

European Communities

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DOCUMENT 203/78

## Report

drawn up on behalf of the Committee on Budgets

on parliamentary control of the financial operations of the European  
Development Fund

Rapporteur: Mr Martin BANGEMANN



By letter of 13 April 1978 the Committee on Budgets requested authorization to draw up an own-initiative report on parliamentary control of the financial financial operations of the EDF.

Authorization was given by the European Parliament on 27 April 1978. The Committee on Development and Cooperation was asked for its opinion.

On 20 June 1978 the Committee on Budgets appointed Mr BANGEMANN rapporteur.

It considered the draft report at its meeting of 20 June 1978 and unanimously adopted the motion for a resolution.

Present: Mr Lange, chairman; Mr Aigner, vice-chairman; Mr Bangemann, vice-chairman and rapporteur; Lord Bessborough, Mr Früh, Mr Ripamonti, Mr Shaw, Mr Spinelli and Mr Yeats.

The opinion of the Committee on Development and Cooperation is attached.

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The Committee on Budgets hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

on parliamentary control of the financial operations of the EDF.

The European Parliament,

- noting that the combined application of, firstly, the provisions of the Internal Agreement on the financing and administration of Community aid<sup>1</sup>, put into effect in implementation of the Convention of Lomé, and, secondly, the provisions of the Treaty of 22 July 1975<sup>2</sup>, results in its acquiring exclusive responsibility for the discharge in respect of the operations of the 4th EDF;
  - taking the view that responsibility for the discharge cannot be dissociated from the responsibility for adopting the budget, except during a transitional period;
  - desiring to take stock of the budgetary control and financial problems in this area so as to be in the best possible position to assume its new responsibilities;
  - having regard to the report of the Committee on Budgets and the opinion of the Committee on Development and Cooperation (Doc. 203/78).
1. Attaches the highest importance, in the context of the renewal of the Convention of Lomé, to the improvement of the budgetary control procedures in view of Parliament's increased powers in this area;
  2. Notes the eminently political character of the responsibilities assumed by the Commission in connection with the administration of the EDF and considers that, without wishing to interfere in these administrative responsibilities, it would be failing in its duty if it did not give the Commission political backing based in particular on experience acquired through budgetary control;
  3. Is of the opinion that for effective Community financing it is essential in the first place to draw up a Community plan for development aid policy coordinated with national policies; believes that financing by Member States' contributions is an

<sup>1</sup>Internal Agreement of 11 July 1975

<sup>2</sup>Treaty of 22 July 1975, OJ No. L 359 of 31.12.77, p.1.

- obstacle to the working out and implementation of such a plan;
4. Considers it indispensable that the Community adopt a clear position on the principle of the budgetization of the 5th EDF before the negotiations for the renewal of the Lomé Convention get under way, and therefore calls upon the other institutions concerned, having regard to their earlier standpoints, to reaffirm solemnly their commitment to this principle;
  5. Considers that the Council and Parliament, as the budgetary authority, should forthwith begin an examination of the techniques of such budgetization, based on Commission proposals;
  6. Pledges its political support to the Commission in its effort to reduce and eliminate the sources of imbalance as regards access for nationals of the different Member States to the markets financed by the EDF;
  7. Notes the decisive role played by the Commission's delegations in the control and supervision of the implementation of projects;
  8. Considers, however, that the financial rules applicable to these delegations suffer from an anomaly in that their operating expenses are charged to the EDF allocation received by the ACP State concerned;
  9. Restates the criticism it has made of the budgetary, accounting, fiscal and personnel aspects of the statute and operation of the EAC and will judge the reforms proposed by the Commission on the basis of the extent to which they are likely to eliminate the present shortcomings;
  10. Calls upon its Committee on Budgets and its Control Subcommittee, acting in liaison with its Committee on Development and Cooperation, to maintain their efforts to establish continuous budgetary control by Parliament of EDF activities;
  11. Will state its views in due course on the various budgetary problems to be faced in connection with the renewal of the Convention of Lomé - budgetization of the EDF, the size of the appropriation to be allocated to it, the administrative and financial rules applicable to the services responsible for its management, etc.; will examine to that end, on the basis of the work of its appropriate committees, the documents forwarded by the Commission;
  12. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities.

EXPLANATORY STATEMENT

1. From the outset, the work of the 'Control' subcommittee was divided up amongst its Members on the basis of the various sectors subject to parliamentary control. The intention in this working document is to take stock of the subcommittee's work in relation to the EDF. It has been drawn up in the same spirit which inspired the creation of the subcommittee itself. Parliamentary control would be failing in its duty if it were content to remain the sum of the various internal and external forms of control which preceded it. Its role should not be to superimpose itself on such forms of control or to replace them. On the contrary, it should be political in nature, and use their results as a springboard for specific political initiatives.

2. The method adopted to assess the EDF was therefore:

- (a) to make use of the experience of the various administrative and control services involved;
- (b) from this experience, to produce a list of essential principles for the sound and efficient management of EDF appropriations;
- (c) to ascertain whether the principles have been translated into rules;
- (d) to assess the extent to which such rules have been applied.

A work programme was drawn up, putting this method into practice. At present, only one part of the work programme has been carried out. However, we must take stock, and obtain the widest possible political support for the continuation of the work.

3. The rapporteur, with the agreement of the subcommittee, felt that his task would be both easier and more consistent if, instead of attempting to cover the administration of the EDF as a whole, he selected one or two individual areas. This working document is therefore based specifically on enquiries covering transport infrastructure and relating to the Central African Empire.

Of course, an investigation into the administration of the EDF would be beyond the scope of a working document of this nature and should be carried out on a full-time basis. The present report cannot therefore be more than interim in character.

## I. FINDINGS

4. The rapporteur's investigation covered - or will cover - three stages of the Community financing process: preparation, administration and control of implementation. He drew on the experience of the departments responsible for implementation to work out a framework of principles for the sound and efficient administration of EDF appropriations. These principles having been established, it remained to ascertain whether they had been translated into rules and actually applied.

### A. Financial preparation

5. One of the essentials for the efficient financing of development aid is to draw up a coherent overall plan based on an exact assessment of needs.

