

EUROPEAN ECONOMIC COMMUNITY
EUROPEAN ATOMIC ENERGY COMMUNITY
EUROPEAN COAL AND STEEL COMMUNITY

THE AUDIT BOARD

REPORT

on the accounts for the financial year 1973
followed by the replies from the Institutions

VOLUME TWO

Part Two: The Development Funds

EUROPEAN ECONOMIC COMMUNITY
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THE AUDIT BOARD

R E P O R T

on the accounts for the financial year 1973

VOLUME TWO

Part Two: The Development Funds

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PART TWO

THE DEVELOPMENT FUNDS

THE EUROPEAN DEVELOPMENT FUNDS

INTRODUCTION

122. Closure and transmission of the accounts

The financial regulations governing the three Development Funds all provide that "at the end of each financial year the Commission shall close the balance sheet and management account of the EDF and submit them, on 31 March of the following financial year at the latest, to the Audit Board for examination, accompanied by the supporting documents" (Article 15 of Council Regulation No 5 of 2 December 1958 for the First EDF, Article 7 of the Financial Regulation of 1 June 1964 for the Second EDF, Article 7 of the Financial Regulation of 26 January 1971 for the Third EDF).

In its previous reports the Audit Board made certain comments on the observance of these provisions, relating either to the lateness of transmission or to the actual presentation of the accounts (provisional documents, unsigned and undated, subject to later correction). It has been prompted to make these comments again.

The two previous reports were drawn up on the basis of provisional balance sheets and management accounts. The definitive documents of the three Funds for the financial years 1971 and 1972, signed but not dated, were not submitted to the Audit Board but were transmitted to the Council and even then not until 28 November 1973 (Document SEC 73/4274 final).

Examination of these documents reveals on the one hand that there are some differences between the definitive accounts and the returns submitted to the Audit Board for these two financial years (1) and on the other hand that these definitive accounts, although closed at a very late stage, contain errors necessitating the preparation of a "corrigendum" to the documents transmitted to the authorities responsible for granting discharge.

For the financial year 1973 provisional returns were sent, at its request, to the Audit Board at the end of March 1974, thus enabling an initial verification to take place which, moreover, led to the discovery of certain errors which were therefore corrected at the time of the definitive closure of the accounts. This did not take place until 18 July 1974.

(1) Thus the definitive accounts of the Second EDF for 1971 show, under the heading "Resident and technical control", a cost overrun of 27 217 u.a. which, in the return submitted to the Audit Board, had been incorrectly attributed to "Linked technical assistance".

The Audit Board hopes that the regulations governing the closure and transmission of the accounts will be more strictly observed.

123. Presentation and transmission of the supporting documents

Thanks to the transmission throughout the year of the supporting documents, files, reports and various papers concerning the execution of the projects closed and thanks to the replies to requests for information and explanations made in the course of its audit, the Audit Board was able to verify the legality and regularity of the revenue and expenditure and their conformity with the provisions of the Treaty, the association conventions, the regulations put out by the competent authorities and, where express provisions were lacking, the normal rules of administrative and financial management.

For this verification to be fully effective, it has to be carried out relatively soon after the execution of the operations. This has not always been the case and the inspections carried out in 1973 reveal, once again, over-frequent delays in the settlement of transactions, the closure of projects and the transmission of supporting documents.

In some cases unexplained delays arise between certification of the supply or acceptance of the work and the making of the final payment. Moreover the EDF Directorate has several times requested its financial controllers to intervene with national administrations in an effort to make them speed up their payments.

New delays between the date of final payment and that of the closure of projects are apparent. This delay sometimes exceeds six months (example: Project Nos 11.23.203, 11.22.202, 11.23.307, 213.180.19, 212.880.31, 213.680.48, 213.680.42, 212.811.25, 212.203.05, etc.). Some of these cases were submitted to the EDF Directorate which indicated in reply that, on the occasion of setting a new ceiling for the operations of the First EDF, then of the Second EDF, the financial departments had sent all the controllers a list of the projects which should properly have been closed, asking for explanations of the delays noted. These enquiries have already made it possible to close a number of projects in respect of which unjustifiable delays had been noticed.

Lastly, a final time lag, often the largest, has been occurring between the closure of a project and the transmission of the relevant accounting vouchers and supporting documents to the Audit Board. Thus projects were transmitted at the end of 1972 whose closure dates ranged from April 1968 to July 1969, and during the first half of 1973 the documents of many projects closed in 1967 and 1968, indeed even in 1966, were received (example: Project Nos 312.131.02, 213.180.13, 212.115.04, 212.114.08, 212.109.06, etc.). It is essential in this sector that on the one hand the contacts between the management

departments which declare the closure of a project and the accounting departments whose task it is to translate the closed project into accounts form should be improved, and on the other hand that the Audit Board should be systematically kept informed of the closures in question in order to obviate the continuance of the abnormal delays in transmission which are to be found at present.

