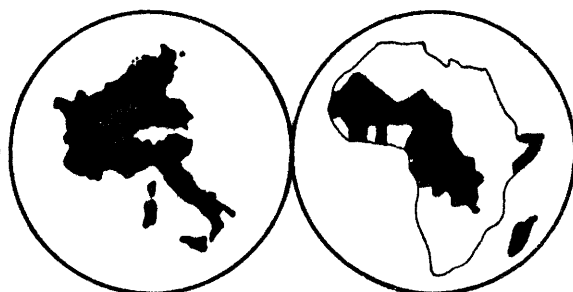


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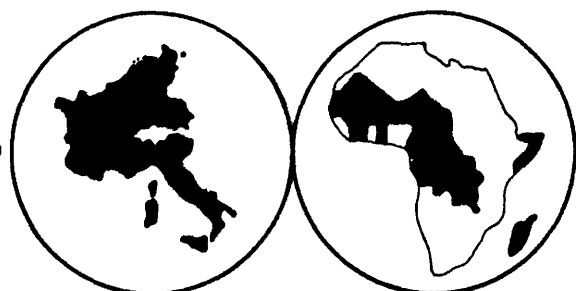
**EVOLUTION OF FINANCIAL AND TECHNICAL COOPERATION
BETWEEN THE EEC
AND ASSOCIATED DEVELOPING COUNTRIES**

by Charles Van der Vaeren

*A paper submitted to the Columbia University Conference on International Economic Development
(Williamsburg and New York, February 15-21, 1970)*

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The association between the European Economic Community and a number of overseas developing countries was set up under the Treaty of Rome, which was signed by the Six in 1957. Following the political changes that occurred around 1960 and the accession to independence of almost all associated countries in Africa, the association was renegotiated and renewed on an improved and extended basis, by the Yaounde Convention of 1963 between the Community and 18 African States including Madagascar. It has been renewed again, with only minor changes this time, between the same partners by the second Yaounde Convention, which was signed in July 1969 and will come into force at the beginning of 1971.

As it now stands, the association takes the form of a set of rules and means designed to help solve the problem of the growth of the less developed partners, considered under its trade, social financial and technical aspects.

The present geographical coverage of the Yaounde Association can be traced back to the colonial relations existing when the Treaty of Rome was signed, but it is now founded on the free will of all the parties to it. Nineteen African countries were associated by the Six with their newly created Community in 1957, but Guinea chose not to remain in the association on becoming independent in September 1958. The Association with the remaining eighteen States, however, has been so successful and has been guided by such a true spirit of cooperation, that not a single European or African country party to it decided to opt out of it in 1963 or in 1969, despite criticism of it - usually because of sheer misinformation - by other countries both developed and underdeveloped.

The association between the EEC and the Associated African States and Madagascar (AASM for short) is an open one. Both Yaounde Conventions have provided for the possibility of the association being joined by other developing States, with "an economic structure and production comparable to those of the Associated States". If such countries do not wish to subscribe to the same rights and obligations as those of the AASM, they may apply for association with the Community on specific terms. Nigeria and the three States of the East African

Economic Community chose that way. Contrary to the AASM, however, the english-speaking States did not ask for financial or technical aid and limited the scope of their association arrangements to the other items covered by the Yaounde Convention, i.e. the creation of association institutions, and the liberalizing of trade, capital transfers and right of establishment. These agreements therefore do not form part of the subject of this paper.

We shall also leave aside the aid extended by the Community to Greece and Turkey, which are associated under quite different arrangements from those applying to the AASM, since their level of economic achievement is already much higher and their association is aimed at full membership in due course.

This paper will be devoted to analyzing the main features of the aid relations between the EEC and the AASM. Some of these features appear to be permanent; many have evolved throughout eleven years and three successive conventions.

1. Multilateral Aid

In 1957 the Six set up a multilateral fund, known as the European Development Fund (EDF), to be the main instrument of their aid policy towards the AASM. In it they pooled financial resources out of their individual budgets under the management of the Community's executive institution, the Commission; certain decisions on financing may also be taken by the Council of the European Communities itself.

Each of the Six Member States contributes to the Fund in accordance with the relative level of its public financial resources.

Owing to her faster rate of economic growth, Italy has agreed to have her share increased from 5,9 % in the first Fund (1958-1963) to 15,6 % in the third one (1971-1975). The other shares have been adjusted proportionally.

National contributions have been fixed irrespective of the amounts of aid already given on a bilateral basis to the associated countries or to developing countries in general. It was even stipulated that national contributions to the multilateral fund

would be in addition to existing bilateral aid and that the latter would be continued at the previous level at least. The various Member States have stuck to this rule.

