

# COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMISSION COMMUNICATION TO THE COUNCIL  
ON THE IMPLEMENTATION OF COMMUNITY AID TO THE ACP STATES  
AND OCT AND OD-SITUATION AT 31 DECEMBER 1978

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(Communication presented in accordance with Article 25  
of the Internal Agreement on the financing and  
administration of Community aid)

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It is foreseen under Article 25(4) of the Internal Agreement on the financing and administration of development aid accorded by the Community that the Commission shall inform the Council of how the Community aid is used by the ACP States, the OCT or any other recipients and how projects financed with this aid are utilized by the recipients.

The purpose of this report is to provide the Council with preliminary information on the subject, on points not already covered in the report which the Commission transmits to the ACP/EEC Council of Ministers under the provisions of Article 41 of the Lomé Convention. It is the first report as the Lomé Convention of 28 February 1975 and the Decision of 29 June 1976 on the Association of the OCT entered into force on 1 April 1976 and operations were therefore slow in getting under way in 1976 and 1977. For this reason, the report covers a period of 33 months, from 1 April 1976 to 31 December 1978.

The Commission proposes to give an account of how Community aid has been used during the first 33 months of the fourth EDF's operations by reviewing in chronological order the successive stages of implementation - from the financing decision right to the end of an operation.

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## A. FINANCING AGREEMENTS

1. As at 31 December 1978, 313 financing agreements totalling 1 020 548 000 EUA had been signed or were about to be. Of this total, six agreements involving 5 640 000 EUA concerned the OCT.

2. The normal procedure for the signing of financing agreements is the written procedure, which consists of forwarding the document, already signed by the Member of the Commission responsible for development policy, to the competent authority of the ACP State (normally the ambassador accredited to the European Communities). During the period under review, 167 agreements totalling 340 612 000 EUA were signed in accordance with this procedure.

There are, however, two other procedures of a more formal nature:

- i. the organization, at Commission headquarters, of formal ceremonies at which the ambassadors of a number of recipient States are invited to sign the documents with the Member of the Commission responsible for development policy. Since 1976 105 agreements totalling 497 021 000 EUA have been signed in this way. It is also possible to take advantage of the presence in Brussels of a Head of State or Government or Minister of an ACP State to sign a financing agreement. Fourteen agreements totalling 104 323 000 EUA were signed in accordance with this procedure;
- ii. the signing of the documents in the ACP State concerned on the occasion of a visit to that country by the President of the Commission or the Member of the Commission responsible. In the period under review 27 agreements totalling 78 592 000 EUA were signed in accordance with this procedure.

3. The period elapsing between the financing decision and the signing of the financing agreement varies, but may be estimated at four weeks on average.

This period is sometimes reduced to a minimum when, for instance, a formal signing ceremony is organized at Commission headquarters the very day after a batch of projects has been approved.

The written procedure may also - in a very small number of cases - take longer than four months. These difficulties arise mainly with the small number of ACP States which do not delegate sufficient power to their ambassador to the European Communities: the signing procedure then has to include examination by the national authorities in the capital of the ACP State concerned (as in the case of Kenya and Ethiopia in

particular), and this is a major cause of delay. The Commission has not failed to point out to the authorities concerned the drawbacks of such a system, explaining that this delay in the implementation of projects, which in particular hampers the execution of payments, is ultimately prejudicial to the very interests of the recipient ACP States.

#### B. FINANCING CONTRACTS (SPECIAL LOANS)

1. With the entry into force of the Lomé Convention the responsibility for drawing up and negotiating loan contracts (which may be accompanied by guarantee contracts) was entrusted to the Commission alone. As in the past, the European Investment Bank remains responsible for recovering the loan.

At 31 December 1978 the Community had entered into commitments totalling 268 044 000 EUA for special loans vis-à-vis the ACP States.

By the same date 52 financing agreements totalling 239 231 000 EUA had been signed, which confirms the diligence shown by the Commission's departments in formalizing the Community's commitment.

Similarly, contracts for special loans totalling 134 869 000 EUA and 7 guarantee contracts had been signed. Over the same period 24 other loan contracts totalling 83 533 000 EUA and 5 guarantee contracts had been drawn up by the Commission's departments but had yet to be signed.

2. These figures show that while the drawing-up and signing of financing agreements do not intrinsically present any problems, the negotiation and signature of a loan contract takes much longer, for the following reasons:

- (a) on the Commission side, its departments inherited, as has already been pointed out, powers previously held by the European Investment Bank, which initially meant a considerable amount of work in formulating negotiating procedures, a difficulty compounded by the low number of staff involved.
- (b) on the ACP States' side, a certain amount of circumspection was shown with regard to contracts which these States were hardly used to formulating - particularly the new members, who were nearly all represented in the negotiations by extremely fastidious lawyers.

Be that as it may, in order to cope with the lack of staff in particular, the Commission drew up model contracts containing general provisions (normally non-negotiable) and special provisions tailored to each specific operation which in theory were the only ones subject to negotiation. These rationalization measures made it possible, at the end of the period under review, to shorten the time lapse between the adoption of financing decisions and the signing of the financing agreements and loan contracts.

### C. TENDERING PROCEDURES

#### 1. International invitations to tender

(a) At 31 December 1978 135 international invitations to tender totalling an estimated 462 million EUA had been issued under the fourth EDF.

The amount involved in each invitation to tender averaged 3 422 000 EUA. In assessing this average account must also be taken of the lowest and highest figures, which range from:

16 000 EUA to 8 500 000 EUA in the case of supply contracts, and  
from 882 000 EUA to 30 million EUA in the case of works contracts.

Of the overall number of invitations to tender, 15, totalling 199 million EUA, were issued following a preselection procedure.

These figures show that the fourth EDF did not become fully operational in this area until the end of 1978.

(b) Publicity is one of the lynchpins of the competitive tendering procedures and it must be noted that "enlargement" in this field under the fourth EDF was carried out without major difficulty:

i. on the part of the new Member States, thanks to the valuable function performed by the information offices in London, Dublin and Copenhagen in passing on the relevant data;

ii. and also on the part of the new ACP States, which, on the whole, complied closely with our publicity procedures (by contributing to the drafting of notices of invitations to tender and distributing notices of interest to neighbouring ACP States).