The efficacy of the audit depends equally on the nature and on the quality of the supporting documents produced in substantiation of the accounting records. With regard to commitments, the basic documentation consisting of the financing conventions, the tenders, contracts and supplementary schedules should be completed by regular communication of the minutes of the EDF Committee - documents to which the external auditors should have access - of the decisions to reopen closed projects and the list of projects valued at less than 500 u.a. not included in the statistical returns. With regard to payments, the gaps in supporting documentation relate primarily to the study contracts or assistance contracts which provide for lump-sum payments. Control of sound financial management in this sector requires the production of the "calculation note" which led to the fixing of the lump-sum payment, the transmission of the memoranda produced by the expert, the certification of days worked in Europe and overseas and the supporting documents relating to travel expenses. The file should also always contain the estimate slip of the Study Coordination Committee.

Finally, a correct appraisal both of the execution and of the profitability of the projects would necessitate the granting of access to the reports of the overseas missions drawn up by the Commission officials as well as to the periodical reports which, under Article 35 of EEC Regulation No 229/72, the resident supervisors are required to draw up on the utilization of the investments after completion.

In calling for these improvements in the transmission and presentation of the accounts and supporting documents, the Audit Board does not wish it to be thought that it undervalues the assistance which the responsible departments of the EDF have unceasingly rendered to the Audit Board in the accomplishment of its task.

The verifications, controls and enquiries, which were thus made possible, lead the Audit Board to make various comments which are set out below and which relate first (Chapter I) to the general information for assessing the management of the Funds, comprising the general accounts of each of the three Funds and the procedures followed as regards commitments and payments, and then (Chapter II) to the criticisms called for by the preparation, execution or settlement of certain particular projects or the management of certain categories of aid.

CHAPTER I: THE GENERAL ACCOUNTS OF THE FUNDS

1. The Development Fund for the Overseas
Countries and Territories

124. The Development Fund for the Overseas Countries and Territories (First EDF) was set up by the Association Convention provided for by Article 136 of the EEC Treaty. Concluded for a period of 5 years (1958-1962), the Implementing Convention provided for the allocation of 581 250 000 u.a. of contributions for the financing of social and economic investments. Eleven years after the expiry date of this first convention it is still not possible to envisage the winding-up of this First Fund. The definitive commitments amount to 564.8 million u.a. (97.1%), the total commitments to 570.9 million u.a. (98.2%) and the payments to 556.2 million u.a. (95.6%). Of 403 projects financed, 73 are still in progress; for two of them no payment has yet been recorded.

In the balance sheet of 31 December 1973, the debit item "Financing carried out" has increased by the amount of the payments made during the financial year, viz. 9 885 340 u.a., causing a diminution by the same amount of the advance to the Second EDF, which has been reduced to 25.3 million u.a.

On the credit side, the item "Miscellaneous revenue" remains unchanged at 270 066 u.a., the interest earned on the combined cash resources having been credited to the Second EDF since the beginning of the financial year 1969. No decision has yet been taken on the allocation of this revenue.

The total commitments have declined from 573.24 million u.a. in 1972 to 570.90 million u.a. at the end of 1973 through the release of appropriations after the closure of certain projects and the revision of commitments for the projects in progress. But there still remained, at the end of 1973, "provisional" commitments for over 6 million u.a. The non-allocated reserves amount to 1.3 million u.a.

The Audit Board, in its previous reports, has drawn the attention of the budgetary authorities to the necessity of transferring the unused balances of the First EDF. These recommendations, reiterated by Parliament and embodied in the discharge decision for 1969, led the Council to take a decision on 30 May 1972 providing for the transfer to the Second EDF of the unused balances of the First EDF and their allocation for the financing of investments. This transfer, amounting to 9 015 639 u.a., finally took place during the financial year 1973. It represents 1.55% of the total endowment of the First EDF.

125. The payments made in 1973 rose to 9 885 340 u.a. and bring the total settlements effected since the commencement of the First EDF's operations up to 556 188 286 u.a., raising the percentage of definitive commitments which have given rise to settlement to 98.5%.

For Zone I (countries having had special relations with Belgium), out of an endowment of 30 000 000 u.a., the definitive commitments amount to 27 933 414 u.a., or 93.1%. The payments recorded for this zone total 28 062 020 u.a., constituting an over-spending of 128 606 u.a. on the appropriation, which relates to a project executed in Zaïre dating back to 1959. The payments exceed the initial estimate by 60% because the work took a particularly long time to execute. The over-spending attributable to this project alone amounts to 152 000 u.a. In Burundi there has been barely any development in the three projects still in progress. They are due to be closed in 1974-1975. In Rwanda three projects are not yet closed. Work on two of them has however been completed. Their administrative closure is held up by certain disputes which are expected to be settled shortly. In Zaïre six conventions, two of which date back to 1971, were still in progress at the end of the financial year. They are however due to be wound up in the first half of 1974.