Payments out of the EDF reached a substantial size for the first time in 1962. Multilateral aid then represented only 12 % of total public aid flows from the Community to the AASM. This multilateral share of aid increased over the years in relation to bilateral aid, while the total amount of aid was growing fairly regularly. In 1969 payments through the multilateral Community channel represented 24 % of the six Member States public aid to the AASM. (See table p. 21)

As the multilateral aid allocated within the scope of the various associations has grown significantly (f.n.1), the Member States of the Community have tended rather to step up their bilateral aid to other parts of the less-developed world. This did not, however, prevent the share of multilateral aid in the public aid given by the Six to all developing countries from rising from 3,6 % in 1962 to 9,8 % in 1969. (f.n.2).

Financial and technical cooperation with the AASM is truly multilateral in the sense that the allocation of aid resources rests entirely with the Community's institutions. In the first association period (1958-1963), financial decisions were taken by the Commission in the case of social projects, and by the Council of Ministers, on proposals made by the Commission, in the case of economic projects. In the latter instance, the approval of projects by the Council was given automatically if no Member State had asked for a formal discussion on it within a month.

If the Commission's proposal was debated, the Council took its decision by a two-thirds majority. The number of votes allocated to each Member State prevented any of them from blocking a project against the will of the other five. Even in the case of economic projects, only the Commission had the right to propose how the financial resources of the Fund should be allocated. And so it is clear that the use of the monies contributed by each Member State to the Fund was no longer under its exclusive control but was effectively subject to specific Community procedures and decisions. The community, therefore, handles its aid quite differently from an aid consortium.

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The institutional framework set up under the first Yaounde Convention and carried over into the second is to all intents and purposes the same. Projects to be financed by the EDF are assessed by the Commission's staff.

Financing proposals are submitted for endorsement to a Committee consisting of representatives of the Member States. The distribution of votes and the rule on majority voting in this committee are about the same as they were in the Council for the first EDF. If the Committee votes in favour of a project, the Commission may take a decision on financing it ; if the Committee's opinion is unfavorable, the Commission may reject the project altogether, or amend the proposal and go through the same procedure again, or submit the proposal to the Council, which decides for or against by a two-thirds majority.

As a result of these multilateral procedures, the allocation of aid out of the fund is strictly guided by economic and social considerations. Pressures from receiving countries on political grounds, or from private business interested in obtaining contracts, could hardly be successful as they would have to be exerted on the Commission and several member States, and not only on one of the latter as is the case with bilateral aid. Since the Commission itself is a multi-national institution, it is less apt than national administrations to approach development problems in a political frame of mind, or to be influenced by the national interests of the aid giving countries.

An innovation in the second association period (1964-1969) was that about 9 % of the aid given by the Community to the AASM came from the European Investment Bank out of its own resources. The bank is a public self-governing body, the board of which is made up of representatives of the six Member states. It works on the basis of strictly technical and financial criteria. It thus combines the approach of a multilateral aid agency with that of a bank.

It must be stressed that no curb has ever been placed on the flow of Community aid to any Associated State whose political or economic relations with one of the Member States was going through a period of strain, although such cases of bilateral strain have occurred on several occasions.

The multilateral character of the Community's aid is not reflected only in the allocation of aid but also in its implementation. This ought to be considered from the viewpoints of both the Associated and Member States.

The basic rule of the Association in this matter is that participation in invitations to tender and contracts is open on equal terms to all natural and legal persons who are nationals of the Member or Associated States.

From the angle of the receiving countries, this rule has entailed a large influx of new ideas, techniques and equipment contributing to their development and coming mainly from European countries with which they had hardly any economic relations before.

The technical assistance supplied to each associated country through Community aid comes from most of the six member countries. All the latter have reached a high technical standard, but each has some fields in which it specializes and provides a new approach to old problems, applying experience gained in other parts of the developing world to the benefit of the associated countries.

Equipment and other goods needed in approved projects may come from any of the six member or eighteen associated countries. This area of competition is pretty wide, especially since it includes some of the most industrialized countries in the world. It means that prices are on the whole more reasonable than in much bilateral aid. More important even than prices is the considerable assistance in the form of technical know-how which can be given through this multilateral aid.

The same can be said about building and construction to be carried out within the scope of approved schemes. In many associated countries, where public works used to be financed exclusively out of the national budget or with bilateral aid from the former mother - country, the cost of road construction, public buildings and the like has gone down considerably since competition has been widened with the implementation of EDF financed projects.

From the viewpoint of the Member States, this system of competition means that there is no certainty that national contributions to the Fund will be fully compensated by a reverse flow of contracts for domestic firms.

In any case, there can never be a total direct return flow to the Community. The Fund -- and the Bank too for that matter -- also finances the local costs of projects, and not only their import content as many other aid sources do. What is more, firms from the associated countries compete with European ones, and a significant share of contracts go to the former, especially public works contracts ; only part of these earnings ultimately return to the Community -- and indeed a part will usually go to non-member industrialized countries.