(c) The Commission also took action of its own to widen the field of competition;

i. by taking scrupulous care to uncover discriminatory provisions in invitation to tender dossiers at the drafting stage and by getting the ACP States to make the appropriate ratifications;

- ii. by organizing briefing trips to the new ACP States and meeting representatives of the various specialized departments concerned (those responsible for contracts in the various ministries, members of tender boards, etc.);
- iii. by organizing briefing sessions in the Member States themselves for the industrial circles involved in contracts financed by the EDF, who responded well to documentation such as the new edition of the brochure on firms' access to contracts financed by the EDF or the programme of contracts envisaged under the fourth EDF;
- iv. by sending out missions to certain ACP States specifically to draw up invitation to tender dossiers for major operations and to accompany site visits and briefing sessions for tenderers. This happened in connection with the following projects: the CIMAO clinker production plant (Ivory Coast, Ghana and Togo), the Tana River hydroelectric project (Kenya), the Mukungwa hydroelectric plant (Rwanda), etc.

(d) The difficulties encountered in the implementation of the competitive tendering procedures applicable to international invitations to tender as regards allowing nationals of third countries to participate in contracts, as provided for in Article 56(3) of the Lomé Convention, deserve particular attention.

This problem, which affects the ACP States in Southern Africa - but also concerns other ACP States with special geographical location, such as the Pacific countries - had led the Commission to consider a number of solutions to be examined with the Member States which would be aimed at making technical adjustments to rationalize the procedure for introducing derogations in this field. This approach, proposed as an experiment in March 1978, initially involved:

- i. making it possible, in the case of supply contracts, to require two quotes from tenderers, based on the origin of the supplies;
- ii. providing, in the case of works contracts, for:
  - an invitation to tender open to third country firms to be issued before the financing decision so that the price was known at that stage of the procedure, or
  - fixing a "higher price threshold" allowing the competent authorities some measure of latitude in awarding the contract.

These proposals were discussed on a number of occasions within the Council's ACP-FIN Working Party. Some Member States' delegations were distinctly hostile to the Commission's proposals for reasons to do with the geopolitical environment of ACP States in South Africa, as a result of which the Commission had to modify its initial approach. Following many discussions it presented a compromise proposal to extend the two-quote system to imports of certain plant, equipment and materials involved in works contracts. These measures were not accepted by the Council, and the Community had to be content, in the negotiations for the new Convention, with a much vaguer text, which did not, however, exclude the possibility of the two-quote system in future providing the EDF Committee with the information it needed to decide, with full knowledge of the facts, on derogations for third countries based on higher costs.

## 2. Accelerated invitations to tender

At 31 December 1978 47 invitations to tender by accelerated procedure had been issued, totalling 26 333 000 EUA, i.e. an average of 560 000 EUA per invitation to tender. Here again it is important to give the highest and lowest figures for invitations to tender issued under this procedure - 1 750 000 EUA and 17 000 EUA. The former figure is of particular note in that it comes close to the 2 000 000 EUA threshold laid down by the Lomé Convention. In addition, during the period under review 53 invitations to tender for works contracts estimated at below 2 000 000 EUA were issued: since 47 of these were by accelerated procedure it can be concluded that the ACP States made maximum use of this method, which the Lomé Convention did not institute but simply enlarged upon.

## 3. Exceptions to the invitation to tender rule

At 31 December 1978 290 contracts totalling 56.6 million EUA had been awarded by mutual agreement or after restricted consultation.

At the same date 206 operations totalling 72.5 million EUA had been carried out by public works departments, the favourite area for this method of execution being agricultural projects.

In view of the scale and number of the operations for which an exception has been made to the general rule of invitations to tender the question may be asked whether the conditions laid down by the texts (emergency, small scale of project or specific nature of services to be rendered) have always been met.

Indeed, the period during which fourth EDF operations were getting under way coincided with the start of technical relations with the new ACP States and the establishment of new Delegates in their posts and therefore there was an increase in the number of requests made for exceptions from the normal practice of international invitations to tender so that projects could be started sooner. The Commission adopted an understanding attitude towards this situation for the very first projects put forward by new ACP States but subsequently reacted against excessive laxity in this respect; in a circular dated 21 March 1978 it reminded all Delegates of the need to see that the basic principles governing the method of awarding contracts under the Lomé Convention were respected. This reaction was necessary particularly as experience had shown that the normal competitive tendering procedure was ultimately the quickest method of placing contracts - which tends to prove that the argument often invoked in favour of applying derogations, namely that they would speed things up, has not always been the real reason for restricting competition.

D. RESULTS OF COMPETITIVE TENDERING PROCEDURES

1. Statistics on participation

The statistics on participation (see table below) show a certain geographical imbalance.

Country	4th EDF							
	Works Contracts		Supply Contracts		Technical Cooperation Contracts		Total Contracts	
	Value	%	Value	%	Value	%	Value	%
Germany	30.244	9,30	20.498	25,07	24.262	21,75	75.004	24,46
Belgium	26.388	8,11	2.375	2,90	12.207	10,94	40.970	7,90
France	96.357	29,62	20.558	25,14	17.273	15,48	134.188	25,87
Italy	38.781	11,92	4.949	6,05	13.510	12,11	57.240	11,04
Luxembourg	-	-	-	-	2.641	2,37	2.641	0,51
Netherlands	7.279	2,24	2.121	2,59	10.211	9,15	19.611	3,78
Denmark	-	-	41	0,05	3.497	3,14	3.538	0,68
United Kingdom	8.184	2,51	13.618	16,65	11.595	10,39	33.397	6,44
Ireland	-	-	-	-	1.561	1,40	1.561	0,30
ACP-OCT	118.089	36,30	12.031	14,71	14.808	13,27	144.928	27,94
Third Countries	-	-	5.593	6,84	-	-	5.593	1,08
<b>Total</b>	<b>325.322</b>	<b>100</b>	<b>81.784</b>	<b>100</b>	<b>111.565</b>	<b>100</b>	<b>518.671</b>	<b>100</b>

These figures, which take account of contracts actually awarded, do not include the invitation to tender estimates referred to above, which have not yet all resulted in the placing of contracts.



These results elicit the following remarks:

(a) If all contracts are considered the geographical imbalance, unlike that observed in the case of the three previous funds, is not marked by the clear predominance of one country but rather by four areas of concentration, between 25% and 28%, 11% and 15%, 3% and 8% and less than 1%.