For Zone II (overseas countries and territories having had or still having special relations with France), out of an endowment of 506 250 000 u.a., the definitive commitments at the end of 1973 amounted to 493 921 509 u.a., or 97.6%, of which 486 006 734 u.a. had been paid. There were provisional commitments still in existence amounting to 4.5 million u.a.

In Algeria there has been little change in the situation already described in earlier reports; no further projects were closed during the course of the financial year, although total payments had reached 88.3% of commitments by the end of 1973.

In Cameroon, four projects out of a total of 32 have not yet been terminated. Completion may be expected in 1974-1975.

In the Central African Republic, out of 33 projects 22 have been terminated but none of them in the course of this financial year. In the case of five of the projects not closed, the dispute arising from the failure of a tendering firm to meet its obligations has not yet been resolved.

In Congo (Brazzaville) three projects have not been closed although the work is entirely completed. In the case of two of them, a dispute about settlement has held up their administrative closure. In Dahomey 7 projects are still in progress. Their closure is not expected until 1974, in consequence of late decisions concerning purchases and supplementary work.

In Madagascar, contrary to the forecasts made by the EDF departments, 4 projects are still in progress, the closure of some of them being impossible to envisage even before 1975.

In Senegal it was not possible to close any of the five projects still open at the end of 1972 and the position with some of these projects is such as to prevent any likelihood of closure before 1975. This applies in particular to a hospital project, restarted 10 years after commencement, in respect of which the total payments at the end of 1973 had reached only 512 000 u.a. out of a total commitment of 4 391 000 u.a.

In Chad the situation referred to in the previous report has not changed; three projects are still not closed although one of them was the subject of final acceptance in January 1971.

For Zone III (countries having had special relations with Italy), out of an endowment of 10 000 000 u.a., the definitive commitments and payments amount to 9 773 694 u.a. All the projects relating to Somalia having been closed; the unused balance of the endowment has been transferred to the Second EDF.

For Zone IV (countries having had special relations with the Netherlands), out of an endowment of 35 000 000 u.a., the definitive commitments amount to 33 203 530 u.a., or 94.9%, to which must be added provisional commitments of 1.3 million u.a. which are the result of conventions signed in 1971 and which will appreciably retard the closing of the accounts. The payments total 32 346 137 u.a. During the financial year 1973, it was possible to close only one of the five projects still in progress at the end of 1972.

2. The Second European Development Fund

126. The Association Convention signed on 20 July 1963 between the EEC and the Associated African States and Madagascar came into force on 1 June 1964. Valid for a period of five years, it provided for a sum of 730 million u.a. to be placed at the disposal of the European Development Fund from Member States' contributions, to which were to be added 70 million u.a. of loans granted by the European Investment Bank from its own resources. By its decisions of 28 May 1969 and 14 May 1970 the Council successively extended the duration of the Association Convention until 31 December 1970.

On the debit side of the balance sheet at 31 December 1973 the item "Financing carried out", showing the payments debited by the Fund since the beginning, amounts to 585 901 150 u.a., settlements during the financial year having been 41 996 382 u.a.; the item "Loans on special terms" amounts to 42 963 887 u.a., having increased by 7 091 023 u.a. in the course of the year.

Under the heading "Disposable and realizable values" are shown the accounts of the combined cash funds of the First and Second EDFs, which have been opened with the Treasuries of the Member States (47 619 841 u.a.) and the resident paymasters (21 281 681 u.a.). As from 1 January 1974 these accounts have been closed and their balances transferred to the Third EDF.

On the credit side of the balance sheet, 724 534 025 u.a. of the 730 million u.a. of contributions has now been paid up, 23 819 756 u.a. having been called up in 1973, to which must be added contributions of 2 819 135 u.a. owed by Belgium since 1971 and not paid over until the financial year 1973.

The cash advanced by the First Fund to the Second Fund declined from 35 216 819 u.a. to 25 331 480 u.a. and that by the Second to the Third EDF from 67 798 757 u.a. to 44 474 776 u.a.

Miscellaneous revenue amounts to 3 471 520 u.a. It includes 1 556 846 u.a. of interest earned by the total liquid funds of the EDF since 1 January 1969, the allocation of which has not yet been decided on.

Exchange gains on movements of funds amount to 1 234 448 u.a. and the gain on the revaluation of the DM in October 1969 to 523 974 u.a. This heading also includes the interest earned on advances granted to price stabilization funds (71 098 u.a.) and the interest on special loans received by the EIB at 31 December 1970 (85 154 u.a.). Interest received after this date has been credited to the Third EDF.

Among the "Transactions to be regularized" appearing on both the debit and the credit sides of the balance sheet at 5 465 975 u.a. and 3 959 398 u.a. respectively, are recorded the regularization accounts of the contributions and of the cash resources.