As for the part of aid which leads to contracts being placed with European firms, the Commission has endeavoured to avoid any discrimination between countries and to disseminate the relevant information to all of them, especially to those which do not have traditional economic ties with the associated countries. As a result competition has gradually become more substantial, and contracts have been placed more in proportion to relative economic potentialities -- and also to national contributions to the Fund.

In practice nevertheless firms long-established in the associated countries are in a better competitive position and this means a certain discrepancy between the country-by-country distribution of contracts placed and that of funds contributed, to the detriment of the Member States whose economic relations with the Associated States are relatively new. This remains a political obstacle to increased multilateralization of public aid extended by the Six to the AASM. The Community, however, would not contemplate establishing national quotas of aid to be used in each of its countries. On the contrary, it has strictly maintained the multilateral character of the Community's aid ; what is more, the Six have agreed under the second Yaounde Convention to encourage, as far as possible, an increase of orders to be placed with firms in the Associated States.

The main aim of the latter step is to help industrialization in those countries. It applies to deliveries of materials, equipments, and other goods within the framework of a project and consists in a handicap of up to 15 % of the price quoted which may be placed on firms other than new or growing industries located in the associated country benefiting from the project or in another country in the same region.

In the implementation of aid, the character of multilateralism thus extends itself in a certain way to the receiving countries, and not only to the donors.

2. Aid partnership or "financial and technical cooperation"

As we have mentioned in section 1, decisions to finance a project or programme are prepared and adopted by the Community's institutions. The multilateral character of aid is also maintained at the stage of carrying out the schemes, for works and deliveries are supervised by the Commission, which reports annually to the Association Council on the way aids have been managed and utilized in practice.

Since the first Yaoundé Convention any aid operation must come within the framework of the general aid pattern which is established jointly on an equal footing by the aid-giving and the aid-receiving countries meeting in the Association Council. Discussions in this Council on the general pattern or guidelines are in part based on the information given by the Commission in its annual report ; the Associated States also make use of their right to propose new guidelines as they deem them necessary.

Many guidelines which had been decided by the Association Council under the first Yaoundé Convention have been embodied in the clauses of the second Convention. The Association Council will remain empowered during the association period starting next year both to add new guidelines for Community aid and to define in greater detail those contained in the Convention.

In this way, new rights and obligations for the Community and the Associated States can be created during each association period within the fixed framework of the rules laid down in the association agreement and of the volume and types of aid decided upon in it.

Some of the decisions on the general pattern of aid taken by the Association Council under the first Yaoundé Convention specified the development targets to be pursued in implementing the Community's aid. The Association Council has specified, for instance, that economic diversification should be promoted in the associated countries in agriculture and manufacturing industries producing for domestic or foreign markets, in mining and in services like marketing, trade promotion, transport, tourism, etc... Projects designed to develop industries, including crafts, and tourism have been explicitly mentioned in the second Yaoundé Convention as being among those which may be financed by the Fund ; special aid for marketing and trade promotion has been added under this Convention.

Another important field in which the Association Council has laid down precise rules in order to achieve the general aims contained in the

Convention is that of regional cooperation between the associated countries in their development policies. The Association Council's decision stipulates that particular attention should be paid to regional projects with a view to increasing the complementary nature of the African countries' economies.

The principle has been confirmed by and embodied in the new Convention, where it has even been broadened to promoting economic cooperation between Associated States and neighbouring non-associated countries. Moreover, in order to facilitate the implementation of this principle Community aid may now be given to regional organizations wherever associated countries are among their members. (f.n. 3)

Cooperation for the purpose of development must in the first place be between the associated countries themselves. Although such cooperation has made big strides forward since the inception of development policies in those countries, detrimental competition between similar projects does occur, particularly in the field of industrial development. The narrowness of domestic consumer markets constitutes a serious limitation on such development, which cannot be remedied except by regional agreements to pool markets and distribute industries. So far the fruits of such cooperation have not been numerous in projects financed with the help of Community aid. A striking example, nevertheless, is that of a market agreement between Chad and Cameroon, which has permitted the former country to establish a textile mill on its territory and the latter a cement factory in the North of Cameroon, both undertakings enjoying preferential outlets on the market of the neighbouring country.

In pursuance of the first Yaoundé Convention the Association Council has also taken up the problem of the distribution of aid among the associated countries. It has recommended that the Community should adapt the forms of aid to the particular needs of the less-favoured states, in order to promote a better balance of growth between all the associated countries. In practice, this guideline has been applied by the Commission mainly by granting special technical assistance to the poorer countries to help them select, prepare and carry out valuable development projects, and by extending to them more favourable financial terms than those granted to better-off countries for similar types of projects.