To be feasible, such a plan must also take the political aspect of development aid into account, which assumes the political equality of the various partners as a matter of principle.

6. The Lomé Convention and the implementing provisions took these requirements fully into account, laying down detailed procedures which bring decisions on finance firmly within programmes drawn up on the basis of the needs and priorities of the ACP States. The latter participate in the programming and in the preparation and execution of the projects.

7. In practice, each ACP State receives a multiannual allocation charged to the overall appropriations for the Convention and fixed according to objective criteria such as the size of the country, the particular problems of development encountered and, as far as possible, the amount of aid and subsidies received from other sources.

The Commission then draws up an indicative programme specifying how the budget is to be used. To this end, it sends an on-the-spot programming mission to prepare a sector-by-sector breakdown of the appropriations. The amount of detail the breakdown contains varies depending on whether or not the ACP State has worked out specific priorities.

The authorities in the country concerned frequently submit an initial list of projects involving expenditure far above the maximum limit.

The Commission then attempts to persuade the ACP State to accept a selection of these projects on the criterion of profitability. In the course of negotiations a compromise list is drawn up, as far as possible in line with this criterion and the maximum funds available. However, this list may be reviewed subsequently.

If the negotiations are prolonged, a start may be made on those projects which are not subject to doubt.

8. At the financial preparation stage, two sets of problems must be solved in turn:

- (a) Determination and allocation of the overall Community appropriations for development aid to ACP countries.

Current practice is to attempt to reconcile on the one hand the consistency and objectivity needed for an effective development aid policy, and on the other the fundamental principle of development aid, which is to respect the political equality of the partners and the sovereignty of recipients. This enabled the ACP countries to influence the decision on the overall level of appropriations during the negotiations on the Convention. Conversely, however, the method used to determine the allocation to individual ACP states reveals a certain discrepancy between the objective principles and criteria which are supposed to be applied, and the political nature of the desired outcome.

The chairman of the subcommittee and the rapporteur felt that, in order to discharge its responsibilities in respect of the budgetary control of the EDF, Parliament must be able to assess the validity of these criteria and how they are applied.

After hearing the Commission on this matter, naturally under conditions of strict confidentiality, the subcommittee would perhaps be in a position to state its views on the principle and technique of EDF budgetization.

- (b) Reconciliation of the ACP States' priorities and the Community's priorities.

To this end, the Commission works on the basis of an objective assessment of the profitability of the investment. However, it is obvious that other, political factors will also be involved. On the one hand, profitability is not the sole criterion used by the ACP States in drawing up their priorities, and it is liable to take second place to

political considerations. On the other hand, the profitability of a financial investment cannot be assessed without taking into account national development aid. Although national aid at present frequently complements Community aid at the level of individual projects, coordination of national and political development aid programmes is still rudimentary at higher levels.

The necessary recourse to certain political criteria in fixing priorities for development aid would allow the Commission to impose more consistency in the execution of what should become a true common policy on development aid.

#### B. Implementation

9. Generally speaking, the management of the EDF produces results reasonably close to its objectives. However, there are still too many failures: inordinate delays in the completion of projects, large cost overruns, the abandonment of projects which prove to be impracticable. The causes for this fall into two categories: technical, where the failures may be ascribed to faults at the planning stage; political, where considerations of profitability have been disregarded.

10. The Lomé Convention and the implementing provisions, especially the Internal Agreement and the Financial Regulation of the EDF, provide a number of safeguards in these two areas. To ensure the best possible technical preparation of projects and, at the execution stage, to lend weight to criteria of profitability as opposed to political considerations, these documents embody the management principles applied at Community level and, in addition, take into account the special features of administering funds in locations often very far from the headquarters of the Community.

#### Project evaluation

11. Thus, Article 53 of the Convention seeks to provide all the safeguards necessary to back up the evaluation of projects and to ensure that, as far as possible, they will achieve their objectives by using the most effective and profitable route. To this end, it is stipulated that the technical, social, economic, trade, financial, organizational and management aspects of the projects shall be reviewed.

12. For the purposes of Article 53, the Commission has drawn up detailed forms for each of the various sectors affected by EDF financing, listing the various operations in the appraisal of a project. As an example, the form used for appraising roadbuilding projects is attached<sup>1</sup>.

13. In practice, it is still difficult to judge whether these forms enable the principles laid down in Article 53 of the Convention to be applied satisfactorily, as they have only recently been introduced. However, they are certainly a step in the right direction.

Nevertheless, it is unlikely that this procedure, being bureaucratic in nature and therefore relatively inflexible, will be capable of coping with difficulties arising from human or political factors.

14. Examination of an individual case, in the Central African Empire, (the Bangui slaughterhouse)<sup>2</sup> showed that the causes of the failure or partial failure of a project may be connected with the local political situation. For a project to be successful the authorities on the spot must have a consistent policy into which the project can be dovetailed. In the case in question, the project fell within the terms of a policy for developing beef and veal production, but the government of the Central African Empire took various decisions inconsistent with this policy as a whole and with the very existence of a modern slaughterhouse; on several occasions uncontrolled slaughtering was permitted.

15. Another cause of failure which the Commission's appraisal forms would do little to remedy was revealed by the examination of the Bangui slaughterhouse project. The slaughterhouse was unfortunately designed to European standards, and was ill-suited to African conditions, especially to the speed of work, which is determined by the climate. Project planning must therefore allow for human factors as well as statistics and figure, otherwise the project has little chance of survival once aid has ceased.

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<sup>1</sup>Annex I

<sup>2</sup>PE 50.181

16. The forms used by the Commission for project evaluation in accordance with Article 53 of the Lomé Convention should be assessed in the light of the activities of the delegates, whose experience of and direct insight into the problems may be used to make practical amendments to the present rather over-technical procedure.

#### Execution of projects

17. The effectiveness and profitability of financing may be gravely jeopardized if contracts for the project are awarded on the basis of criteria which do not conform to the principles of equal terms and fair competition. On the other hand, the disproportionate share held by firms from Member States has become a political problem of dimensions which may even threaten the continuance of Community aid.