Since the floating of certain currencies (the Italian lira, the French franc), it has not yet been possible to take a decision on the conversion into units of account of the effects of these monetary fluctuations. In the absence of such a decision, the EDF departments carry forward in these suspense accounts the exchange differences, calculated for each settlement by a complex method of reference to the average daily rate of the floating currency in relation to the other currencies (DM, Bfrs, Fl., Danish Kr.).

The heading "Other transactions to be regularized" is a grouping of various transactions pending at the date of the closing of the accounts which have been settled during the first half of 1974. A single debt of 588.70 u.a., dating from February 1967, is still outstanding. It relates to transport expenses advanced by the EDF by way of emergency assistance and due from the Somalian Ministry of Health.

127. The total commitments at 31 December 1973 amount to 717 672 055 u.a.

Since 1969, when the convention governing the Second EDF initially expired, commitments have moved as follows, in absolute terms (thousands of u.a.) and as a percentage of the endowment:

	1969	1970	1971	1972	1973
Definitive commitments	395 862 54.2 %	534 859 73.3 %	602 308 82.5 %	645 922 88.5 %	667 112 91.4 %
Provisional commitments	257 722 35.3 %	171 503 23.5 %	103 055 14.1 %	65 075 8.9 %	46 782 6.4 %
Financing operations pending	46 236 6.4 %	3 925 0.5 %	8 230 1.1 %	9 810 1.3 %	3 778 0.5 %
Total commitments	699 820 95.9 %	710 287 97.3 %	713 593 97.7 %	720 807 98.7 %	717 672 98.3 %

As late as 1973 six new financing decisions were taken under the head of the Second EDF for 4.69 million u.a. Four of these decisions relate to investments:

Projects:	u.a.
215.106.25 Ivory Coast - Public water supply	1 116 000
211.813.38 Niger - Development of rice growing in the Niger valley	1 440 000
211.014.49 Rwanda - Development of pyrethrum growing (complementary to the diversification aid programme of the same name)	638 500
211.018.24 Togo - Lama-Kara-Kande road	540 000

One decision relates to a diversification aid project:

215.002.34 Cameroon - Rural development of NE region (Benone)	637 000
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One decision relates to a loan on special terms granted to the department of Réunion:

321.038.04 Improvement of the coast road	326 798
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Further commitments have been entered into as late as the first half of 1974. Such decisions make it desirable that the setting of ceilings to the operations of the Second EDF should be carried out rapidly; according to the replies to our last report, this should have been done in 1973. The first revaluations have already revealed significant over-spending on certain projects. But further revisions must now be made.

Although the rapid movement in prices and the instability of currency parities increase the difficulty of setting the ceiling, this operation is nevertheless essential to enable the last commitments of the Second EDF to be proceeded with and the unused balances transferable to the Third EDF to be determined.

128. The distribution of the commitments of the Fund by category of operation is as follows (in '000 u.a.):

	Endowments	Total commitments	Definitive commitments
<u>AASM</u>			
Investments - technical assistance and cooperation	422 495(1)	409 375 (96.9 %)	381 779 (90.4 %)
Production aid	89 774	89 155 (99.3 %)	84 184 (93.8 %)
Diversification aid	116 107(1)	113 905 (98 %)	104 476 (90 %)
Special loans	46 000	43 856 (95.3 %)	43 856 (95.3 %)
<u>Overseas Countries and Territories - Overseas Departments</u>			
Non-repayable aid	60 725	57 761 (95.1 %)	49 197 (81 %)
Special loans	4 000	3 620 (90.5 %)	3 620 (90.5 %)
Total	739 101	717 672 (97.1 %)	667 112 (90.3 %)

- (1) These amounts are stated after correction of an accounting error which occurred in March 1973 (entry of 44 146.61 u.a. duplicated).

Since the Fund started to operate there have been frequent amendments to the amounts of the endowments. In 1973 the amendments consisted in removing 851 000 u.a. from the endowment for production aid and in correspondingly increasing the endowment for diversification aid. In addition, the initial endowment of the Second Fund, already augmented in 1971 by an amount of 85 154 u.a. representing the interest paid by the States who had been granted special loans, increased by 9 015 639 u.a. corresponding to the unused balances of the First EDF transferred in 1973 to the Second EDF by virtue of the Council Decision of 30 May 1972. These balances were exclusively allocated for the financing of investments and in the course of the financial year 1973 three financing decisions were taken in

respect of these balances for 1 001 850 u.a. under the heading of additional projects of the Second EDF, namely:

- Project 211.015.10 - Construction of two regional slaughter-houses (Senegal) 60 765 u.a.
- Project 211.813.38 - Public water supply (200 wells - Niger) 869 067 u.a.
- Project 211.010.20 - West road, Lake Alaotra (Madagascar) 72 018 u.a.

The commitment for the last-mentioned sum was not reflected in the accounts at 31 December 1973, although the decision had been taken in March 1973.