At the request of the Associated States the second Convention goes further. It stipulates that, in its decisions on aid allocation, the Community must take into account the development obstacles encountered by each Associated State owing to its natural environment. The Commission will have

to report to the Association Council annually on any defects and imbalances in the distribution of aid. The fact that the nature and conditions of aid must be adapted to the particular situation of each receiving country implies that distribution must be considered from a qualitative as well as a quantitative viewpoint ; no single criterion such as the amount paid out per capita could provide a sound basis for working out the pattern of distribution.

The process of the gradual elaboration of aid guidelines by equal partners in the association can be further exemplified by two other cases in which the second Convention has introduced a new rule. The first case relates to the maintenance required by completed physical investments and the second to the concentration of aid resources.

The EDF entirely finances approved projects. The Community does not require a local "counterpart", which the associated countries are very often unable to provide. (f.n. 4)

As more and more physical investments financed by the first Fund came into use, it became evident, moreover, that a number of local recipients - often the Governments themselves - were not servicing them properly. This was seriously hampering the full utilization of such new public capital and considerably shortening its life. The Association Council has stressed the need for the associated countries to see to it that investments are properly utilized and maintained and to budget for the personnel and financial resources required for this purpose. This principle has since then been spelled out in a clause of the second Yaoundé Convention. It remains to be seen, however, to what extent all the Associated States will be able to stand by their obligations in this respect; but the Community now has a legal backing for any suggestions it may make to the authorities of these countries as to how they could improve the running and maintenance of their investments and, where necessary, for refusal to finance further investments in sectors where proper utilization could not be ensured.

As for the concentration of aid resources, the Association Council has decided that, "In order that the Community's financial aid may have a rapid and durable effect on the economic structures of the Associated States, an endeavour should be made to encourage projects that will have a decisive significance and importance for their economic and social growth ; this necessitates in particular a concentration of effort on certain key sectors of activity or development areas." This guideline has been implemented in two fields in which second Fund aid is used. First, in agricultural development efforts have been made to devise projects in which a

large plantation is combined with a processing plant and with small peasant holdings ; the industrial plantation then provides technical and commercial support for the small farmers. Secondly, in the agricultural and industrial sectors, productive investments have, as far as possible, been combined with infrastructure investments (i.e. roads, harbours, water and electricity supply, etc.) and also with human investment (i.e. training of manpower, including supervisors).

The new Convention urges that such a combination and concentration of various types of aid in one integrated project should be aimed at wherever it may be useful. In some cases, the very complexity of an integrated project requires the combination of various financial sources. Where the degree of profitability is high and sure enough, production equipment should be financed by bank-type loans, unless the debt-capacity of the receiving country does not permit. In such instances, aid from the EDF may be applied, possibly in the form of grants, to the pre-investment, infrastructure and/or training parts of the project, whereas loans from the Fund, the European Investment Bank, the International Finance Corporation and/or private banks help the promoters to finance the productive parts.

3. Regional aid

The Community as such directs its aid only towards the associated countries within the framework of the association. The Community's aid thus has a distinct regional character.

It may be questioned why the Community does not extend her aid to more less-developed countries, if not all of them.

The main reason is that this aid is only one facet, albeit a major one, of a comprehensive approach to the problem of development; and this approach has been concerted between the industrialized and the developing partners, not only in a basic agreement, but also in its gradual implementation (as we have seen in section 2.). Under the present circumstances, such genuine, diversified and comprehensive cooperation could not be operated at world level between all aid-giving and aid-receiving countries. The existing international institutions are far from being able to provide the vehicle for such cooperation; but the Community would take a favourable view of one day merging its regional system of cooperation for development in a broader one. This would be acceptable, however, only if the pressing needs of the present associated countries could be catered for as fully as in the current regional framework.

The 18 AASM count among the less developed of the developing countries. Their average gross domestic product per capita was in 1966 only half that of all the other countries that the Development Assistance Committee considers developing countries. (f.n.5) Taken as a whole, their growth rate is also notably lower than that of the other developing countries ; for most Associated States, the actual increase in GNP has been offset by population growth since 1960. Except in a few countries which have enjoyed especially favourable conditions in the form of heavy foreign investment (i.e., Ivory Coast, Gabon, Mauritania), the level of GNP per capita has remained practically the same, while in the rest of the developing world it has increased at a rate of over 2 % per annum.

As a consequence and owing to the present economic structure of the associated countries, a massive effort must be made to help them get on the road towards self-sustaining growth. In both Yaoundé Conventions it has been stipulated that if other developing countries join the association, the amount of multilateral aid allocated in this framework must be increased in due proportion, so that the concentration of aid on the 18 Associated States may not be diluted.

The conditions and requisites of development vary so widely from one region to another that aid definitely gains in efficiency when it is concentrated on one or a few areas in which the problem presents itself in fairly similar terms. In this way the administrators of the Community's aid have been able to acquire a sufficiently deep knowledge of the geographical, economic and social situations in each associated country to help each of these countries to benefit from experience gained in other parts of the region presenting comparable conditions, and to stimulate closer economic cooperation between neighbouring countries wherever it is politically acceptable to them.