(b) These figures clearly give only an imperfect picture of the fourth EDF (there is a long way to go before even the half-way stage is reached) since it did not become what may be considered fully operational until the end of 1978. As the large number of projects already approved gradually reach the execution stage this will probably balance out the results more.

(c) It is, however, important to stress the already significant degree of participation by the ACP States' firms and public works departments. This shows that the arrangements made to help them under the Lomé Convention are now fully effective.

It is true that so far these results have been achieved without the price preferences introduced for both works and supply contracts really having to be applied. Account must also be taken of the increase - already pointed out - in the number of operations carried out by public works departments and the relatively high number of minor contracts of little interest to foreign firms, these being factors which are particularly characteristic of the starting-up phase of projects.

## 2. Participation by national authorities and Delegates

An assessment of the actual statistics of competitive tendering must not overlook two other aspects inherent in the procedure for awarding contracts:

- i. There has fortunately been only one instance where the Commission has had to award a contract to a tenderer other than that proposed by the national authorities. This shows that the authorities are playing the game by respecting the verdict of competition. It must also be said that, in the rare instances of conflict in this area, intervention by the Delegates has enabled a satisfactory solution to be reached by settling the differences in the interests of both the Community, as the provider of funds, and the country receiving aid from it;

- ii. In more than 50% of the cases, however, the choice of contractor has been approved by the Delegates on behalf of the Commission. This proves that the decentralization measures introduced for the purposes of implementation of the Lomé Convention are also working properly, since the conditions laid down for such delegation of powers have been fully respected (lowest bid recognized as being economically the most advantageous, keeping within the cost estimate).

#### E. CONTRACTS

1. During the period covered by this report, primary commitments (financing decisions) entered into for all the ACP States and the OCT amounted to 1 653 million EUA.

Under these decisions, a total of 612 projects were the subject of secondary commitments (contracts concluded) worth 986 million EUA.

(a) These results must be seen in the light of the following two factors:

- i. It should be pointed out that certain financing decisions, such as those relating to microprojects and exceptional aid, which involve a large number of minor operations extending over a period of time, result in a single secondary commitment equivalent to the total amount of the project;
- ii. Other operations, however, such as Stabex transfers, risk-capital operations and interest-rate subsidies, which also give rise to a single secondary commitment, are characterized, unlike the preceding operations, by the rapid mobilization of funds. These operations, numbering 111, are also included in the overall amount of secondary commitments but must be added to the 612 operations referred to above.

(b) Examination of these figures shows that, compared with primary commitments (1 653 million EUA), secondary commitments (986 million EUA) account for 59.6% of the amount covered by decisions. If, however, the value of the operations described in the preceding paragraph (amounting to 252.8 million EUA as at 31 December 1978) is subtracted from the total amount of secondary commitments this percentage will be found to be only 44.3%, which gives a clearer idea of the progress made on projects in the recipient countries.

If these results are compared with those obtained under the third EDF it will be found that at the end of nearly three years of operations secondary commitments accounted for 48.7% of overall commitments. This

fact would tend to show that, in the field, commitments are not following financing decisions as closely as in the past. This overall trend should in fact be qualified according to individual States as will be explained below (v. (c)).

If the analysis is extended to take in disbursements, the "primary commitments/secondary commitments/disbursements" pipeline may be assessed in the light of the following percentages:

- i. out of the total credits implemented, disbursements (572 million EUA) account for 34.6% of primary commitments (1 653 million EUA).

If, however, the amounts which were mobilized rapidly (interest-rate subsidies, Stabex), that is 207 million EUA, are deducted from the overall figure this lowers the percentage to 25.2%;

- ii. according to the two methods of assessing the figures referred to above disbursements account for 58% and 45.5% respectively of secondary commitments (986 million EUA).

(c) A breakdown by recipient country shows that the countries in respect of which secondary commitments account for more than 50% of primary commitments are former AASM, except in the case of Zambia (76%), where the situation is, however, attributable to three exceptional aid projects totalling 16.8 million EUA out of total decisions involving 34 million EUA.

The countries with a rate lower than 50% are nearly all new ACP States. For these countries, such as Botswana, Grenada, Guinea, Guyana and Liberia, secondary commitments amount to less than 30% of primary commitments.

This situation stems basically from certain difficulties encountered by ACP States which are not as yet completely familiar with EDF procedures. It must also be noted that in two former associated states - Ivory Coast and Mauritius - disbursements still represent less than 10% of commitments. These poor results are attributable either to inefficiency on the part of the national authorities concerned (see below) or to the fact that the financing decisions were approved relatively late by the Commission (Ivory Coast).

2. As a logistical aid to providing information on the financial situation of projects EDF accounts were progressively transferred on to the Commission's computer in Luxembourg as from the end of 1976 in order to meet the following objectives:

- rationalization of working methods,
- wider distribution of financial statements,
- compilation of statistics from the basic data.

(a) Rationalization of working methods

Computerization has obliged the departments concerned to deal in a uniform manner with accounts data of the same kind. The sources of errors have decreased and the interpretation of results has improved significantly both centrally and at Delegation level.

(b) Wider distribution of statements of account and of statistics

The mechanization of the accounting procedures makes it possible to produce financial statements denominated in units of account on projects and contracts and to circulate them to the Delegates and National Authorizing Officers responsible for executing projects. This system automatically ensures that the accounts agree at the various levels of management. The various supervisory bodies (Financial Control and Court of Auditors) automatically receive a copy of the monthly balance.

(c) Compilation of statistics from the basic data

The basic accounts data have been augmented by a number of items of use both to management and for statistical purposes. Hence, it is possible to extract from statements of account many items of information concerning the execution of projects. Although still in its infancy this programme is full of possibilities for the future. Since 30 September 1978 a three-monthly statement has been published describing, by country or territory, the state of progress of each project on which a financing decision has been taken. The members of the EDF Committee regularly receive these statements.

As an aside to these remarks about the rationalization of the Commission's working methods it may be of interest to point out that financially-biased visits to the national authorities of each of the new ACP States, modelled on those made to explain the procedures for the award of contracts (see above), were organized during 1976 by the Directorate-General for Development in order to:

- explain to the new recipients EDF procedures regarding:
  - the designation and powers of the National Authorizing Officers,
  - the financial management of the EUA credits,
- negotiate and conclude agreements to govern paying agents' relations with the Commission.