An excessive imbalance between the proportion of contracts held by firms from Member States and those held by firms of the ACP States would lay Community aid open to the serious criticism that it was the instrument of a policy aimed at the economic development of the Community rather than the ACP States.

18. On the basis of the Commission's experience, detailed rules have been adopted to ensure competition on equal terms for contracts financed by the EDF, on the guidelines laid down in the conventions themselves (Article 56 of the Lomé Convention). These principles are as follows:

- participation in tendering procedures and other procedures for the award of contracts shall be open on equal terms to undertakings of the Member States and ACP States; any participation by nationals of third countries being of an exceptional nature;
- contracts shall be awarded by open international invitations to tender. However, for reasons of efficiency or to assist the ACP countries, recourse may be taken to prior selection, urgent procedures, negotiated contracts or contracts awarded by administrative decision;
- the obligations of undertakings shall be laid down in the general contract rules, which shall apply without exception. These provisions shall be supplemented by an individual specification for each contract. A model individual specification is in preparation;
- the contract shall be awarded to the most favourable tender, having regard to the qualifications and guarantees offered by the tenderers, the nature of the work, the price and the technical qualities of the services offered.

19. The efforts which have been made to put these principles into practice and to produce conditions of fair competition on equal terms for contracts financed by the EDF have achieved some definite results:

- the procedures followed have, in the vast majority of cases, led to the completion of projects at the most economical price;
- real competition has been made possible by the wide choice offered by the numerous tenders received, as a result of the increased interest of firms in EDF contracts;
- although there is still room for improvement, there is now a better balance between the share of contracts held by undertakings from Member States and those from ACP states, which will enable the latter to make better use of their resources.

20. However, the shortcomings of the past, especially in respect of the allocation of contracts according to the nationality of undertakings, have not by any means been totally eliminated<sup>1</sup>. Nevertheless, the Commission is well aware of the various forms of discrimination: the persistence of preferential treatment between recipient states and their former European colonisers; national development aid schemes; current monetary systems; exchange rate trends; various psychological barriers related to language, economic, social and climatic conditions, etc.

21. The Commission must take more vigorous action to reduce such discrimination. The rapporteur is aware of the size and complexity of the task, but feels that it is vital, and that the political support of Parliament would be of great value to the Commission here.

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<sup>1</sup>See Annex II: OJ C 112 of 9.5.1977, pages 3, 4 and 5

C. Control of implementation

22. The rapporteur has not examined this phase of the management of the EDF in great detail. However, he is in a position to make the following comments:

(a) Internal control

23. The controls carried out by the services of the Commission itself fall into three basic stages: preliminary study, supervision of work and control of implementation.

The firm of consultants engaged by the Commission for each project bears responsibility for the first two stages. The Audit Board has criticized the fact that the Commission regularly entrusts both the preliminary study and the supervision of work to the same firm of consultants, on the grounds that this arrangement could result in both the supervisor and the supervised being the same person.

The rapporteur disagrees, taking the view that the Commission's approach is logical and that it is desirable for the same firm to be responsible for both planning and supervision of work.

As regards the third stage, control of implementation, a distinction must be drawn between control of management and financial control.

A separate study will have to be made of the role and operation of the delegations, in view of their unique position in the system and their special status.

(1) Commission's delegations in the ACP

24. The unique system of delegations plays a most important part in the control of management and even, to some extent, in financial control.

The effectiveness of the delegate depends on his personality and experience. He introduces a greater degree of flexibility into the Commission's administrative procedures.

25. However, the financial and administrative rules governing the delegations are highly unsatisfactory:

- there are budgetary and psychological disadvantages in the fact that the operating expenses of delegations in ACP States, in contrast with those in Mediterranean countries, are charged to the EDF

allocations granted to each of these States: the allocations are thereby reduced in inverse proportion to their state of development, and the Commission's representation is financed by the associated State. It is essential that the situation be changed when the existing Convention is renewed. The rapporteur will in fact take steps in an effort to alter this regrettable state of affairs even before renewal.

- the ACP suffers from serious shortcomings, pointed out by Parliament on several occasions<sup>1</sup>, from the budgetary, accounting, fiscal, legal and personnel standpoints. The rapporteur has made Parliament's position plain both to the appropriate Commission departments and to the Commissioner responsible. Parliament should in the near future be in a position to assess the adequacy or otherwise of the Commission proposals designed to correct these shortcomings.

(2) Control of management

26. Control of management is essentially in the hands of the Commission delegate, who has to satisfy himself as to the sound execution of projects, responsibility for which rests entirely with the national authorities. His supervisory activity is carried out basically through the firm of consultants overseeing the implementation of the project. As a rule, delegations are assisted by a team of specialists covering each of the areas of cooperation.

(3) Financial control

27. The financial controller of the EDF works essentially on the basis of inspection of records. He checks all the proposed commitments, in particular on the basis of the programmes. He also carries out a separate control within DG VIII of all the proposals and payments. His activities are, however, restricted to acts that fall within the Commission's sphere of activities. As regards the implementation of projects, responsibility for which lies exclusively with the ACP States, he can exercise only very indirect controls. By investigating the activities of the delegations, he is able to form some opinion on the management of projects by the national administrations.

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<sup>1</sup> See, for example, Aigner report on the 1975 discharge (Doc. 165/77)

28. This situation raises a legal problem in connection with the proposed budgetization of the EDF and the financing of its activities from the Communities' own resources: to what extent will the national authorizing officer, who decides on the use of Community funds, be subject to the general rules governing the implementation of Community expenditure, and to financial control in particular.

Apart from inspection of records, the financial controller carries out on-the-spot checks (four such checks in 1977). The programme of visits is worked out in conjunction with the delegations on the basis of a list of priorities. Whereas such on-the-spot visits provide the financial controller with his sole opportunity of gaining an insight into the management by the national authorities - via his investigation of the 'delegations' activities - it has to be acknowledged that such visits are expensive and that it takes a long time for the evaluation of the results.

(b) External control

29. On the basis of the experience of the Audit Board, the draftsman intends to consider how far the activities of the Court of Auditors can be expanded with a view to increased inspection of records, and above all on-the-spot audits, and to broader external control allowing assessment of the effectiveness of financing measures on the development of the EC States.