4. Financial forms and terms of aid

The main feature of the Community's aid from the financial point of view is that most of it is given in the form of grants. The reason is the associated countries' relatively very low level of economic development.

They still need a large amount of aid to build up their economic, social and intellectual infrastructure. What is achieved in this field is essential but has only indirect and long-term effects on growth. Secondly, the bulk of human and natural resources is at present employed in the agricultural sector and has a very low productivity. Development action in

this major sector yields fairly slow returns on the whole ; even when such action produces relatively large income increases for the producers, the Community's policy is to leave a substantial part of these increases in their hands in order to create an incentive to further progress and enlarge the domestic market for other branches of production.

A third important argument in favour of grant aid to the associated countries is that their existing debt-capacity is pretty low, or even non-existent for some of them. If the situation is not yet dramatic for a number of these countries, this is no reason to put a burden on their economies that would not be strictly needed. By carefully evaluating each project and keeping a tight control on the use of its aid, the Community can avoid the need to have recourse to making loans merely in order to ensure an efficient use of aid by the recipients. Indeed this argument in favour of loans instead of grants appears quite mistaken when one considers that the debt-burden of many developing countries has become unbearable ; aid loans have not, on the whole, permitted a sufficient growth of national product, public revenue and foreign exchange to service the corresponding debts!

Under the first Fund only grants were given. They were used mainly to finance social amenities, transport facilities and other indirectly profitable investments on the one hand, and production schemes in agriculture on the other. In some of the latter projects, for instance, new plantations or re-settlement schemes, a fairly high rate of productivity was expected of these investments, although by nature their results are uncertain. The Commission then decided that Community aid should not, if economic and natural conditions were favourable, serve only to increase private incomes and public revenue ; a significant part of the profits should instead be earmarked for further productive investments. It was therefore stipulated in the financial agreements concerning such projects that the local authorities would levy a certain sum on products sold or a fixed tax per unit of reclaimed land once an acceptable level of profitability had been reached. The proceeds should be paid into an investment fund, to be ploughed back into the same project or used on new production schemes on the approval of the Community.

This "feed-back" system has, for instance, been introduced for tea and oil-palm plantations and also for agricultural land reclamation and hydro-agricultural schemes financed by grants. It has likewise been applied to housing estate schemes : after the land has been prepared with the help of Community aid, it is sold or leased to people who can show that they have a genuine housing problem. The proceeds are then utilized by the local authorities for building low-rent houses or preparing new land, in agreement with the Commission.

The grant-and-feed-back procedure was even applied under the second Fund to projects which had good profitability expectations but were located in countries, like Rwanda, which were already too heavily indebted in terms of foreign exchange. In such a way the national debt problem could be reconciled with the principle that capital aid should be refunded by the end-recipients once their profit margin is providing sufficient incentive, in order to raise the overall investment ratio in the country.

The first Yaounde Convention under which the second EDF was set up, placed a much wider range of financial methods at the disposal of Community aid.

The second Fund was divided into two parts : 91 % of it was to be used in the form of grants; 9 % in the form of soft loans. A wide variety of projects have been financed by soft loans. They include roads, harbours and railways, power lines, industrial plantations and manufacturing units, for example a textile mill and a cement factory. Soft loans have been combined with grants in projects having a particularly low rate of return.

Community aid is also provided via the European Investment Bank (EIB), which has been authorized to grant ordinary bank loans for part-financing of projects in the associated countries. For such loans to the AASM a ceiling of \$ 64 million was fixed for the five-year period, that is to say about 9 % of the Fund. In practice the Bank's loans to those countries still totalled only \$ 48 million by the end of 1969, i.e., after 5 $\frac{1}{2}$ years, so it seems that the AASM's capacity for absorbing hard loans is still very limited.

In order to facilitate access to the Bank's loans, the first Yaounde Convention stipulated that an interest rebate of up to 3% on these loans could be financed out of the Fund. Use has been made of this possibility for a road project directly serving the timber industry. Other Bank loans, on normal terms, have mainly helped to finance industrial projects, including some plantations with processing plant.

In spite of the effective diversification of aid achieved under the first Yaounde Convention both the Associated States and the Community were rather disappointed at the small share of aid going to industry. They therefore examined ways of further improving the

range of financial methods, in order better to adapt the Community's aid to the specific needs of this sector. In particular aid to industrialization had to take two points into account : that it should often be combined with private capital and management, and that it should be possible to apply it to small-scale projects which call for training and advisory services as much as capital.