These briefing visits were greatly appreciated by the national authorities of the countries concerned, for they demonstrated the Commission's desire to set up the various executive agencies required to enable projects to be actually started as soon as they had been approved by the Commission.

In some countries, however, consideration should be given to repeating such visits or organizing seminars in view of the difficulties encountered by the national authorities, as has already been stressed, in assimilating and applying our rules in practice.

Nevertheless, the appointment of a single National Authorizing Officer in each country can be considered an appreciable result of these first visits, showing that our partners, in understanding the need to deal with a single person if projects are to be managed rationally, have respected the spirit and not just the letter of the Lomé Convention.

3. If the adjustments made to estimates when projects and programmes are presented to the decision-making authorities are ignored, total cost overruns at the project execution stage are insignificant given that relatively little headway has yet been made on most fourth EDF projects.

At the moment it is therefore premature to express an opinion on the problem of overspending during execution, except in the following cases:

(a) At the project execution stage, in other words after the signing of the financing agreement but before the invitation to tender was issued, the Rwandese Government agreed to exempt materials from certain taxes in order to counter the likelihood of overspending on the Mukungwa hydroelectric project.

A similar solution involving exemption from taxes at the invitation to tender stage was arrived at in the People's Republic of the Congo for the project entitled "Bridge over the Niari at Loudima".

In both of these cases it was possible to avert the threat of overspending on the project budget or on the amount estimated for the works thanks to these tax exemption measures. It should be pointed out here that the Governments tend to consider this loss of revenue as their financial contribution to the project, which is quite understandable.

Moreover, it has been noted that in the case of cofinanced projects exemption from taxes is sometimes a condition, if not a prerequisite, for participation by other bodies or donor countries.

(b) Other problems involving overruns on project budgets have been resolved:

i. either by using the reserves earmarked for contingencies and cost

escalation where the amounts stipulated in a chapter of the financing agreement were being exceeded (this therefore involves transferring sums within the project allocation, as in the case of the project entitled "Development of the Moro-Naba backwater in Upper Volta";

- ii. or by cutting back on the targets set in the financing agreement (e.g. in the case of the project for nutritional rehabilitation centres in Uganda the number of units was reduced from 10 to 3).

It should be pointed out in this analysis of the measures taken in cases of overspending on projects that, to cut costs, governments are increasingly tending, particularly in the case of agricultural projects, to have the work carried out by public works departments, participation in the project then being restricted to the available appropriation in view of the absence of such constraints as would result from the conclusion of contracts.

4. Under the Lomé Convention and its implementing texts there are a number of provisions for accelerating the execution of certain types of operation akin to programme aid. There is uncertainty about the scope of such measures, and in particular about whether they are really executed faster than project aid.

(a) Emergency aid projects are implemented more rapidly than projects financed normally by grant aid. The main reason is that these projects are generally exempt from the invitation to tender procedures precisely because of the emergency nature of such operations. This initial advantage is not, however, always carried through to the execution stage, for some countries receiving this aid have been slow, not to say negligent, in presenting and approving the cost estimates that are essential before operations can be started. Experience shows that the flexibility of the procedures used nevertheless accelerates the rate of disbursement and, hence, of execution.

(b) In the case of microprojects the overall primary commitment/secondary commitment and secondary commitment/disbursement rates are respectively 66.5% and 61.3%. In actual fact, since 80% of the project appropriation may be mobilized once the estimate is committed as an advance, a period of time is needed to justify (by means of a report or record) the use to which these funds are put and to enable the balance to be paid. The amounts paid out do not therefore reflect the real state of execution of the project.

(c) Stabex operations are characterized by a transfer accompanying the financing decision, which demonstrates the rapid nature of this type of operation.

(d) Trade promotion programmes do not seem to be implemented any more rapidly than normal aid operations in view of the difficulties encountered in organizing such events and delays by participants in settling the financial side of operations. Thus, only 37.7% of primary commitments have so far given rise to secondary commitments.

F. DISBURSEMENTS AND DISBURSEMENT PROCEDURES

1. Fourth EDF expenditure entered for the period 1 April 1976 to 31 December 1978 (as shown in the balance sheet for financial year 1978) amounts to 572 m EUA

It is necessary to add to this amount the share for "payments to be regularized" under the fourth EDF, amounting to 40 m EUA

The latter amount can be broken down as follows:

- advance to the EAC	16 m EUA	
- advance for award holders	10 m EUA	
- expenditure entered as "provisional", which will not become "final" until approved in accordance with Article 12 of the Financial Regulation	14 m EUA	
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	40 m EUA	
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Overall expenditure therefore amounts to		612 m EUA

For the 1977 financial year the relevant expenditure entered on the balance sheet amounted to 252 m EUA

By adding to that amount, using the same criterion referred to above, payments to be regularized, viz 49 m EUA

An amount of 

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301 m EUA

is obtained, in other words an increase, for 1978, of 

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311 m EUA

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Since the European Development Fund agreed to finance all local expenditure total disbursements cover both external and local expenditure. Owing to certain technical constraints, in particular the lumping together of the different Funds into a single pool of cash while they are still being used, the Commission is not able to give exact figures on the breakdown between external and local expenditure. Besides, to make a percentage breakdown between local and external spending where the volume of expenditure involved is, relatively speaking, low compared with the overall amount of funds committed and contains 30% of disbursements under Stabex would not, at the present stage of execution, have any conclusive significance.

As has already been pointed out, the volume of disbursements made in 1978 was considerably up on 1977: while in the middle of the year the Commission had been obliged not to call in the second tranche of contributions to the Fund from the Member States the situation changed during the third quarter. This trend should continue and even grow stronger in the immediate future, since the volume of disbursements recorded in the first three months of 1979 is twice that for the corresponding period of 1978. This situation shows that after a period of feeling their way the now ACP States today seem to have assimilated the relevant EDF procedures very well.

2. The Lomé Convention brought major changes in disbursement procedures since the texts stipulated that an account would have to be opened on behalf of the Commission in each ACP State for making external payments in that State. Under the Yaoundé Conventions the Commission had accounts only in the Member States. This obligation to open accounts in every ACP State has added considerably to the work involved in managing the assets.

