

# COMMISSION OF THE EUROPEAN COMMUNITIES

COM(78) 732 final.

Brussels, 22 December 1978

## COMMISSION COMMUNICATION TO THE COUNCIL

Inclusion of the European Development Fund in the budget

COMMISSION COMMUNICATION TO THE COUNCILInclusion of the European Development Fund in the budget

At the time of the Lomé Convention negotiations, and in particular in the Communication it presented to the Council in June 1973<sup>1</sup>, the Commission had proposed that the European Development Fund be included in the budget and financed out of the Community's own resources. In that Communication, the Commission listed what it considered the main arguments in favour of including the fourth EDF in the budget. These arguments were that inclusion would serve to diversify the budget and increase the transparency of Community operations; it would do away with the difficult discussions on the scale of Member States' contributions to the Fund and would be conducive to a balanced strengthening of Community policy towards the developing countries as a whole. For all these reasons, inclusion in the budget was, in the opinion of both the Commission and the European Parliament, a logical step in the development of the Communities. The Commission's proposal was not followed up at the time, but a general consensus emerged within the Member States in favour of a solution of this kind for the fifth EDF. Parliament, for its part, has repeatedly called for inclusion of the Fund in the budget.

There is no doubt that, even allowing for development in the arguments put forward for including the EDF in the budget when the Lomé Convention was negotiated, the value and scope of those arguments have remained intact. For this reason, the Commission, in its memorandum of 16 February 1978 on the future ACP-EEC negotiations for the renewal of the Lomé Convention, declared itself resolutely in favour of including the fifth EDF in the budget.

In transmitting this Communication to the Council, the Commission feels it would be useful to state once again the arguments in favour of including the EDF in the budget, to point out the conditions which must first be fulfilled, to assess the budgetary consequences of such a step, and to specify how it would be brought about.

I. REASONS FOR INCLUSION IN THE BUDGET

Since the Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Community's own resources, the EDF is the Community's

<sup>1</sup>SEC(73)2149 final of 12 June 1973.

sole operation still functioning under an allocation system falling outside the budget.

From the point of view of budgetary orthodoxy, a situation of this kind constitutes an anomaly which should be corrected: EDF appropriations are Community expenditure and must therefore be entered in the budget and financed from it.

In this respect it is significant to note that, since the Lomé Convention came into force, all decisions adopted in the field of development cooperation have been included in the budget. Thus the expenditure on financial and technical cooperation to be financed under the Agreements concluded with the Mediterranean countries (Maghreb and Mashreq, Greece, Turkey, Portugal, Malta and Cyprus) is covered by the Community budget. In view of the decisions taken, it would be logical for the same arrangements to be made in the case of the future Convention to be concluded with the ACP States, which will constitute an agreement that is similar - though admittedly not identical to - those concluded with the Mediterranean countries.

A solution of this kind will offer obvious advantages from the point of view of budgetary unity and diversification and also from the angle of the "communitization" of aid.

Budgetary unity: the traditional principle of budgetary unity implies that the budget should be drawn up in such a way that it gives a comprehensive and immediately clear picture of all the Community's revenue and expenditure.

This principle is undermined when different instruments are used to cover such important operations as those connected with the implementation of the Community development cooperation policy vis-à-vis the ACP. By contributing in a decisive way to realizing the principle of budgetary unity, the inclusion of the EDF in the budget will undeniably help to make Community measures more transparent.

This will make for greater transparency not only at overall budget level but also at the level of Community development cooperation policy. At present,

Community development operations are financed in different ways: EDF operations are covered by non-budget funds, while the Community budget pays for food aid and other development measures, whether they be specific, exceptional or cooperation activities.

If a coherent policy is to be established for development cooperation, all expenditure relating thereto must be grouped together under one title in the budget. The inclusion of the EDF in the budget is a step in this direction, and a more accurate picture of Community activity will emerge as a result.

Budgetary diversification: the financing of the common agricultural policy weighs heavily on the budget (accounting for around 70% of the total amount in 1978), even though the proportion allocated to this item is continuing to decrease slowly.

Inclusion in the budget of expenditure on financial and technical cooperation, combined with the improved management of agricultural expenditure advocated by the Budget Authority and the Commission and the development of other sectors, will mean a better distribution of Community expenditure. The three-yearly forecasts presented by the Commission to the Budget Authority for 1979-81 are significant in this respect. Two conclusions can be drawn from them:

- i. inclusion of the EDF would make, the development cooperation sector the second largest item in the budget in 1981;
- ii. this would mean that with the increases in other sectors (social, regional, energy, etc.), agricultural expenditure could be reduced to a more balanced proportion of the budget (around 60%) as from 1981.

Communitization of aid: as Parliament has pointed out, the discussion which takes place during the final phase of the negotiations to determine the scale of Member States' contributions to the Fund, paradoxically calls into question the Community character of those negotiations<sup>2</sup>.

---

<sup>2</sup> Report by Mr Michel Cointat on the interinstitutional dialogue concerning certain budgetary matters. Doc. PE 44071 final of 10 May 1976, page 29.