The second Yaounde Convention has introduced a new financing method, namely contributions to the venture capital of firms for approved projects which cannot be financed solely by loans. Such contributions would normally take the form of minority holdings to be sold to investors in the associated countries, or even outside, as soon as the new business becomes financially profitable.

Contributions to risk capital may be combined, in the same project, with an EIB ordinary loan, or, exceptionally, with an EDF soft loan. This type of combination has been practiced for years by the IFC and by the French Caisse Centrale de Coopération Economique.

Two other improvements of the range of financing methods mainly concern the industrial sector but may also be used for other kinds of production projects in agriculture, the craft industries or in the tertiary activities like trade or tourism.

The first is that the margin of interest rebates on EIB loans has been broadened. The Commission may decide to reduce the interest rate to be paid by borrower on such loans to 3%, or even to 2% where the borrower is a development financing institution. The difference between this and the full bank rate will then be paid out of the third EDF. Evidence that such a rebate is necessary will have to be provided for each project. For projects in manufacturing and tourism provision has been made for fixed-rate interest rebates. Promoters of such projects will thus know in advance what reduced rate they will have to pay on EIB loans, and it will be up to the Commission to say so if it decides that the project does not need such an interest rebate.

The second improvement is that EDF soft loans or EIB ordinary loans may now be given through a local intermediary borrower, who can be the Associated State itself or a development bank or financing institution. The State would be the financial "relay-station" if its debt capacity is too low to bear the normal terms of interest and repayment which should be charged to the promoters owing to the financial

characteristics of their project. Easier terms may then be applied to the State without disrupting normal competition between private firms. Sums paid back by the second borrower to the State and not yet due for repayment to the Community must in the interval be used again by the State for development action approved by the Commission.

Where the loan is to help finance small-scale projects, it will normally be made via a development bank or similar local institution, which will have to make an initial evaluation of the projects, check how the loaned capital is used, and provide technical assistance for small managers. If necessary the main loan to the development bank will be accompanied by one or more experts financed by the Community to help the bank assess the projects and perform its supervision and training duties in relation to them. These duties will be of particular importance wherever the project involves the use of new techniques or equipment, or even where it requires a significant increase in the scale of operations and the size of the firm's management.

5. Bricks and brains -- aid and trade

The first EDF was conceived essentially as a financial complement to the bilateral aid given by the European mother-country to its overseas territories. Its purpose was to finance investments, since technical assistance was at that time amply provided in the framework of the colonial administration.

With the accession to independence of nearly all the African associated territories new problems arose. The Community soon realized that many investment projects could neither be properly prepared nor carried out without the help of technical assistance. It was seen, moreover, that physical investments would not bear their full development fruits if human investments, i.e., education and training, were not brought into the aid strategy. On the Commission's suggestion, surveys for the preparation of projects, assistance of experts in the associated countries and scholarships began to be financed out of the Commission's budget in order to supplement investments financed by the Fund.

We shall not dwell on this indispensable complementarity between bricks and brains, i.e., capital and technical assistance, physical and human investments. Bilateral and international aid agencies have learnt the same lessons from experience.

As a result, the scope of the Fund aid was broadened by the first Yaounde Convention. Surveys, technical assistance, training programmes could henceforth be financed by EDF grants.

Another direction in which the Fund's field of operation has been broadened is connected with trade. This aid to trade has two dimensions : defensive and offensive.

First of all, the Contracting Parties to the first Yaoundé Convention realized that it was not much use helping the Associated States in their development efforts if these efforts could at certain moments be seriously hampered or even counteracted by a drop in their export earnings due to the prevailing conditions on the world markets. Previously, associated countries in the French Franc Area enjoyed guaranteed outlets at fixed prices on their mother-country's market but this protective system was not adopted by the Community because it might have been detrimental to non-associated developing countries and would have hampered the establishment of a better balance between supply and demand for tropical products.

Besides measures taken under the trade clauses of the association, the Yaoundé Convention made it possible to finance advances of up to two years, out of EDF liquid assets, to export price stabilization funds in the associated countries. Advances totalling over \$ 12 millions were made in the 5 years covered by the Convention to provide temporary support for the domestic price of groundnuts, cotton, coffee and sugar in various associated countries.

For the ex-French associated countries the problem was also a long-term one, since France used to pay higher than world prices for many of their main exports. A particular system of aid was devised for them, by which the prices for their main agricultural exports would be subsidized at a diminishing rate over the five years, and at the same time production costs would be reduced by various improvements in production and marketing methods. The object was to enable the countries in question to sell their output at normal world-market prices by the end of the period.

This combined system of price subsidies and production improvements certainly did a great deal to help these countries maintain their agricultural production capacity, raise productivity and diversify output. For some countries, however, production costs remain higher than world-market prices ; more efforts will have to be made to increase their productivity and to diversify their output wherever this is physically and economically feasible. The economies of many associated countries continue to depend largely upon one or a very small number of export commodities, and their development process would suffer a severe setback if the prices they fetched on the world markets were to experience a sharp decline. Short-term advances would be of little help if this decline went too far or persisted over several years.