Initially, the Commission drew up a standard model for disbursement agreements which would comply with the banking practices normally followed both in the new (English speaking) ACP States and in the former AASM.

The Commission text was drawn up after detailed consultations, in particular with the Bank of England, and was generally accepted, subject to some minor, purely formal amendments, by all the financial establishments to which it was submitted.

(a) Generally speaking, accounts opened on behalf of the Commission are kept in the books of the central banks of the ACP States. The only exceptions to this rule have been in States where the central bank has



refused to act as paying agent, on the grounds that technically it was poorly equipped to carry out these tasks and itself suggested having them carried out by a bank experienced in transactions of a commercial nature (Suriname), or where a central bank does not yet exist and, in that case, paying agent agreements have been concluded, subject to a number of technical amendments, with the Treasury (Seychelles).

For ACP States in the franc zone the negotiations were greatly facilitated and simplified by the existence of two central banks, the Banque Centrale des Etats de l'Afrique Centrale (Central Bank of the Central African States) and, the Banque Centrale des Etats de l'Afrique de l'Ouest (Central Bank of the West African States), which are both regional institutions. In both cases a single agreement involving a number of States was concluded with a single body.

(b) The Commission's accounts opened in the ACP States are denominated in a European currency. All accounts opened in the franc zone countries are funded with French francs; those opened in the ACP States which were formally Belgian dependencies are denominated in Belgian francs; the account opened in Suriname is denominated in Guilders. However, the accounts opened in the new ACP States have, generally speaking, been denominated in Pounds Sterling or in German Marks (roughly the same number in each); the account opened in Madagascar is in Guilders and that opened in Mauritania in German Marks.

(c) Only one ACP State has so far found it impossible to implement all the mechanisms provided for in the texts proposed by the Commission for making payments in local currency. That State is Kenya, whose negotiators felt that certain provisions of the country's constitution prohibited payments in Kenyan shillings from being made directly to Kenyan residents by debiting the Commission account with the central bank. In particular, they asserted that it was absolutely necessary for all external aid to be channelled through the Kenyan Treasury before actually being used. They therefore preferred to have prefinancing carried out by the Treasury and to request repayment subsequently by debiting the Commission account. It would seem that following experience with such practices the Kenyan authorities are prepared, in view of the delays encountered, to aim at greater flexibility in order to bring themselves into line with the practices that are common to all the other ACP States.

(d) The texts of paying agent agreements specify that the Commission's account is to be debited at the exchange rates obtaining on the date of payment. This point gave rise to difficulties with Jamaica, which at the

end of April 1977 introduced two exchange rates - an official rate (the "basic rate") and a "special rate", involving the immediate devaluation of the Jamaican Dollar by around 30%.

Despite repeated moves the Commission failed in 1977 to have the special rate applied to it for the sale of its German Marks to the Jamaican central bank. The situation has, however, returned to normal; on 9 May 1978 the basic rate was abandoned and there is now only one exchange rate in force in Jamaica.

(e) The Commission does not have any obligation to open accounts in the OCT/OD in order to make payments in local currency in those countries and so continues to make such payments via its paying agents in Europe - the Bank of England, the Caisse Centrale de Coopération Economique and the Algemene Bank Nederland.

(f) It should be added that, in order to cope with the increase in its workload, the Commission has had to rationalize its working methods in so far as possible and, in practice, has had to call for the active and vigilant cooperation of the Delegates in monitoring the assets in Commission accounts in the States where they are posted. Most of the Delegates, after a number of reminders, have understood the need to perform these purely executive tasks.

3. With the entry into force of the European unit of account it is now up to the Commission alone, under the provisions of the Financial Regulation, to watch over the trend of exchange risks affecting European Development Fund assets.

Under the Yaoundé Conventions at least part of these exchange risks was borne by the Member States: the contributions paid by the Member States into the special Commission accounts opened with the Treasuries of the Member States were covered by an exchange guarantee as long as the funds in question remained in the special accounts.

The Member States are now released definitively from their obligations - by paying their contributions in their own currencies on the basis of the exchange rates obtaining on the date when contributions fall due.

In theory it is then up to the Commission to see that these cash sheets retain their initial value in terms of the unit of account until such time as they are used for payments. In actual fact, however, there is no

way the Commission can ensure this, for the following reasons:

(a) - The contributions should be paid on fixed dates but certain Member States - unfortunately some of those whose currencies are falling in value on the foreign exchange market - do not meet their obligations punctually. When the Commission finally receives the contributions payable to it by the Member States it can therefore only record the trends in the unit of account value of its cash assets compared with the value in unit of account terms initially anticipated.

(b) The Member States' contributions to the European Development Fund are made on a pro rata basis in accordance with a schedule of contributions. This schedule differs from that used to determine the composition of the European unit of account basket. If, therefore, all the Member States were to pay their contributions on the set day the Commission would be obliged to arbitrage the various sums received as soon as possible, in order to redistribute them in accordance with an allocation key corresponding exactly to that of the EUA basket. The only way available at present of ensuring that the cash assets retain their value in EUA terms would be to use them with care being taken to ensure that the various amounts of the Member States' currencies making up those assets are spent in accordance with the basket's allocation key.

(c) As pointed out above, a large part of the Fund's assets is spread among 40 financial establishments despite the care being taken by the departments to keep the funding of Commission accounts in the ACP States at the lowest possible level.

It is a fact that spreading the Community's assets far and wide over a large number of accounts, particularly ones situated thousands of kilometres from Brussels, precludes any possibility of arbitrage and obliges the Commission simply to record the effects of exchange rate movements on these assets until such time as they are used without being able to take any remedial action. One of the causes of the exchange risk borne by the EDF assets would be obviated if the Member States were to respect more strictly their obligations to pay on a specified date, but it will always be necessary for the Commission to see to it that, after the contributions have been paid, its assets in units of account are not eroded compared with the initial value of those assets. In this field the Commission, which spent many months conducting difficult negotiations with financial establishments in Europe, managed to convince certain people of the importance of experimenting with accounts denominated in EUA. The Directorate-General for Development immediately seized upon

this opportunity to negotiate, at the end of 1978, with financial establishments in Belgium, France and Italy, the opening on behalf of the Commission of accounts in which large amounts of EDF resources are entered.