II. POLITICAL INITIATIVES ARISING FROM THIS WORK

30. Generally speaking, the practical political initiatives which the rapporteur will propose on completion of his work will be designed to bring development aid financed by the EDF more within the framework of a Community policy. These initiatives will have to be worked out in collaboration with all the parties concerned and will represent the logical outcome of parliamentary control. They could relate to three aspects of the situation.

A. Organization of parliamentary control

31. Parliament's acquisition of new powers in the matter of granting a discharge on EDF operations calls for a precise definition of the object of parliamentary control and the improvement of the organization of such control.

32. The object of parliamentary control is determined by the nature of the power to grant a discharge. Parliament must satisfy itself that the funds used by the Commission have been employed effectively and in accordance with the objectives pursued.

Such control may be global, as is the case when the assessment relates to the results of financing and the development of the ACP countries. Control powers of this type are at present exercised in part by the ACP-EEC Council of Ministers but not in conjunction with the budgetary control authority.

Control may also take the form of ad hoc reports, as is the case when the execution of specific operations poses political problems.

33. The organization of parliamentary control should also take account of the special nature of discharges in respect of EDF operations. Such operations are carried out on the joint responsibility of the Commission and the ACP states and in coordination with the Member States' development aid policies. It would therefore be desirable for the parliamentary control authority to establish links, of a type to be determined at a later date, with the ACP-EEC Consultative Assembly and the Committee of the EDF.

#### B. Context of parliamentary control

34. Parliament's new powers in respect of granting discharges would be meaningless without a corresponding increase in its responsibilities as regards establishing the budget and adopting appropriations. Developments may still be out of phase, but this can only be a temporary situation and the budgetization of the EDF must become a reality at the latest by the time the Convention of Lomé is renewed.

The rapporteur is fully conscious of the difficulties posed by budgetization and does not intend to make any practical proposals until the parties concerned have been consulted. Such budgetization should:

- bring development aid more within the framework of a Community policy;
- provide the Commission with increased funds so that it can pursue this policy on its own responsibility and under the supervision of the budgetary authority;
- increase complementarity and coordination with national policies;
- improve management efficiency;

- increase budgetary orthodoxy; and
- ensure continuity of the association with the ACP countries.

C. Object of parliamentary control

35. The practical political initiatives arising from parliamentary control will take the form in particular of proposals for improvements in the management and effectiveness of the EDF. The aim is not to usurp the Commission's power of initiative but to place the findings of the different control operations in a general context and make them the subject of practical action. This was the thinking behind the first part of the present working document.

PROJECT DOSSIER - ROADS

I. NATURE OF PROJECT

A. Brief description

- (1) Object of project
- (2) Aims and objectives - at local, regional and national level
- (3) Main technical characteristics
- (4) Cost of project
  - (a) in local currency - in u.a.
  - (b) local expenditure - expenditure in currency
  - (c) analysis - studies, work, unforeseen contingencies and unexpected technical factors  
- revision of prices
  - (d) in the event of co-financing - financing plan
- (5) Unexpected effects - direct  
- indirect  
Rate of economic profitability

B. Requirements met by the project

- (1) Existing situation
  - (a) type, state and capacity of existing line of communication
  - (b) existing traffic
    - . number of heavy vehicles per day
    - . number of light vehicles per day
    - . annual tonnage transported
    - . number of passengers transported annually
    - . seasonal variations
  - (c) difficulties encountered (bottlenecks, jams, length of journeys) limiting the expansion of traffic
- (2) Study of requirements
  - (a) delimitation of area affected by the project
  - (b) description of this area:
    - from the demographic point of view (present population, growth rate, expected trend over the next 20 years)
    - from the economic point of view
      - agricultural activities - crops, acreage, products
      - industrial activities - establishments, products
      - crafts - " "
      - commercial activities - " "
      - tourism
      - services

(c) development plans and projects in progress or envisaged in this area

Brief description of operations indicating source of finance, costs, objectives and expected effects.

(3) Evolution of traffic

Assessment of future traffic (over the next 20 years) to be made on the basis of existing traffic, the determination of the economic potential of the area concerned and the development forecasts for that area (see above).

Factors to be taken into consideration:

(a) 'independent' traffic

i.e. traffic which would have used the route even if the project had not been realized

(b) 'diverted' traffic

i.e. traffic which would have used other routes if the project had not been realized

(c) 'induced' traffic

i.e. traffic due solely to the realization of the project.

(4) Overall traffic assessment

(over a period of 20 years)

(a) evolution of existing traffic without realization of the project

(b) evolution of traffic after realization of the project

C. Technical characteristics of the project

Standard of the project to be determined on the basis of foreseeable traffic developments

- asphalt or non-asphalt road
- speed for which designed
- axle weight
- road bed width
- surface width
- maximum longitudinal gradient
- camber
- radius of curvature

II. CONTEXT OF PROJECT<sup>1</sup>

A. In relation to the transport sector as a whole

(1) Structure of road, rail, inland waterway, sea and air transport network

(2) Qualities, inadequacies of network

(3) Integration of project in the existing network:

(a) at national or international level (obstructs or complements the networks of neighbouring states)

(b) at regional level

<sup>1</sup>A certain amount of supplementary information appears on the appended statistical forms.

B. In relation to transport development policy

- (1) Position of transport sector in overall planning of the economy
- (2) Principles and objectives of the transport development policy
- (3) Plan for sectoral development of road infrastructure:
  - (a) principles and objectives
  - (b) priorities
  - (c) practical projects
  - (d) funds - anticipated  
- already obtained
  - (e) stage of implementation of plan
- (4) Incorporation of project in general and sectoral planning.  
To what extent is the project compatible with the requirements and options mentioned above?