In order to cushion, in part at least, such disruptive effects, the Community has agreed to include in the second Yaounde Convention a special kind of aid to cope with exceptional difficulties due to a price drop. The need for special aid will be assessed in each case with regard to the place of the commodity in the country's economy, the overall situation of this economy, and the actual effects on it of the price drop. (f.n.6)

All the measures so far referred to have in common a defensive character to cope with unfavourable market conditions. The associated countries have, however, strongly stressed the point that their non-associated competitors have on the whole been faring better than them in exporting tropical products to the Community. Offensive weapons in the commercial field have thus become necessary. The Community has attempted to use the forms of aid available under the second Fund to help the associated countries to overcome their severe shortcomings in the sphere of trade organization and promotion.

Market studies have been financed by the Fund and carried out by independent experts for several commodities or groups of commodities, like bananas and other tropical fruits, cocoa, coffee, hides and skins and oil-seeds.

In addition the Member States agreed to finance, partly out of the Fund and partly out of their national budgets, the participation of the associated countries in major international trade fairs.

The latter two forms of aid will be continued by the third Fund, but they will be incorporated in a more general programme of aid to marketing and trade promotion. Under this programme Community aid will also include technical assistance in the associated countries, trade promotion campaigns and specialized training in marketing. In this way, it is hoped, the aid given to improve and diversify production in the associated countries will bear its full fruits and be reinforced by the incentive of faster growth of sales.

6. Aid coordination

Since 1963 the Commission has made efforts to promote a system of reciprocal information between itself and the other aid agencies, whether bilateral or international, at work in the associated countries.

The aim of better aid coordination has been approached in a very pragmatic fashion. Instead of discussing right away broad principles, like financial terms, aid targets, and so on, information has been exchanged on

projects and programmes under consideration or actually decided upon to help the associated countries. As a result of such exchanges of information it has been possible to avoid duplication of efforts, to pool experience and, wherever necessary, to take steps to coordinate action in an area or sector. Contacts have been made, more and more regularly and intensively, at first with the aid departments of the Member States, and subsequently also with other aid sources, among which the World Bank group and the UN agencies occupy a predominant place as far as the associated countries are concerned.

To start with, the procedure was mainly in writing : lists of projects contemplated or being financed were exchanged, and surveys carried out were communicated by both sides. It soon became apparent that the information supplied and received was raising more detailed questions, and that exchanges of views were needed to make the various actions tie in with each other better. And so regular meetings between delegates of the Commission and of other aid agencies have started to take place, while written information continued to be sent and received. The discussions concern operational matters and they often lead to decisions on the coordination of various actions and projects.

Aid coordination takes the form of complementary action, geographical specialization, and sometimes joint-financing. It enables coordinated decisions to be taken on which investment projects to finance or what technical assistance to provide, and when. In this way, the various actions can reinforce each other. This is particularly necessary since each aid source in one way or another attempts to diversify its activities in each country and has its own specific features; the former mother-countries, for instance, provide considerable technical assistance, whereas the EDF and the World Bank Group are better placed to supply capital aid. Through coordination of aid from the different sources the required interworking and concentration of means can be achieved and the goals reached with greater certainty.

In some cases, the internal cohesion of operations is essential for the success of a project. This is particularly true of agricultural development, in which a body of various forms of aid -- surveys, land reclamation, experimentation, training, production equipment, agricultural credit, new economic structures, etc. -- has to be applied in coordinated fashion to a group of producers and closely adapted to the

natural surrounding and human milieu. It has been found by experience that, instead of trying to coordinate aid from various sources in such programmes, it is better to aim at geographical specialization of the main aid agencies. In several associated countries, as a consequence, the EDF has undertaken to finance the agricultural development programmes of some areas in their entirety, while French aid concentrates its efforts on those of other areas.

The third form of aid coordination goes even further than complementary action and geographical specialization. It takes the form of a pooling of the Fund's resources with other aid in order to finance a large project, or, in the case of loans to productive enterprises, in order to share the risks. Large road and railway projects have been financed jointly by the EDF and IDA or US/AID. Industrial schemes have been financed jointly by the EDF or EIB and various public and private financial institutions of the Member and Associated States, and occasionally IFC, as well as private capital contributed by the promoters.

The second Yaounde Convention has brought the Community one step further in the field of aid coordination. The Member States have now formally bound themselves to provide the Commission with complete and regular information about aid which they contemplate giving to the Associated States or which they have actually decided upon. The Commission will have to forward this information to the other Member States in addition to data on Community aid.