Three other decisions, relating to a total of 593 359 u.a., were also taken in respect of these unused balances in the first half of 1974.

The payments made since the commencement of operations by the Second EDF totalled 631 666 809 u.a. at 31 December 1973, settlements in 1973 having amounted to 49 462 023 u.a. The aggregate payments at the end of the financial year attained 94.7% of the definitive commitments.

As in previous years, the pace of settlement continued to vary widely according to the country and the type of operation. Nevertheless it was in the OCT-OD (Overseas Countries and Territories - Overseas Departments) that the most abnormal rates of settlement occurred. Balances outstanding in respect of investments amount to 14.4% in these areas, while 18.6% of the special loans granted have not yet been called up.

3. The Third European Development Fund

129. The convention governing the Third European Development Fund was signed at Yaoundé on 29 July 1969. It came into force, after ratification, only on 1 January 1971 and will expire on 31 January 1975.

The initial amount of the contributions of the Member States to the Third EDF is 900 million u.a., to which must be added 100 million u.a. of loans to be granted by the EIB. This endowment has been augmented by 5 million u.a. (which includes 500 000 u.a. earmarked for the granting of loans on special terms) following the association of Mauritius to the Yaoundé convention.

The implementing regulation laying down the rules governing the lodging and scrutiny of applications for finance and the conditions for the execution and control of the projects was agreed only on 28 January 1972 by which time the administration of the Third Fund was already very much committed.

The balance sheet at 31 December 1973 shows an increase in "Financing carried out", the total of which has risen from 65 316 564 u.a. to 163 789 469 u.a., to which must be added advances for scholarships in the sum of 7 700 324 u.a.

Up to the end of the financial year 1972 the cash requirements of the Third EDF had been met by advances from the Second EDF which still appear on the credit side of the balance sheet to 31 December 1973 in the sum of 44 474 776 u.a.

During the financial year 1973 called-up contributions of 130 000 000 u.a. were paid over by the Member States.

Owing to differences of interpretation as to the rates of exchange to be applied, which were also found in connexion with the Second Fund, these contributions have been recorded in the accounts at 126 391 147 u.a., the difference being shown separately on both the assets and liabilities sides of the balance sheet in a regularization account pending a decision by the Council on a new definition of the unit of account.

The heading "Miscellaneous revenue" groups together the repayments and interest received on the special loans from 1 January 1971 (623 871 u.a.). This miscellaneous revenue will later be used to grant new special loans or to acquire interests in undertakings. No improvement has been noted regarding the delays in notification of payments by the EIB, the payments relating to the second half of 1973 not having been communicated to the Commission until April 1974.

130. The total commitments resulting from financing decisions taken amounted at the end of 1973 to 637 663 073 u.a., which is 70.5% of the endowments, as against 48.7% at the end of the previous financial year. This rate of commitment reached 71.8% in the AASM but is only 55.3% in the OCT-OD.

The time-lag still remains very marked for loans on special terms and contributions to the formation of risk capital where only 25.9% of the endowments have been used, which breaks down as 46.2% for the AASM and 24.2% for the OCT-OD.

Five new loans and two acquisitions of interests in undertakings gave rise to a commitment of 26 559 252 u.a. during the financial year:

<u>Special loans:</u>		u.a.
Cameroon	- Creation of an agro-industrial complex of palm plantations at Wibombari	8 850 000
Ivory Coast	- Industrial rubber planting	6 928 103
	- Asphaltting of San Pedro-Issia road	6 842 000
Martinique	- Improvement of Route Nationale No 2	630 154
Réunion	- Improvement of coast road	1 795 995

<u>Interests acquired:</u>		
Cameroon	- Extension of SOSUCAN sugar works and refinery	541 000
Senegal	- Ship repair yards	972 000

130. The definitive commitments amount to 321 353 595 u.a., or 35.7% of the endowments and 50.4% of total commitments. The previous report drew attention to the slowness in implementing the financing conventions. This comment is still valid for the financial year 1973. The conclusion of purchasing and other contracts continues to require lengthy periods of time.

The investment projects are only committed to the extent of 47.7% in the AASM and 18.6% in the OCT-OD, and the technical control operations to the extent of 57.5% in the AASM.

The position with regard to commitments within individual countries reveals an excessive commitment of 540 000 u.a. in relation to the total financing conventions concluded with the Republic of Cameroon under the heading of repayable aid for "Contributions to the formation of risk capital" and also an incorrect distribution of commitments relating to a joint investment project between the Central African Republic and the People's Republic of the Congo (No 3100.443.03.05 and No 3100.443.05.12 - Purchase of equipment for upkeep of the navigable waterways).