III. ASSESSMENT OF PROJECT

A. Technical design

- (1) Technical description:
  - (a) road surface
  - (b) drainage etc.
  - (c) engineering works
- (2) Where appropriate, consideration of possible variations and proposed options (technical and economic criteria, see C (2) )
- (3) Procedures for realization:
  - (a) prime contractor
  - (b) studies to be carried out
  - (c) invitations to tender
  - (d) supervision of work
  - (e) implementation planning

B. Financial aspects

- (1) Cost of the investment (in local currency and u.a.)
  - (a) detailed table of costs of work
  - (b) costs of studies
  - (c) costs of supervision of work
  - (d) contingency provisions
  - (e) provisions relating to increases in prices
- (2) Breakdown of expenditure
  - (a) in currency
  - (b) in local money

- (3) Spread of expenditure
- (4) Financing
  - (a) Financing plan
    - indication of sources of financing, size of contributions and conditions
  - (b) Constraints connected with financing
    - tied or limited loans for example
- (5) Financial effects
  - (a) Costs of maintenance of project
    - current maintenance
    - gross maintenance
    - timetable of expenditure
  - (b) Effects of maintenance on
    - the State budget
    - the budgets of local authorities
  - (c) Effects of project on
    - State revenue (taxes and various charges)
    - the revenue of local authorities
    - the balance of payments

C. Economic aspects

- (1) Calculation of costs and advantages (over 20 years)
  - (a) total expenditure (investments, maintenance costs)
  - (b) total advantages (goods transport - passenger transport)
    - calculation of savings on the cost of transport (existing line of communication - new road) in respect of 'independent' traffic
    - savings made by 'diverted' traffic
    - net advantages for 'induced' traffic
    - expenditure avoided (if any)
  - (c) calculation of internal profitability
- (2) Where appropriate, comparison, on the basis of the same criteria, of possible variants (see III - A - (2) )
- (3) Feasibility study based on the following hypotheses:
  - (a) real expenditure 20% higher than estimates
  - (b) real advantages 20% below expectations
  - (c) combination of (a) and (b)
- (4) List of indirect effects

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ANNEXES:

1. Road network
2. Road traffic
3. Carriageway maintenance
4. Road project investments already made
5. Road project investments anticipated
6. Road tax
7. Motor vehicle transport
8. Fuels

## ANNEX II

Breakdown of works contracts by nationality of contractor  
of supply contracts by origin of goods  
of technical cooperation contracts by nationality of contractor

Comparison of 1st, 2nd and 3rd EDFs — Position on 31 December 1976

('000 u.a.)

Country	Works contracts						Supply contracts					
	1st EDF		2nd EDF		3rd EDF		1st EDF		2nd EDF		3rd EDF	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
Germany	13 475	3.41	59 907	18.17	26 348	7.68	9 485	19.86	15 815	18.01	9 267	10.03
Belgium	8 714	2.21	20 549	6.24	20 326	5.93	2 451	5.13	7 279	8.29	6 481	7.02
France	182 209	46.21	150 533	45.66	150 576	43.86	17 872	37.43	34 755	39.58	41 135	44.55
Italy	57 637	14.62	26 507	8.04	51 699	15.06	4 709	9.86	13 362	15.22	7 044	7.63
Luxembourg	825	0.21	1 884	0.57	1 344	0.40	6	0.01	31	0.04	2 105	2.28
Netherlands	15 071	3.82	14 899	4.52	3 811	1.11	3 389	7.10	6 370	7.25	4 977	5.39
AASM/OCT	116 361	29.52	55 415	16.80	89 182	25.96	9 432	19.75	9 593	10.92	17 443	18.89
Third countries	—	—	—	—	—	—	409	0.86	610	0.69	3 887	4.21
<b>Total</b>	<b>394 292</b>	<b>100</b>	<b>329 694</b>	<b>100</b>	<b>343 286</b>	<b>100</b>	<b>47 753</b>	<b>100</b>	<b>87 815</b>	<b>100</b>	<b>92 339</b>	<b>100</b>

('000 u.a.)

Country	Technical cooperation contracts						Total contracts					
	1st EDF		2nd EDF		3rd EDF		1st EDF		2nd EDF		3rd EDF	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
Germany	9 242	19.83	26 744	25.67	21 969	23.60	32 202	6.59	102 466	19.64	57 584	10.89
Belgium	6 449	13.84	10 658	10.23	12 646	13.59	17 614	3.61	38 486	7.38	39 453	7.46
France	11 483	24.64	29 710	28.51	28 007	30.09	211 564	43.30	214 998	41.21	219 718	41.56
Italy	9 797	21.03	14 819	14.22	16 823	18.07	72 143	14.76	54 688	10.48	75 566	14.29
Luxembourg	553	1.40	1 591	1.53	2 158	2.32	1 484	0.30	3 506	0.67	5 607	1.06
Netherlands	5 123	11.00	10 123	9.72	8 140	8.75	23 583	4.83	31 392	6.02	16 928	3.20
AASM/OCT	3 849	8.26	10 548	10.12	3 331	3.58	129 642	26.53	75 556	14.48	109 956	20.80
Third countries	—	—	—	—	—	—	409	0.08	610	0.12	3 887	0.74
<b>Total</b>	<b>46 596</b>	<b>100</b>	<b>104 193</b>	<b>100</b>	<b>93 074</b>	<b>100</b>	<b>488 641</b>	<b>100</b>	<b>521 702</b>	<b>100</b>	<b>528 699</b>	<b>100</b>

**Breakdown of works contracts by nationality of contractor  
of supply contracts by origin of goods  
of technical cooperation contracts by nationality of contractor**

3rd EDF — Position on 31 December 1976

('000 u.s.)