The system of reciprocal information, which was originally based on a gentlemen's agreement, will thus become compulsory within the framework of the Community. Since it has proven to be a valuable prerequisite and basis for an aid coordination at the operational level, the fact that it will be even more complete and regular than before will certainly make for closer coordination between bilateral and multilateral aid to the associated countries.

This does not mean, however, that the Commission is satisfied that nothing else could be done to coordinate aid. It continues to stress the point that the role of the Governments of receiving countries is a capital one in this field. Aid measures cannot be made to interlock fully with regard to sector, area and timing, unless they are fitted into a comprehensive economic programme which is both realistic and operational, and unless they are put into effect through an efficient and strictly coordinated system of decision-making by the authorities of the aid-receiving countries.

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Conclusions

This paper probably raises more questions than it answers. It does not pretend to cover all aspects of the Community's aid to the developing countries, but concentrates on some major and specific features of its aid to the AASM, which constitutes the bulk of total Community aid, in order to facilitate comparisons with the structure and trend of other aid to developing countries.

To sum up very briefly, the "financial and technical cooperation" between the Community and the AASM is multilateral in character from the angle of the aid-givers, but rather national from that of the aid-receivers. More and more, however, it aims at fostering economic cooperation between the latter countries.

It is also regional. Being relatively limited in its means, it concentrates on a number of countries in a few geographical areas. Nearly all of those countries belong to the least developed parts of the developing world. Regional concentration is therefore a condition of effectiveness.

This aid is only one facet, although a major one, of the association relations between the Community and the AASM. Like trade relations, which is the other main facet, it is freely negotiated between the developed and developing partners for five year periods, and its management by the Commission and the EIB is supervised and guided by the Association's institutions.

In this way, aid is gradually adapted, in the light of experience gained by both the receiving and donor partners in the Association. With time it has become more and more diversified in the nature of its operations and in its financial methods.

There are two crucial points on which the Community is still seeking to improve its aid relationship with the AASM. First, how could this aid be better coordinated, not only with other aid, whether bilateral or international, but also with private investments and loans, in order to increase the overall efficiency of efforts to help the associated countries both considered alone and in their relations with other developing countries? And secondly, how could aid be devised in order to improve the aid-absorption capacity of the AASM, in particular their ability to draw up realistic and operational development programmes, including any necessary structural changes, to carry them out in an organic manner, and fully to utilize and properly to maintain the newly acquired know-how, infrastructure and equipment?

Bilateral, multilateral and total public financial flows from EEC to developing countries (excluding contributions to international agencies)

annual net payments in # (000.000)

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	(Estimates) <u>1969</u>
<u>Aid to AASM</u>								
bilateral	358,8	390,9	370,6	380,0	334,5	380,6	358,2	381,3
multilateral	50,7	57,0	76,0	95,4	100,0	91,6	101,2	118,0
Total	409,5	447,9	446,6	475,4	434,5	472,2	459,5	499,3
<u>Aid to other associated countries</u> (Greece, Turkey, Overseas countries and territories)								
bilateral	179,1	220,0	274,4	235,1	277,6	309,7	362,6	418,3
multilateral	2,1	3,6	12,4	20,3	35,8	49,4	45,7	45,2
Total	181,2	223,6	286,8	255,4	313,4	359,1	408,3	463,5
<u>Aid to other developing countries</u>								
bilateral	868,7	780,8	726,6	736,7	698,7	857,9	916,7	860,3
multilateral (food aid)	-	-	-	-	-	-	-	16,6
Total	868,7	780,8	726,6	736,7	698,7	857,9	916,7	876,9
GRAND TOTAL	1.459,4	1.452,3	1.460,0	1.467,5	1.446,6	1.689,2	1.784,5	1.839,7

FOOTNOTES

1. Association of the EEC with (i) the AASM (ii), the overseas dependent countries and territories, (iii) Greece, (iv) Turkey.
2. A comparison can be made here with the Community's food aid programme which was established in the framework of the 1967 Wheat Agreement, independently of any association treaty. In 1968-69 70 % of such aid was allocated through the bilateral channels of the six Member States, and only 30 % through the multilateral channel of the Community although all grain deliveries made as food aid are heavily subsidized through the common agricultural machinery, even where they are allocated by national decisions.
3. Cooperation between developing countries, whether associated with the Community or not, is also fostered in the field of trade relations by the possibility of a waiver of the most-favoured-nation clause by the Community in favour of regional trade agreements.
4. The Fund has been called upon by those countries to finance the so-called counterpart in many a project of UN aid agencies!
5. According to DAC data the weighted averages of GDP per capita in 1966 were :

	<u>AASM</u>	<u>Other developing countries</u> (Except Kuwait)
Nominal <u>GDP per cap.</u>	/\$ 95	/\$ 189
"Expected" <u>GDP per cap.</u>	/\$ 136	/\$ 269

6. Similar emergency aid may be allocated in cases where great economic difficulties result from disasters, like droughts or floods.

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