Since in the past the exchange risks to which EDF monies were subject were particularly appreciable in at least two of the Member States concerned the opening of EUA accounts in those two States is bound to make a significant contribution to solving a difficult technical problem facing the Commission now that the Member States no longer grant exchange guarantees immediately they pay their contributions.

As with any other type of risk the Commission can do no more than take precautionary measures - notably by setting aside a "provision" for what it has calculated the risks to be, i.e. by freezing part of the Fund's monies as a "provision for exchange risks". It goes without saying that one day the ACP States, dissatisfied at seeing the EDF monies reduced by various amounts, may come to question this practice.

To complete the picture, it should be specified that the rate of interest generated by European Development Fund monies deposited with certain paying in Europe will depend on the rate of inflation in the Member States where such monies are deposited. All things remaining equal, creditor interest should partly cover any exchange losses.

#### G. CONTROL AND INSPECTION

##### 1. Commission Delegations

(a) Overall policy: external representation, status of the EAC.

During 1976 and 1977 the Commission embarked upon a process of defining more closely and coordinating the various external representation measures it had felt obliged to take in order to cope with needs as and when they arose.

A first communication on the subject was transmitted to the Council on 22 July 1977 (COM (77) 368 final) and was entitled "External representation - medium-term policy". A second communication (COM (78) 66 final), addressed to the Council on 9 March 1978, supplemented the preceding one by setting

out ways of strengthening cooperation between the Commission's external offices and the Member States' diplomatic missions and by dealing with the measures which the Commission itself proposes to take in order to improve harmonization of the internal management of the various types of external offices.

In line with this approach, in March 1978 the Commission instructed an interdepartmental working party consisting of representatives of the Secretariat-General and DGs I, VIII, IX, X (Spokeman's Group), XIX and XX to examine ways of making progress in bringing into line the Commission's various methods of organizing its relations with the external offices. In April it also asked for a report to be prepared on all staff turnover problems affecting the Delegations.

The working party transmitted its report to the Commission on 17 November 1978; it suggested a number of improvements to the administration of the external offices and proposed new guidelines for achieving convergence between the EAC system and the arrangements for the external offices.

More specifically as regards changes in the status of the EAC, the Commission also submitted to the Council a proposal for a regulation relating to the creation of a European Agency for Cooperation (COM (78) 93 final of 9 March 1978).

The text was aimed at transforming the existing structures of the European Association for Cooperation, an association established in 1964 under Belgian law, into a public Commission agency set up by the Council on the basis of Article 235 of the Treaty.

While the association set up in 1964 to provide the Commission departments with the necessary assistance in selecting, recruiting and managing overseas staff was an undoubted success with everyone pleased to acknowledge its flexibility and effectiveness, it has to be admitted that the trend of development policy, the widening of the field of activity and the amount of capital involved make it necessary to set up a slightly different organization which meets the following basic objectives:

- i. The responsibilities assumed come under the public authorities: only a public structure can bear such responsibilities;
- ii. Flexibility and autonomy of management are essential for administering staff posted in countries thousands of kilometres from headquarters: only a relatively independent structure can react to situations immediately, as is necessary for long-range management.

In order to meet the two basic criteria summarized above, the Commission proposed to the Council that a European Agency for Cooperation be set up, a budget of around 35 million EUA per year; in addition to headquarters staff, its personnel would also comprise the staff of the Delegations and the technical cooperation personnel made available to governments at their request.

As the Commission pointed out in its communication: "In short, the Agency will be not so much a new creation as the legal transformation of an existing instrument".

The Commission proposal was discussed by the relevant European Parliament committees (Committee on Development and Cooperation and Committee on Budgets).

In September 1978 the Council's ACP/FIN Working Party held a preliminary discussion on this proposal.

In addition, the Court of Auditors drew up, at the request of Members of the European Parliament, a report on the operation of the EAC, which it transmitted to the Commission on 16 October and to the Council on 25 October.

On 19 December 1978, in order to take account in so far as possible of the observations made by Members of Parliament and the Court of Auditors, the Commission notified the Council and Parliament of changes in its initial proposal regarding the following aspects:

- (1) The conditions that would govern the drawing-up and adoption of the Agency's budget and the auditing of its accounts were specified in the explanatory memorandum;
- (2) Article 17 of the draft Council regulation was reworded so that the Delegates and the Agency's headquarters staff would be treated as temporary Community staff and the Agency's other expatriate personnel would be covered by staff regulations drawn up by analogy with those of the temporary staff.

During its May 1979 session Parliament delivered its opinion on this new proposal, based on the reports drawn up by its relevant two committees. While giving qualified acceptance to the principle of setting up an Agency, Parliament suggested that Article 17, dealing with the arrangements envisaged for the Delegates and headquarters staff, should be reworded and that the arrangements applicable to other staff should be amended.

(b) Commission Delegations

The process of establishing the Delegations following the entry into force of the Lomé Convention was spread mainly over the years 1976 and 1977. In 1978 the accession of further States to the Convention entailed the opening of a new Delegation (for Papua New Guinea). Before the various phases of this expansion are explored in detail it should be noted that the extension of Commission overseas representation did not mean just a considerable increase in the workload, but, more importantly, a profound change in the working habits of the departments concerned (new language, new laws, etc.).

(1) Staff recruitment and management

- i. Commission Delegates: preselection procedures were organized back in September 1975; in 1976 the increase in the number of Delegations from 22 to 41 made it necessary to recruit another 18 Delegates and to promote one adviser from within. In 1977 and 1978 following staff movements (people leaving, etc.) and the opening of another Delegation six new Delegates were recruited (in 1978 they numbered 42).

Certain Delegate posts were awarded to officials of the Commission and other institutions, who were seconded for that purpose (6 officials in all).

Accelerated training schemes run both in Brussels and in the overseas postings helped prepare the newcomers for taking up their duties.

- ii. Advisers and staff attached to Delegations

The number of advisers and staff attached to Delegations rose from 134 in 1975 to 214 in 1977 and 224 in 1978. Extensive advertising campaigns were conducted in the specialized press and aimed at university circles and national authorities in order to recruit the staff.

With regard to the economists attached to the Delegations and technical assistants, it is interesting to note that in 1975 and 1976 there were 1 745 applicants, from among whom 114 were selected to fill the vacancies in question. Here too, moves were made to second officials on the grounds that it was in the interests of both the Delegations and the persons concerned, besides which this was a practical example of the Commission applying the staff mobility policy which it wishes to promote.