Country of nationality of firm	Works contracts			Supply contracts			Technical cooperation contracts			Total contracts		
	Value	% 31.12.76	% 31.12.75	Value	% 31.12.76	% 31.12.75	Value	% 31.12.76	% 31.12.75	Value	% 31.12.76	% 31.12.75
Germany	26 348	7.68	8.62	9 267	10.03	11.01	21 969	23.60	24.33	57 584	10.89	11.89
Belgium	20 326	5.93	5.71	6 481	7.02	7.97	12 646	13.59	13.65	39 453	7.46	7.55
France	150 576	43.86	45.28	41 135	44.55	45.30	28 007	30.09	30.87	219 718	41.56	42.68
Italy	51 699	15.06	14.61	7 044	7.63	6.11	16 823	18.07	17.44	75 566	14.29	13.61
Luxembourg	1 344	0.40	0.46	2 105	2.28	2.59	2 158	2.32	2.00	5 607	1.06	1.11
Netherlands	3 811	1.11	0.54	4 977	5.39	4.10	8 140	8.75	8.22	16 928	3.20	2.57
AASM/OCT	89 182	25.96	24.78	17 443	18.89	18.15	3 331	3.58	3.49	109 956	20.80	19.74
Third countries	—	—	—	3 887	4.21	4.77	—	—	—	3 887	0.74	0.85
<b>Total</b>	<b>343 286</b>	<b>100</b>	<b>100</b>	<b>92 339</b>	<b>100</b>	<b>100</b>	<b>93 074</b>	<b>100</b>	<b>100</b>	<b>528 699</b>	<b>100</b>	<b>100</b>
	<b>64.93%</b>			<b>17.47%</b>			<b>17.60%</b>			<b>100%</b>		

**Breakdown of works contracts by nationality of contractor  
of supply contracts by origin of goods  
of technical cooperation contracts by nationality of contractor**

2nd EDF — Position on 31 December 1976

('000 u.s.)

Country of nationality of firm	Works contracts			Supply contracts			Technical cooperation contracts			Total contracts		
	Value	% 31.12.76	% 31.12.75	Value	% 31.12.76	% 31.12.75	Value	% 31.12.76	% 31.12.75	Value	% 31.12.76	% 31.12.75
Germany	59 907	18.17	18.17	15 815	18.01	18.07	26 744	25.67	25.78	102 466	19.64	19.66
Belgium	20 549	6.24	6.24	7 279	8.29	8.29	10 658	10.23	9.94	38 486	7.38	7.32
France	150 533	45.66	45.66	34 755	39.58	39.57	29 710	28.51	28.67	214 998	41.21	41.27
Italy	26 507	8.04	8.04	13 362	15.22	15.24	14 819	14.22	14.11	54 688	10.48	10.45
Luxembourg	1 884	0.57	0.57	31	0.04	0.04	1 591	1.53	1.54	3 506	0.67	0.67
Netherlands	14 899	4.52	4.52	6 370	7.25	7.28	10 123	9.72	9.74	31 392	6.02	6.02
AASM/OCT	55 415	16.80	16.80	9 593	10.92	10.82	10 548	10.12	10.22	75 556	14.48	14.50
Third countries	—	—	—	610	0.69	0.69	—	—	—	610	0.12	0.11
<b>Total</b>	<b>329 694</b>	<b>100</b>	<b>100</b>	<b>87 815</b>	<b>100</b>	<b>100</b>	<b>104 193</b>	<b>100</b>	<b>100</b>	<b>521 702</b>	<b>100</b>	<b>100</b>
	<b>63.20%</b>			<b>16.83%</b>			<b>19.97%</b>			<b>100%</b>		

Breakdown of works contracts by nationality of contractor  
of supply contracts by origin of goods  
of technical cooperation contracts by nationality of contractor

1st EDF — Position on 31 December 1976

('000 u.s.)

Country of nationality of firm	Works contracts			Supply contracts			Technical cooperation contracts			Total contracts		
	Value	% 31.12.76	% 31.12.75	Value	% 31.12.76	% 31.12.75	Value	% 31.12.76	% 31.12.75	Value	% 31.12.76	% 31.12.75
Germany	13 475	3.41	3.41	9 485	19.86	19.86	9 242	19.83	19.83	32 202	6.59	6.59
Belgium	8 714	2.21	2.21	2 451	5.13	5.13	6 449	13.84	13.84	17 614	3.61	3.61
France	182 209	46.21	46.21	17 872	37.43	37.43	11 483	24.64	24.64	211 564	43.30	43.30
Italy	57 637	14.62	14.62	4 709	9.86	9.86	9 797	21.03	21.03	72 143	14.76	14.76
Luxembourg	825	0.21	0.21	6	0.01	0.01	653	1.40	1.40	1 484	0.30	0.30
Netherlands	15 071	3.82	3.82	3 389	7.10	7.10	5 123	11.00	11.00	23 583	4.83	4.83
AASM/OCT	116 361	29.52	29.52	9 432	19.75	19.75	3 849	8.26	8.26	129 642	26.53	26.53
Third countries	—	—	—	409	0.86	0.86	—	—	—	409	0.08	0.08
<b>Total</b>	<b>394 292</b>	<b>100</b>	<b>100</b>	<b>47 753</b>	<b>100</b>	<b>100</b>	<b>46 596</b>	<b>100</b>	<b>100</b>	<b>488 641</b>	<b>100</b>	<b>100</b>
	80.69%			9.77%			9.54%			100%		

Breakdown of works contracts by nationality of contractor  
of supply contracts by origin of goods  
of technical cooperation contracts by nationality of contractor

1st, 2nd and 3rd EDFs — Position on 31 December 1976

('000 u.s.)

Country of nationality of firm	Works contracts			Supply contracts			Technical cooperation contracts			Total contracts		
	Value	% 31.12.76	% 31.12.75	Value	% 31.12.76	% 31.12.75	Value	% 31.12.76	% 31.12.75	Value	% 31.12.76	% 31.12.75
Germany	99 730	9.34	9.70	34 567	15.17	15.82	57 955	23.77	24.07	192 252	12.49	12.89
Belgium	49 589	4.65	4.52	16 211	7.11	7.47	29 753	12.20	12.04	95 553	6.21	6.15
France	483 318	45.28	45.77	93 762	41.14	41.25	69 200	28.38	28.64	646 280	41.99	42.38
Italy	135 843	12.73	12.48	25 115	11.02	10.63	41 439	16.99	16.68	202 397	13.15	12.87
Luxembourg	4 053	0.38	0.40	2 142	0.94	0.99	4 402	1.80	1.68	10 597	0.69	0.69
Netherlands	33 781	3.17	3.10	14 736	6.47	6.05	23 386	9.59	9.45	71 903	4.67	4.55
AASM/OCT	260 958	24.45	24.03	36 468	16.00	15.54	17 728	7.27	7.44	315 154	20.48	20.14
Third countries	—	—	—	4 906	2.15	2.25	—	—	—	4 906	0.32	0.33
<b>Total</b>	<b>1 067 272</b>	<b>100</b>	<b>100</b>	<b>227 907</b>	<b>100</b>	<b>100</b>	<b>243 863</b>	<b>100</b>	<b>100</b>	<b>1 539 042</b>	<b>100</b>	<b>100</b>
	69.35%			14.81%			15.84%			100%		

OPINION OF THE COMMITTEE ON DEVELOPMENT AND COOPERATION

Draftsman: Mr V. VERNASCHI

On 17 May 1978 the Committee on Development and Cooperation appointed Mr VERNASCHI draftsman.