As regards the charges for resident and technical control, which have been debited in toto against the Third EDF since 1 January 1971, the rate of definitive commitments for the whole of the AASM and the OCT-OD is only 40.3% of the total commitments making up the budgetary endowments made available for this purpose in the provisional ECA Budget. This situation is the result of the delay in recording the definitive commitments and payments in the accounts which has already been pointed out in the previous reports; the rate quoted above therefore only reflects the charges for control relating to the financial years 1971 and 1972.

131. The payments made by the end of the third year of administration of the Third EDF amount to 163 789 469 u.a., or 18.2% of the endowment and 51% of the definitive commitments.

These overall results, however, represent the aggregation of situations which differ very greatly according to the nature of the aid and the identity of the recipient country.

Among the investments, which have only been settled to the extent of 47.8% overall, the rate falls to 28.9% for the Republic of the Niger, to 18.7% for the Republic of Dahomey and as low as 1.1% for the Republic of Zaïre.

In the case of the general technical cooperation activities, the overall rate of settlement amounts to 29.1% but is only 4.3% for the AASM. Account must nevertheless be taken, as far as the valuation of this category of expenditure is concerned, of the advances paid to the agencies charged with the administration of the scholarship funds which appear in the balance sheet at 7 700 324 u.a. It will not be possible for this sum to be charged to general technical cooperation until the supporting documents which must be presented by these agencies have been approved.

CHAPTER 2: COMMENTS CONCERNING VARIOUS
PROJECTS

132. Investment projects

Examination of the projects closed and transmitted to the Audit Board in 1973 leads us to the conclusion, as in previous reports, that some projects of the First and Second EDFs have been characterized - and this applies particularly to scholarship and road projects - by significant overruns of time and cost resulting from the imperfection of the preliminary studies, the modification of technical data, the inadequacy of supervision or the failure of contractors to meet their obligations.

- a) Thus in the case of Project No 11.23.209, relating to the Institute for Agronomical Studies at Wakombo (Central African Republic), the expenditure rose to 1 724 668 u.a., an increase of almost 40% over the amounts initially anticipated in the convention. The convention was concluded in May 1962 but the project was not closed financially until 31 December 1972.

The preparation for the project, which was carried out during the start-up period of the First Fund, was based on the desire to create an "establishment for higher education in Central Africa" which would accommodate over 200 boarders coming from four States. For political reasons this aim was abandoned at a time when the work was reaching completion and it was decided to use the establishment to house the national agricultural college which had originally been planned for Bambari; this complete modification of the original project, which produced an investment ill-suited to its final use, has also necessitated expensive fitting-out work. Even at the outset the construction standards had been insufficiently studied, despite the financing of two supplementary surveys in 1963 and 1964 before the call for tenders in September 1965. Further modifications had to be made later. To restrict our comments to the building work proper, the estimate stated in the call for tenders file amounted to 255 million francs CFA. The contract signed in August 1966 was for 352 million francs CFA. Supplementary schedules brought this figure even higher while the time-limit grew from 24 to 35 months. The expenditure finally reached 384 381 206 francs CFA after the firm had been granted a sum of 19 215 112 francs CFA in settlement of a dispute which had been brought before the administrative tribunal at Bangui.

In the absence of a judicial decision it is difficult to apportion responsibility between the prime contractor, the firm and the services in charge of supervision. According to information in the file, it is noted that the Agriculture Department caused a certain degree of obstruction to the execution of the contract by introducing numerous variations, that these difficulties were compounded by delays in notification of service orders by the Public Works Department, but that on the other hand the contracting firm, selected by

way of compensation for its exclusion from a road-building project, neither made any claim nor set aside any reserve during the course of the work, whilst the supervisory services were late in taking notice of the financial repercussions of these disruptions.

- b) Another project carried out in the same State and relating to the Stock-Farming School at Bouar (Project No 11.23.311) prompts similar comments. Here, too, abnormally long periods for studies and preparatory work and major variations in the programme necessitated supplementary work and equipment.

The initial programme set up in 1960 provided for a school capable of receiving 30 trainee veterinary surgeons. The convention was not signed until July 1963 and it was not until October 1967 that the contract for the construction of the school, containing specifications established in a study commissioned in July 1965, was signed - at a value of 153 913 u.s. At the end of 1968, when this work was almost completed, the national authorities realized that this establishment would not meet the training needs of a stock-farming service which was rapidly expanding. Two supplementary schedules, signed in November 1968 and February 1969, brought in modifications and additions to the work initially provided for, increasing the volume of work required of the contracting firm by 34% without the issue of fresh calls for tenders. The project was not closed until 30 September 1971, at a total cost of 263 280 u.a. including the cost of studies and of equipping the school.

- c) In some cases the use of educational buildings is prejudiced by the inadequacy of the auxiliary work, by delays in the supply of equipment or by gaps in the training programmes.