(2) Expenditure and management of equipment

Expenditure<sup>1</sup> leapt ahead between 1975 and 1978:

From 13 725 000 u.a. in 1975  
it rose to 19 684 000 u.a. in 1976  
28 710 000 EUA in 1977, and  
33 420 000 EUA in 1978, that is a 46% increase between 1976 and 1977  
and a 16% increase between 1977 and 1978.

Staff expenditure played a big part in this development but the cost of installing the Delegations and staff was fully reflected in the total value of material and moveable property inventorized as at 31 December 1978, which amounted to more than 3 500 000 EUA (compared with 193 804 u.a. in 1975).

Solutions were found to special problems faced by the new Delegations, in particular as regards insurance and the supply of equipment which it is sometimes difficult to obtain locally.

(c) Breakdown of costs

The June 1976 estimates put the administrative expenses of the Delegations (including the consultancy firms) at 97.345 000 EUA, broken down as follows:

Year	(million EUA)			TOTAL
	ACP	OCT	ALL COUNTRIES	
1976	12.723	0.858	1.234	14.815
1977	19.505	0.850	1.060	21.415
1978	20.515	0.920	1.165	22.600
1979	22.565	1.015	1.270	24.850
1980 (6 months)	12.405	0.560	0.700	13.665
<hr/>				
TOTAL:	87.713	4.203	5.429	97.345
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These assessments did not take account of the forecasts for Nigeria and Papua New Guinea (subsequently estimated at 2 095 000 EUA), which brings the total to 99.440 000 EUA.

These estimates were based on the appropriation and number of staff envisaged for 1977. The results were then increased by 10% for 1978/79 and 1980.

<sup>1</sup> Expenditure comprises: delegations and head office costs as well as expenditure on technical assistance and student grants financed by the EAC.



After the third year of implementation of the fourth Fund expenditure for the ACP countries totalled approximately 57 million EUA, which roughly corresponds to the indicative programme estimates.

In view of the results obtained so far and the fact that the appropriation for 1979 will probably exceed requirements (the number of staff for 1979 should stay the same as in 1978) expenditure is likely to remain within the amount budgeted for administrative expenses.

There remains, however, an unknown quantity which is difficult to estimate, namely the way the Belgian franc is likely to move vis-à-vis the unit of account. Between 1 April 1976 (when the estimates were made) and 1 April 1978 the parity of the Belgian franc fluctuated from 43.7404 to 39.425, a difference of approximately 9.37%.

Between 1 April 1977 and 1 April 1978 the difference was only 3.50%.

Be that as it may, expenditure should be limited as far as possible and any complementary or supplementary measures should be matched by appropriate financial resources.

## 2. Financial control

At its 363rd meeting on 10 December 1975, the Commission took a number of measures regarding financial control of EDF operations.

These measures involved:

- (a) the secondment of a financial controller;
- (b) on-the-spot inspection;
- (c) inspection based on records.

### (a) Secondment of a financial controller

The Commission official appointed to perform this task within DG VIII has been working in this capacity three days a week since 21 February 1977.

Experience has shown this decentralization measure to be effective, for commitments or disbursements not exceeding 50 000 EUA may be endorsed directly by the seconded financial controller.

### (b) On-the-spot inspection

In 1977 and 1978 financial control undertook a number of missions to the countries concerned, namely to Suriname, the Netherlands Antilles,

Cameroon and Chad, Benin and Upper Volta, Togo, Congo and Madagascar.

The main object of these missions carried out in conjunction with the financial departments of the Directorate-General for Development was to check that commitments made and the resulting project implementation were in conformity with the provisions of financing agreements.

During the missions the officials concerned were able to assess the organization and control methods of each of the Delegations visited and audit the books and current accounts. These visits are useful, for they enable:

- i. the controller to obtain a better idea of the actual situation and, hence, of the difficulties encountered in executing certain projects;
- ii. the controller to appreciate the concerns and requirements of the auditors and to take account of the observations or recommendations made.

Following each mission a report is drawn up and communicated to the Chief Authorizing Officer. The latter, after consulting the relevant department of DG VIII and the Delegates, in turn passes on his views or remarks to the Financial Controller.

Further control missions are scheduled for 1979.

(c) Inspection based on records

Since February 1977 the following must first be endorsed by the Financial Controller:

- i. all commitment or credit transfer proposals concerning contracts that have been or are to be concluded,
- ii. expenditure authorizations to be made in foreign currency via the EDF accounting officer.

On the whole the above measures have so far yielded good results. Computerization of the EDF's accounts has also made it possible to distribute account balances regularly to the control departments, thus facilitating internal control and making for stricter management.

### 3. Court of Auditors

(a) Articles 64 et seq of the Financial Regulation applicable to the fourth EDF determine the rules governing the presentation and auditing of the accounts, the latter operation having been carried out since October 1977 by the Court of Auditors, which succeeded the Audit Board.

When adopting this Financial Regulation the Commission stated that it would transmit regularly to the Court of Auditors the financing and transfer decisions and agreements and all periodic statements relating to the financial execution of projects in progress.

Finally, and most important of all, the Commission agreed, so as not to hold up the work of the Court of Auditors, that the latter could carry out its audits at its request not when projects were closed but when each contracts forming part of a project was closed.

(b) As soon as the new Court of Auditors was set up the Commission gave the necessary instructions to ensure good relations and defined the terms on which its departments were to collaborate in supervising expenditure and revenue.

As early as January 1978 the Directorate-General for Development was approached by the Member of the Court of Auditors responsible for matters relating to development aid with a view to defining by common accord the type of information to be transmitted to the Court of Auditors and, more generally, the nature of relations between DG VIII and this control body.

These talks resulted in an exchange of letters between the Member of the Commission responsible for Development and the Court of Auditors, to which was annexed a detailed summary of the points of agreement.

\* A combined effort to improve the management of Community funds enabled

fruitful collaboration to be started up between the controller and the controllee. This collaboration was particularly in evidence on the occasion of the first on-the-spot control mission undertaken by the Court of Auditors in Burundi in 1978.