At its meeting of 22 June 1978 the committee considered the draft opinion and adopted it unanimously.

Present· Miss Flesch, chairman and acting draftsman; Mr Bersani and Mr Lagorce, vice-chairmen; Mr Andersen, Mr Broeksz, Lord Castle, Mr Flämig, Mr Glinne and Mr Vandewiele (deputizing for Mr Deschamps).

## Introduction

1. Article 51(3) of the Internal Agreement on the financing and administration of Community aid<sup>1</sup> states that 'the discharge for the financial management of the Fund shall be given to the Commission according to the procedure provided for in Article 206 of the Treaty.' Under this Article, as amended by the Treaty of 22 July 1975<sup>2</sup>, the European Parliament alone, on a recommendation from the Council acting by a qualified majority, has the right to give a discharge to the Commission in respect of the implementation of the budget.

2. In view of the European Parliament's new powers in this field, the Control subcommittee of the Committee on Budgets decided to 'take stock of the budgetary control and financial problems in this area so as to be in the best possible position to assume its new responsibilities' (third recital of the motion for a resolution contained in the Committee on Budget's draft report). This initial assessment of the Control subcommittee's activities in this field is now being submitted by the Committee on Budgets in the form of a draft own-initiative report. The subject of this report was sufficient justification for asking the Committee on Development and Cooperation for its opinion. A certain tendency to adopt a position on matters which normally fall within the terms of reference of the Committee on Development and Cooperation has manifested itself on various points. This is doubtless due to the very nature of the subject under consideration: it must be admitted that it is sometimes difficult to draw a distinction between budgetary control of EDF operations and control of a political nature. Nevertheless, the report of the Committee on Budgets provides our committee with food for thought, inasmuch as it does not go so far as to put forward practical solutions or proposals. This is no doubt due less to reticence on the part of the Committee on Budgets than to the fact that, at this stage, it would be premature to seek to define our Institution's position in sectors where Commission proposals are currently being drawn up or have already been forwarded to the European Parliament for its opinion. For example, our committee is currently considering, as the committee responsible (the Committee on Budgets has been asked for its opinion), the proposal from the Commission for a regulation on the setting up of a European Cooperation Agency (ECA).

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<sup>1</sup>OJ No. L 21, 30.1.1976, p.168

<sup>2</sup>OJ No. L 359, 31.12.1977, p.1

3. Similarly, the European Parliament will shortly be required to deliver its opinion on a proposal concerning the budgetization of the EDF and its implications. Finally, the Commission has still not finalized the proposals laying down the general clauses and conditions to be applied to the award and implementation of public contracts financed by the EDF, which means that the ACP-EEC Committee of Ambassadors is unable to take any decision.

4. The Committee on Development and Cooperation therefore agrees with paragraph 11 of the motion for a resolution, which indicates that the European Parliament 'will state its views in due course on the various budgetary problems to be faced in connection with the renewal of the Convention of Lomé - budgetization of the EDF, the size of the appropriation to be allocated to it, the administrative and financial rules applicable to the services responsible for its management, etc.; will examine to that end, on the basis of the work of its appropriate committees, the documents forwarded by the Commission'.

Our committee has already decided to draw up an own-initiative report on the renewal of the Convention of Lomé.

#### Establishment of the next EDF and the European Parliament's powers

5. The Committee on Development and Cooperation nevertheless considers it appropriate in this opinion to reflect more deeply on, and raise a number of questions connected with the implementation of the next European Development Fund and with the European Parliament's role therein.

6. Firstly, there should be a review of the conditions used to determine the amount of the overall allocation of the fifth EDF for the duration of the future Convention. To say that it should be determined solely on the basis of an assessment of the ACP States' requirements is the result of a well-intentioned but Utopian outlook, since, given the enormity of these requirements, it does not take account of the actual possibilities open to the Community and the economies of its Member States. A more realistic approach would be to take the overall allocation of the fourth EDF and to adjust it in the light of

- the population of future ACP partners,
- the GNP of the EEC countries and the ACP States,
- inflation since 1975.

Our committee feels that, while constituting a minimum solution, this method of calculation would produce a result which takes account of the interests of our ACP partners and of the Community's financial capacity.

7. This immediately raises the question of the means which are, or should be, open to the European Parliament to enable it to participate in the decision on the amount of the next EDF. Of course, there can be no question of rendering meaningless the international negotiations between the ACP States and the Community on this matter by committing the Community publicly and a priori on the basis of a position adopted by the European Parliament on the actual amount of the EDF. However, this must not prevent the European Parliament from being informed of the objectives which the Council and Commission intend to pursue in the negotiations on the new Convention, so that it can make known the conditions to be met by the new Convention, including those, mentioned above, relating to the EDF. The debate on our own-initiative report on the renewal of the Convention of Lomé will provide an opportunity for the European Parliament to determine its position on this matter.

8. Moreover, the new legal situation resulting from the financing of the Community budget entirely from own resources (which, it is to be hoped will take effect in 1980, when the new Convention is due to enter into force) and from the budgetization of the EDF, will also help to resolve the existing conflict, which arises from the need both to respect the European Parliament's powers and to allow the Community the necessary freedom of action in international negotiations.