Project No 11.21.803, the construction of 15 general education colleges in Niger, launched in June 1962, included a major programme for the installation of water supplies which was designed to meet the needs not only of the schools but also of the localities in which they were situated. The taking over of this management of the urban networks by OFEDES (the office responsible for subterranean water), which was desirable, gave rise to very long negotiations which have only been concluded for one centre. In the case of the other centres, the management and maintenance of these installations is the responsibility of the schools and in the case of one of them (Tera), despite additional studies, the water supply has still not been properly assured.

- d) The convention relating to Project No 11.22.110, a nursing school and maternity hospital at Lomé (Togo), was concluded in December 1962 and provided for the completion of this establishment in 28 months. Closure of the project did not take place until May 1972.

Although the construction work was finished at the end of 1968, delays in the ordering and delivery of equipment held up the work of finishing the project. At the beginning of 1970 the residential part of the nursing school was not yet in service, only one-third of the maternity hospital was in use

and the surgical block was still largely unused. This regrettable situation was the result both of the malfunction of certain expensive items of equipment (sterilizers) and the shortage of qualified staff. Four years later it is still proving impossible to bring the sterilization apparatus into service.

The frequency in the occurrence of cases in which well-executed investments cannot be properly used for lack of maintenance, satisfactory replacement of equipment or sufficient staff, prompts the Audit Board to express the wish that on the one hand when calls for tenders are made the after-sales service offered should be an important element influencing the choice and on the other hand that a closer link should be established between the investment projects and the programmes for scholarships and training financed by the EDF.

133. There are also some significant time and cost overruns in the road-building sector due to the inadequacy of preliminary studies, changes in the programmes, poor quality of execution and insufficient supervision.

Our recent audit reveals various examples:

- a) Asphaltting of the Yaoundé-M'Balmayo road (Cameroon, Project No 12.22.208) was the subject of a financing convention signed in September 1961. After a study carried out by the local administration the contract for the work was signed in December 1962. Defects in the study gave rise during the course of execution to numerous alterations in the work and to additional work which was the subject of four successive supplementary schedules, the last one of which was notified more than one year after the order for the work and after its provisional acceptance. The record of final acceptance has never been produced and, because of a fiscal dispute between the administration and the firm, the final closure of the project did not take place until November 1971, seven and a half years after the work had been completed.
- b) The Cotonou-Hillakondjé road (Dahomey, Project No 211.007.09), which cost 727 million francs CFA to construct (for a contract price originally set at 634 million), sustained very heavy damage soon after completion at the time of the 1968 floods. The reinstatement work has cost 409 million and has been financed in part from the reserves of the First EDF (88 million) and, for the rest, from the unused balances of the Second EDF and from a levy of 166.6 million against Project No 213.480.40 which relates to the 1967-68 scholarship programme.

The scope of this work, which is not limited simply to repairs to the surface but includes additional embankment work, the construction of new channels and culverts and the reconstitution of the base layer, and the fact that such work has become necessary not only on the 20 km section which was submerged by the floods but also on other sections of this

98 km road, tend to prove that the original work was not properly executed. In these conditions it seems that a large part of the cost of reconstituting the base layer should have been made the responsibility of the contracting firm.

- c) The improvement and asphaltting of the Kinkala-Boko road (Congo-Brazzaville, Project No 211.005.13) was the subject of a financing convention in February 1967. While the original sum provided for was 600 million francs CFA, the total expenditure has risen to 893 million, which gives an average cost of 15 million per km and a cost overrun of 49%; this has necessitated recourse to additional finance from the Third EDF (Supplementary schedule No 1 of January 1972, Project No 3100.441.05.09). This figure includes the cost of supervision of the work, at 38 million, and an additional payment of 60 million made to the firm following the revaluation of the DM, clause 3 of the contract having stipulated that up to 40% of the payments could be made in this currency.

The initial study, carried out by the local administration, contained shortcomings which necessitated the making of major modifications in mid-execution not only as regards the use of materials but also in the actual route to be taken by the road. Whereas the works contract notified in August 1969 stipulated execution within 20 months, it was not until July 1971 that the technical and financial preparation of the project had been put in train, thus entailing an extension of the time-limit and a revision of the contract. It appears that the supervision of the work, both by the team of technicians paid through ECA and by the resident supervisor, has been too lax. Since the completion of the work, maintenance of the road has not been properly provided and drainage and repair work has not been carried out. The reconstitution of the sections damaged in this way will raise still further the already elevated cost of this road infrastructure.

- d) The project for the construction of the Ituri road (Zaire, Project No 12.11.005) launched in 1962 was abandoned following the troubles in 1964. However, the project was not closed until February 1972, eight years after the cessation of work at the site, after the firm had been paid a sum of 465 900 u.s., including an indemnity of 177 586 u.s. equal to 10% of the difference between the contract sum and the value of the work executed. Part of the appropriations made available were used to finance cost overruns on other projects, notably Project No 211.004.18 (Mwene-Ditu Mbujimaya road).