H. CLOSURE OF OPERATIONS

The number of operations closed under the fourth EDF is relatively low, even if account is taken of emergency operations and small-scale schemes such as studies preceding the execution of projects. The only exception is Stabex transfer operations, the reason for this being their special nature.

This situation is not abnormal in the light of experience with the previous EDFs.

As already pointed out above the fourth EDF did not become fully operational until the second half of 1978, and will remain so through 1979 and the following years. It is therefore quite premature to make an assessment now of how fourth EDF operations have been implemented.

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C O N C L U S I O N S

The overall assessment that can be made after thirty-three months of implementation of the Lomé Convention is far from unsatisfactory - especially if the situation at the end of 1978 is compared with that at the end of 1977: total primary commitments accounted for 55% of the overall fourth EDF appropriation (3 000 million EUA) against 36%; with regard to projects secondary commitments accounted for 44% of primary commitments as against 21% and disbursements accounted for 46% of secondary commitments as against 38%.

These figures show that while the increase is very considerable at the level of commitments alone it is far less so as regards the pipeline between commitments and disbursements.

Admittedly, this is not a problem peculiar to the EDF. A recent OECD analysis shows that for all DAC members the volume of disbursements remained stagnant, however, which is far from being the case with the EDF.

The Commission nevertheless wished to examine in greater detail why such a phenomenon had occurred in connection with projects financed by the Community. With the aim of bringing to light all the possible causes it was keen to involve in this examination its "men on the spot", the Commission Delegates in the ACP States. The following conclusions therefore come largely from the Delegates' replies to a confidential questionnaire addressed to them by the Brussels departments at the end of 1978.

1. The Delegates dismissed clearly certain possible causes straight away. For instance:

- i. nearly all the Delegates acknowledged that they received adequate instructions from Brussels and that the decentralization of powers was adequate;
- ii. EDF procedures themselves were not called into question: it was more the way they were interpreted by the Community's partners which gave food for thought. Moreover, this last point needs to be qualified in that for obvious political reasons the Commission had to keep an even balance in its financing decisions between projects for the old associated countries and those for the new ACP States; in most cases,

however, the former were ready for rapid implementation while the latter were not.

2. The underlying causes of delay, in the view of the Delegates, centred basically on two major points:

the projects themselves,

inefficiency on the part of the national authorities of the ACP States.

(a) With regard to the projects the following points were called into question:

i. many projects, mainly because of the lack of preparatory studies at the project appraisal or financing decision stage, were simply not ready. This very significant cause of delay in the new ACP States was all the more alarming as it was often combined with a natural tendency on the part of the recipient countries to consider that the project was already on the stocks whereas it had merely been decided upon and had yet to be launched;

ii. There were certain types of projects which, by their very nature, took longer to execute than others. This was the case with integrated rural development projects, where the delays in getting them under way were often stressed. Moreover, it may be wondered whether the statistics on the disbursements-commitments pipeline are not distorted at the outset in that they bring together commitments, which are by definition multiannual, and disbursements, which are immediate. For instance, when a rural development project is financed for which a time scale of six or seven years is set at the outset it may seem wrong to express annual disbursements as a percentage of multiannual commitments. Statistically, it would probably be complex, in view of the large number of projects, to compare disbursements in a given year with the proportion of commitments implemented during that year, but it should at least be pointed out that a major correction should be made. If this could be done it would radically alter the parameters of the "pipeline".

(b) Inefficiency on the part of the national authorities of the recipient States was stressed by nearly all the Delegates as a cause of delay.

Generally speaking the criticisms pointed to the lack of qualified staff and equipment, the dilution of responsibilities, the

all-too-frequent absences of those responsible, excessive staff turnover, often as a result of political circumstances, and failure by the ACP to understand fully the role of the National Authorizing Officer, who in too many instances was regarded as a mere administrator of EDF funds, and whose position was too weak vis-à-vis the other authorities.

The corollary to these operational shortcomings was that in practice the Delegate inevitably replaced the National Authorizing Officer to some extent. There have also been major, unwarranted delays in the execution of projects, particularly in the many examples recorded.

For instance there was the road project on which a decision was taken rapidly as a result of pressure from the Government, the latter asserting that it was a top priority. The preselection notice was issued back in September 1977 and the invitation to tender dossier is ready but nothing concrete has happened since then because the Government has taken no steps to expropriate the necessary land.

Then there was another road project for which tenders were opened on 31 March 1978. A year later, the contract had still not been awarded to the African firm selected because of its failure to present the financial guarantees required by the administration.

There was a project for five technical colleges in respect of which the relevant department of the ACP State concerned held on to the letter of contract for six months without any valid reason.

There was the hospital in respect of which the service order to start work was not given until two years after the tenders had been examined owing to the slowness of the national contracts board and lengthy wheeling and dealing to bring the amount of the contract down to the volume of financing available.

There was also the banana plantation set up fifteen months late because of the authorities' inability to provide the necessary land.

3. While in the long run these various sources of delay may diminish in importance, either generally as a result of the new ACP improving their assimilation of EDF procedures or at individual project level as a result of better preparation before the financing decision and strengthening of the resources available to the national authorities by means of extensive technical assistance, there remains one other factor which beyond doubt is one of the lamentable features underlying the negative aspects of this assessment of aid implementation: the inadequate number of Commission staff.

Admittedly, the transfer of powers to the national authorities has been accompanied by decentralization of Commission powers to its Delegates, who are to help the national authorities cope with their new tasks. The Delegates, however, whose role has changed from that of supervisors to the incomparably more delicate one of advisers, are sometimes in a difficult position when it comes to prompting their national counterparts into action day after day. It is probable that some of them, particularly in countries where the political situation is precarious, tend to seek refuge in a cautious "wait and see" attitude, behind the screen of the national authorities' executive responsibility. Moreover, while the Commission prides itself on being probably the only aid organization in the world to employ as many staff in the field as at its headquarters the inadequate number of headquarters staff is all the more lamentable (in proportion to that of the major international organizations) especially as we are only just about to embark upon the fully operational stage of implementing the fourth EDF - at a time when the execution of the third EDF has yet to be completed, at a time when it will soon be necessary to prepare to launch the fifth EDF, and at a time when the Directorate-General for Development is to launch implementation of the Mediterranean Agreements and to administer fully-fledged aid programmes in the non-associated developing countries without having Delegations in the field.