9. Under these circumstances, it would be unnecessary for the Member States to ratify the new Convention, thereby satisfying a request repeatedly put forward by the European Parliament. On the other hand, the European Parliament will be required to ratify the Convention, in a form yet to be determined, thereby giving it the opportunity of assessing whether the contents of the new Convention - including the criteria used to fix the total appropriations allocated to financial and technical cooperation - comply with its guidelines. If they do not, the European Parliament could, as an extreme measure, refuse to ratify the Convention on the grounds that it deviated too far from these guidelines.

10. Budgetization of the EDF has not only been called for by the European Parliament but has also been the subject of unequivocal statements by the Commission. In answer, to a questionnaire drawn up by the Committee on Budgets, the Commissioner responsible for budgetary matters stated that 'including the next EDF in the budget is one of the objectives repeatedly endorsed by the Commission. The formal commitment called for in Mr Cointat's report can come only from the Council. The Commission made its own very clear

commitment when the present Lomé Convention was negotiated. At that time it proposed that the fourth EDF be included in the budget. The political and financial reasoning behind this proposal was clearly set out in a communication to the Council dated 12 June 1973 and entitled: "Inclusion of the European Development Fund (EDF) in the budget and financing of the Fund out of the Community's own resources". The Commission has never changed its position - witness its proposal in the 1977 preliminary draft budget to reserve Chapters 90 and 91 for EDF appropriations. This proposal is in line with Parliament's wishes. It was not accepted by the Council. The Commission has just put forward this proposal again in the 1979 draft preliminary budget. And once again the Council has rejected it.'

11. However, when the fourth EDF was adopted, the Council agreed in principle to the budgetization of the next EDF. There are compelling arguments in favour of this step, although it raises a number of problems to which we will return later.

12. Acceptance of the principle of budgetary unity necessarily implies that all Community revenue and expenditure must be entered in the budget and be subject to its rules and procedures. Without prejudging the question of the classification of EDF expenditure as compulsory or non-compulsory, the European Parliament's powers as regards the establishment of the annual budget must be respected, as must the institutional and administrative rules and procedures relating to the new Convention between the ACP States and the Community. The existing institutional balance (or imbalance) is a result of the distribution of powers and jurisdiction among the Council, the Commission, the EDF Committee<sup>1</sup>, the ACP-EEC Council and the ACP-EEC Consultative Assembly, whose power is minimal.

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The EDF Committee is a consultative body chaired by the Commission and consisting of representatives of the Member States. It is required to give its opinion on financing proposals for projects submitted by the Commission. In the event of an unfavourable opinion, an appeal may be brought before the Council (unless the Commission amends or withdraws its proposal). Since the setting up of the EDF this appeal procedure has been applied in only three cases.

13. The European Parliament is more or less excluded. Consideration must be given to a problem which will arise in connection with the new Convention, that is, how to devise a system for budgetizing the EDF and enabling the European Parliament to participate in the relevant budgetary procedure without seriously disturbing this institutional balance and hence endangering the success of budgetization.

14. Our committee agrees with the remarks contained in the report by the Committee on Budgets emphasizing the important role played by the EDF delegations. More generally, as a result of the permanent contacts it maintains with the representatives of the ACP States, the Commission is the only institution able to draw up budgetary proposals relating to the EDF and to administer the annual appropriations entered in the budget. If the EDF Committee has to be retained, the European Parliament should adopt the same position as it took on the question of financial and technical aid to non-associated developing countries (Nolan report, Doc. 34/77), which would exclude the possibility of bringing an appeal before the Council.

15. Before concluding this point, it is important to mention the question of greater participation by the ACP States in the working of the EDF. To avoid any ambiguity, it must be emphasized that there can be no question of involving the ACP States in financing decisions taken as part of the Community budget. On the other hand, our committee has always urged that the ACP States should be involved more closely in the implementation of these decisions. This does of course imply an amendment to the general Financial Regulation, but our committee does not consider this to be a major problem.

#### Matters outstanding

16. The budgetization of the EDF raises questions, referred to in the report by the Committee on Budgets, which our committee is at present unable to answer. They are therefore merely mentioned below in the hope that they will provoke fruitful discussion in the European Parliament and its appropriate committees.

17. One problem concerns the classifications of EDF expenditure as compulsory or non-compulsory. Our committee is well aware that the existing system of classification in no way implies that non-compulsory expenditure is thereby optional. Nevertheless, it feels that the classification of EDF expenditure as non-compulsory might raise certain difficulties, including problems of a psychological nature vis-à-vis our ACP partners. It must be clearly explained to the ACP countries that the classification of EDF expenditure as non-compulsory might conceivably provide the European Parliament with a certain margin for manoeuvre within the framework of the budgetary procedure with regard to the annual tranche of the EDF proposed by the Commission in the preliminary draft budget, but this would in no way signify that the European Community and its Parliament did not endorse the Roman adage 'pacta sunt servanda'. A further difficulty raised by budgetization concerns the way in which EDF appropriations are distributed among the Member States. Will this distribution be decided as part of the budgetary procedure, regardless of the criteria on which it is at present based? We feel that the delicate problem of distribution ought not to be resolved within the framework of the Community budget; the latter should merely indicate the main chapters of financial and technical cooperation, such as financial cooperation in its essential form (projects), Stabex, emergency aid, etc. Will it be possible to transfer appropriations to or from the chapter relating to the EDF? Will it be possible to enter provisional appropriations intended for the EDF under Chapter 100 of the budget?

Our committee considers that the time has not yet come to adopt a position on these problems. In outlining these observations it merely wished to take up the points raised by the Committee on Budgets in paragraph 5 of its motion for a resolution.

18. Finally, one of the most important questions raised by your draftsman concerns the effect on the administration of the EDF of an outright rejection of the budget by the European Parliament, given that the provisional twelfths system is definitely unsuitable for financial and technical cooperation.

### Conclusions

19. To conclude, the Committee on Development and Cooperation is able to approve the motion for a resolution submitted by the Committee on Budgets, particularly in view of the fact that it does not introduce any aspects not contained in the positions already adopted by the European Parliament, and on all other matters refers to positions yet to be adopted in reports currently being drafted. The Committee on Development and Cooperation will therefore have an opportunity of clarifying its position on the questions still outstanding.

