter 13

Degree of Associate Control

EEC publications tend to stress the uniqueness of the relationship between the AAMS and the EEC which, it is claimed, is based on equality and a continuing dialogue between the partners. Thus:

'This basic element of equality, reflected in the institutions of the association, is their most striking characteristic and constitutes the originality of the Community's aid to the Eighteen as compared with other types of bilateral and multilateral aid'.¹

One must, however, question whether the relationship really is radically different from that between other donors and recipients – or whether such differences as do exist really are beneficial to the AAMS.

Independent sovereign recipient countries always enjoy legal equality with the countries that give them aid and this is normally reflected in their formal contacts with donor countries, and procedures for negotiating and reaching agreement on the amounts and terms of aid. This is certainly true of the AAMS and the EEC, but it does not follow that the relationship is one of equality. Indeed, it is difficult to see how a relationship in which one party confers advantages which are not reciprocated by the other could ever be equal. The AAMS do not have equal 'votes' to the EEC member states in deciding the size of the fund, the rate of disbursement, or where and how it shall be used.

Equally, most aid relationships are based on some form of permanent dialogue. The institutional arrangements vary, and so does the quality of the dialogue, but the mere fact of its existence proves nothing about the degree of participation. In fact the dialogue that takes place through the joint institutions seems to be relatively unimportant compared with the dialogue between DG 8 and governments of individual member states.

There are four key points at which one can examine the extent of participation by AAMS; negotiation of the Convention, institutional arrangements, choice of projects, and control of projects.

In the **negotiation of the Convention**, the AAMS enjoy legal equality – in the very limited sense that they are willing signatories to the agreement that emerges. Their most significant bargaining card, however, is a threat to leave the association – but this would be no great threat to a number of member states. Moreover, the terms offered would have to be very bad before one could count on solidarity of all AAMS. Two features that distinguish these negotiations from those between other aid donors and recipients are, first, that they are explicitly linked to trade negotiations, and, second, that a large number of donors and recipients all have to agree to the same bargain. Neither

¹ EEC Commission, *European Development Aid* (General Directorate Press and Information, undated).

of these features, however, is relevant to the question of the degree of AAMS control.

The **institutional arrangements** of the association are unique, and the joint institutions have been held up as a symbol of the equality of AAMS and member states within the association. But in practice they are not much more than symbols. In the field of aid, the joint institutions have no power to authorize or veto expenditure of Community aid funds.¹ They are useful forums for discussion and for airing grievances, but even the highest forum – the Association Council – can pass resolutions and reach decisions only by unanimous agreement; a single state can block agreement between all the others. With such a large number of members this rule of unanimity would make it almost impossible for the Association Council to play a positive and active role – even if it had a wide decision-making competence. In fact its decision-making powers are extremely limited. Its main power in the field of aid is the right to lay down the general lines of financial and technical co-operation – within the framework of the Convention² – and its resolutions on this have led to an increased emphasis on directly productive projects (as opposed to social and economic infrastructure). However, it hardly seems necessary to have had an Association Council to establish that such a change of emphasis was required, and, in any case, it seems very dubious whether it is a practical proposition to try to lay down general rules for eighteen – or more – recipient countries. The Commission's Memorandum on association indicates that in practice the attempts to do this have not been very successful.³ It would seem preferable to adopt a flexible approach of adapting aid to the needs of each recipient.

In general, the dialogue within the joint institutions differs little from that in comparable aid or trade situations, except that the AAMS are invited (but not obliged) to present a joint position – which is not necessarily an advantage when they have widely differing interests.

The Commission Memorandum on association recommends widening the range of discussion within the joint institutions, and various administrative reforms to restore as much vigour as possible to the *institutional practice* of the association.⁴ It is, however, questionable whether they can ever have an important role if they are not given more powers. This is not to deny that the joint institutions are of value. It is highly desirable to have such formalized institutional channels for discussion and negotiation between donors and recipients. They have, however, been greatly over-sold in public discussion, and it is necessary to be aware of their practical limitations.

¹ The only exception appears to be a limited power to transfer funds from the general resources of the EDF to the disaster aid fund (Second Yaoundé Convention, Article 20).

² Second Yaoundé Convention, Article 29.

³ 'Since the joint institutions were set up, the Association Council has never discussed in sufficient depth the general guidance of financial and technical co-operation'—Memorandum of 4 April 1973 (COM (73) 500/fin), paragraph 2.2.3.1.

⁴ *op. cit.*, para 4.1.

The EEC'S efforts to give associate states the initiative in the **choice of projects** are also commendable, but somewhat over-stated. Donors normally attempt to influence the choice and design of projects, sometimes to an extent which can be objectionable; but even where a donor uses pressure on the recipient, it is very seldom in a position to impose a project against the latter's will. The EEC tries harder than many donors to obtain the view and the consent of recipient countries at various stages, but it too insists on influencing the choice and design of projects and – like all other aid agencies – has the sole power in financing decisions.

EEC programming missions do choose projects even if they do so in consultation. In some cases they select from a very wide field; in others they may help stimulate project ideas. DG 8 is also involved in the choice of projects, even though it may not wish to be, because it helps make decisions which narrow down the programme to a size that can be financed; finally, the EDF Committee or the EEC Council has to make the ultimate choice on each project. The EEC is more concerned than many donors to be involved in the design of projects – hence the very lengthy and detailed studies and project files. At each stage it consults with the associated state concerned, but in the end that state has to agree or lose the project. It may be true that the EEC tries harder than other donors to help improve unacceptable projects and make them acceptable – but it would be very difficult to establish this in any objective way, and one simply cannot see any radical difference between EEC practice, and practices of other donors.

In the **control of EDF projects** the EEC again gives a role to the associated state, but always supervises tendering and award of contracts, retain sits own technical supervisory staff on the spot, and allows no payments until the EEC's local representative has countersigned the authorization. Furthermore, no payments from the EDF are ever made through the government of the recipient country.¹

The EEC explanation of the latter rule is that it is simply an accounting practice. If this is so, it might conveniently be changed for the ACWS, who are used to government-to-government transactions, as well as to far less outside control of tendering, award of contracts, and project execution. The EEC certainly exercises a closer and more paternalistic degree of control over project implementation than many other donors, and the control exercised by recipients is correspondingly less than in most other aid relationships. This might well be interpreted by outsiders as indicating a lack of confidence in Associates.

The EEC thus makes genuine efforts to consult with recipients and share initiatives, at various stages. Relations between DG 8 and individual recipient governments appear to be generally good, but their character does not seem to depend very much on the formal institu-

¹ Except payments for works done by public works departments.

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tional structures of the association. There has, however, been a tendency to overstate the degree of associate control; in reality, the relationship is not radically different from that between other donors and recipients.

Overseas Development Institute

The Overseas Development Institute (ODI) is an independent, non-government body aiming to promote wise action in the field of overseas development. It was set up in 1960 and is financed by donations from British business and by grants from British and American foundations and other sources. Its policies are determined by its Council.

The functions of the Institute are:

- 1 to provide a centre for research in development issues and problems, and to conduct studies of its own;
- 2 to be a forum for the exchange of views and information among those, in Britain and abroad, who are directly concerned with overseas development in business, in government, and in other organizations;
- 3 to keep the urgency of development issues and problems before the public and the responsible authorities.