There is no doubt that since the problem of the scale of contributions will be solved by financing cooperation with the ACP States from own resources, this will enable measures of a Community character to be carried out on the basis of Community financing which will be free of any considerations of distributing the burden within the Community.

## II. CONDITIONS GOVERNING INCLUSION IN THE BUDGET

The successive Conventions concluded by the Community with the AASM to start with, and with the ACP States subsequently, have always constituted an exemplary body of methods, means and techniques. The spirit of partnership which characterizes relations between the Community and the States in question, the contractual and periodically reaffirmed nature of the agreements concluded, the balance created between the powers and responsibilities of the Community on the one hand, and those of the recipient States on the other, the role played by the national authorities in the implementation and administration of financial and technical cooperation - all these things add up to a solid foundation which cannot be called into question by considerations of budgetary policy and technique that are internal to the Community.

For this reason, a number of essential conditions must be met before the EDF can be included in the budget:

### 1. Inclusion in the budget and negotiation

The idea has been put forward that incorporation of the EDF in the budget would make it unnecessary for bilateral negotiations to be held periodically between the Community and its partners in order to fix the volume of financial and technical cooperation. An unacceptable consequence of this approach, however, would be that the amount of aid would be determined only annually and unilaterally under the budgetary procedure. Therefore, the factors determining the amount and terms of the aid accorded to the ACP States and the OCT must continue to be fixed by specific acts: a freely negotiated convention in the case of the ACP and a Council decision for the OCT.

The appropriations needed to implement the agreements will thus have to be approved in the budget each year in the context of these negotiated and contractually agreed amounts.

This is, moreover, the way in which the agreements concluded with the Mediterranean countries are implemented.

## 2. Inclusion in the budget and the national authorities' powers

One of the most striking innovations of the Lomé Convention in the area of financial and technical cooperation is the increased responsibility given to the ACP States in the administration and management of aid. Apart from the role played by the ACP States in defining the general guidelines for aid, provision was made for the recipient States to participate actively in each of the stages of a project: programming of aid, project preparation, appraisal and execution, and final evaluation of the results.

At the level of project execution in particular, it is up to the national authorities to issue invitations to tender, receive tenders, establish the results of the invitations to tender, sign contracts and authorize payments.

This situation reflects a trend which has appeared since the EDF started its operations and which is expressed in the constant affirmation of the principle of the division of responsibilities between the donors and recipients of Community finance.

Because of this division of responsibilities the Community has established, in particular by Financial Regulation 76/657/EEC of 27 July 1978 applicable to the Fourth EDF, financial relations designed specifically for EDF-financed operation. These relations are based on the decentralization of executive functions. Thus, side by side with the central executive agents (Chief Authorizing Officer, Financial Controller, Accounting Officer), executive agents have also been appointed for each of the recipient countries (National Authorizing Officer, Commission Delegate, Paying Agent).

The Commission feels that it would be politically unacceptable to call into question these principles, which were worked out with the ACP States during the Lomé Convention negotiations and are embodied in extremely precise provisions in Protocol No 2 to the Convention.

Incorporation in the budget must therefore be carried out on the basis of arrangements permitting the application of decentralized and concerted procedures for the allocation and utilization of funds within the framework of a fixed budget appropriation to be determined contractually with the ACP States by the Convention.

The Commission considered that, for this purpose, specific provisions will have to be written into the Financial Regulation applicable to the general budget of the European Communities dealing in particular with the respective powers of the executive agents, the conditions of competition and the arrangements for administering and implementing the various types of aid provided for in the Convention.

3. Inclusion in the budget and the role of the Member States in the implementation of aid

At present, the Member States participate in the implementation of financial and technical cooperation through various committees:

- (a) the programming committees, which determine the general terms of reference of programming missions and deliver an opinion on the indicative programme of Community aid;
- (b) the ACP/FIN Working Party, which deals with general matters and helps to frame general policy on financial and technical cooperation;
- (c) the EDF Committee and the Article 22 Committee, which are involved in the procedure for approving each individual project.

The inclusion of the EDF in the budget must not upset the present distribution of tasks and responsibilities.

However, this division must take into account, to the greatest degree possible, the responsibilities of the Commission under Article 205 of the EEC Treaty as regards budget execution.

### III. BUDGETARY CONSEQUENCES OF INCLUSION

The financial implications of the inclusion of the EDF in the budget are one of the important factors to be considered before a decision is taken on the Commission's proposal.

It is, however, not possible at this stage to forecast the volume of funds which the Community could devote to cooperation with the ACP States, and therefore an idea of the amount of expenditure which the budget might have to cover annually cannot be given. To do so would be to prejudge the result of the negotiations that have opened between the Community and the ACP States for the renewal of the Lomé Convention.

But whatever proportion of the budget might be accounted for by EDF expenditure, the Community will be faced with the more general problem of financing all expenditure entered in the budget out of own resources.

In addition to the amount allocated to agriculture in the budget, the efforts being made to back up and promote major structural changes, reduce the Community's energy dependence, decrease regional imbalances, allow for the enlargement dimension and strengthen international cooperation lead one to believe that the available margin of the relevant resources (and in particular the use of the VAT percentage point) is likely to become inadequate in the next few years.

For this reason, in its Communication to the Council and Parliament dated 27 February 1978 on the overall assessment of the Community's budgetary problems, the Commission was at pains to stress that "financing the Budget under the system provided for in the Decision of 21 April 1970 will be a problem in the medium term as the available margin may disappear by the beginning of the 1980s."

The three-yearly forecasts covering the period 1979-81, which the Commission presented to the Budget Authority in May 1978, confirm this outlook by quantifying it.

Basing itself on a comparison of expenditure and revenue forecasts, the document points out that appropriations for payment would leave only a narrow margin in 1980 (rate of VAT variously estimated at between 0.90% and 0.97%) and would reach the limit of resources in 1981 (rate of VAT between 0.99% and 1.12%).

Thus, irrespective of the decision to be taken on the inclusion of the EDF in the budget, which will in any case have only a modest impact on appropriations for payment in 1980 and 1981, the growth of Community expenditure in the other sectors will make it necessary to raise additional resources over the coming year.

#### IV. PROCEDURE FOR INCLUSION IN THE BUDGET

In order to make such a radical change in the methods of financing cooperation with the ACP States and the OCT there must obviously be no ambiguity as to the procedures for including the EDF in the budget. With this in mind, the following four points should be made:

##### 1. Inclusion in the budget and multiannual nature of appropriations

EDF resources are intended to finance operations which, by their very nature, will normally be carried out in a multiannual framework.

It will therefore be vital to make the distinction between appropriations for commitment and appropriations for payment that is now standard practice in the Community budget.

Being in accordance with orthodox budget practice, the use of differentiated appropriations will enable the Commission to administer the EDF with the flexibility and efficiency called for by the operations to be financed.

This differentiation will lead the Commission to couple its budget forecasts each year with a multiannual schedule of the funds needed to implement the agreements.

## 2. Inclusion in the budget and classification of expenditure

The classification of expenditure arising from cooperation with the ACP States and the OCT depends on the nature and extent of the commitments undertaken.

The Commission is of the opinion that this expenditure will represent the financial expression in the budget of international commitments undertaken by the Community which consequently entail firm financial obligations for the latter. EDF expenditure will have to be classified as compulsory expenditure.

From the psychological point of view, a solution of this kind will provide an element of security for the ACP States.

## 3. Inclusion in the budget and budgetary procedures

Although the appropriations made available to the ACP States and the OCT by the future agreements will have to be administered according to special provisions adapting the provisions of the general Financial Regulation to the specific nature of EDF operations, the rules of ordinary law will for the

purposes of budgetary procedure and implementation have to be applied.

4. Inclusion in the budget and the EIB loans guarantee

Under the present allocation system falling outside the budget, the guarantee given to the European Investment Bank for the loans which it grants from its own resources is covered by a commitment entered into by the Member States.

A logical consequence of inclusion of the EDF in the budget would be for the Community to cover this guarantee through its own budget.

This solution has already been adopted for the guarantee on loans extended by the Bank from its own resources under the Cooperation Agreements concluded with the Mediterranean countries.

CONCLUSION

The inclusion in the budget of appropriations for cooperation with the ACP States is a political and budgetary necessity for the following reasons:

- i. From a political point of view, it is abnormal and contrary to the principles governing the development of the Communities that activities as important as those connected with the implementation of this cooperation should continue to be covered by different mechanisms and instruments. The present situation is made particularly paradoxical by the fact that since the Lomé Convention was signed, all cooperation agreements of the same kind concluded with developing countries have been included in the budget.
- ii. From the budgetary point of view, considerations of orthodoxy dictate that the basic principle of budgetary unity must be observed, thus making for greater transparency, coherence and balance within the budget itself.

Inclusion in the budget would therefore enable the Council and Parliament, the two institutions making up the Budget Authority, to exercise fully the responsibilities conferred upon them by the Treaty.

No doubt a change of this magnitude cannot come about without account being taken of the nature and characteristics of the cooperation established between the Community and the ACP States. The contractual nature of this cooperation and the participation of the recipient States in its implementation from a patrimony which it would be politically unacceptable to call into question. The inclusion of the EDF in the budget must therefore be carried out on the basis of a concept and arrangements which preserve the specific nature of that patrimony.

The Commission will therefore propose to the Council in due course the appropriate legal provisions to be written into the Financial Regulation applicable to the general budget of the European Communities to meet the particular requirements of the EDF.

At the same time specific provisions will be proposed for other cooperation expenditure (Financial Protocols, aid to non-associated developing countries).

---

Finance Section

1. It is not possible at this stage to forecast the volume of funds which the Community could devote to cooperation with the ACP States, and therefore an idea of the amount of expenditure which the budget might have to cover annually cannot be given.

To do so would be to prejudge the result of the negotiations that have opened between the Community and the ACP States for the renewal of the Lomé Convention.

2. It is however recalled, by way of indication, that the figure for EDF IV is 3159.5 M EUA (ACP + PTOM), for the period covered by the Lomé Convention.