The same public works firm had been entrusted in 1962 with the construction in this country of the Lwanga-Mussenge road through a contract worth 1 311 043 u.s. A supplementary schedule, of which notice was given in December 1966, more than tripled the contract sum, bringing it up to 4 000 000 u.s. and raised from 45.78% to 57.46% the portion payable in foreign currency. This exceptional increase is said, according to the replies transmitted, to be due to the volume of additional work arising from the grave defects discovered in the initial study, to the use of new techniques, to the rise in prices and to the necessity of making good the losses suffered by the firm following the events of 1964.

134. Certain agricultural investments did not have the economic effects expected because the projects did not include a serious study of the marketing of the products or of the managerial staff necessary for marketing.

Thus of the six programmes making up Project No 12.11.008, "Revival of the agricultural economy of the province of Kinshasa", three ended in failure as a consequence of faulty organization of sales outlets and lack of qualified personnel.

Despite the investments executed, the number of hectares of banana plantation maintained and the production of stems have continually declined. In 1972 the area of productive plantations represented no more than 22% of that under cultivation four years previously. In the same way the plantations of citrus fruits have also been progressively abandoned, for lack of a serious marketing organization. Finally, the expenditure on the development of cooperatives has proved to be a pure loss because, when the personnel providing the technical assistance were withdrawn, no qualified managerial staff could be found to replace them.

135. The over-spending on numerous investment projects arises in part from the abnormally long periods elapsing between the issuing of calls for tenders and the signing of the contracts.

Checks carried out on projects in Upper Volta have shown that a period of from 1 to 4 months elapses between the analysis of the tenders and approval of the minute of acceptance and that the signature of the contract requires a further 6 months after this decision. Such time-lags have repercussions on the contract sums through the operation of the price revision clause.

The EDF departments, conscious of the cost of these delays in a time of inflation, have, it must be added, asked the resident supervisors to approach the national administrations in an attempt to speed up these procedures.

136. Linked technical assistance

The financial management of some study contracts deserves to be scrutinized more closely.

An expert's report on techniques for the construction of a loading station in the port of Lomé (Togo) was the subject of a contract for 6 906 u.a. (Project No 212.118.22). The expert's mission lasted from 12 to 21 February 1971. This operation did not become the subject of a commitment proposal until 14 April 1971; the proposal was granted the "prior" approval of the Financial Controller on 20 April 1971 and the expert was given notice of the contract on 15 July 1971.

In the case of the supplementary study on the installation of a water supply to serve the Banfora area (Upper Volta, Project No 3122.132.09.11), the work commenced in November 1971 before the supplementary schedule to the contract relating to the work had been notified and even before the commitment proposal had been transmitted to the Financial Controller who, on the first occasion (8 December 1971), refused to grant approval and did not grant it finally until 20 January 1972.

Although the commencement of a study before notification of the contract may in certain circumstances seem an acceptable departure from principle on grounds of urgency, the provisions of the Financial Regulation concerning prior commitment and the Controller's approval should nevertheless be respected at all times.

The studies for the preparation of the files for diversification aid to Cameroon (Project No 212.802.01) gave rise to the signature of a contract and three supplementary schedules which had a retroactive effect. The work commenced on 10 September 1964 and the contract was not signed until 9 October 1964. Supplementary schedule No 1 changing the rate of the subsistence allowance as from 1 September 1964 was signed on 19 January 1965. Supplementary schedule No 2 prolonging the duration of the mission from 28 February to 30 May 1965 did not receive the visa until 25 June 1965. Finally, Supplementary schedule No 3 granting a further extension until 31 July 1965 was not signed until 29 July 1965.

Whereas it may be inevitable that the supplementary schedules revising the rates of allowances should only come into existence a posteriori after the movement in the price indices has been ascertained, it is inadmissible that the other contractual documents should only be drawn up by way of regularization.

Some elements of the cost of the studies should be better estimated at the outset, more closely supervised during execution and better substantiated at the time of payment.

The expert economic and financial report on the Office of the Niger (Mali, Project No 212.111.05) was intended to define the means of developing that agency (agricultural production, system of operation, organization of the enterprise and of the subsidiary industries). Started in August 1965, this study was financially closed in February 1967 but the accounts and supporting documents were not transmitted to the Audit Board until March 1973.

The expenditure under the contract, committed in the sum of 12 152 u.a., finally reached the figure of 17 780 u.a. (an over-spending of 46%). The expert was granted substantial additional fees to remunerate him for 160 days' work whereas the study contract had only provided for 60. Some travel expenses were reimbursed without production of the control stubs or the agency invoices. Finally, the expert's report was permitted to be printed in 100 copies at a cost of 3 000 u.a. which would seem to be an extravagant expense not essential for the use of the study.

Certain expensive preparatory studies would seem to be only worth pursuing up to the stage of the preparation of the technical specifications file for the invitation to tender if the probability of the project being launched is sufficiently assured.

Thus in July 1965 a study was set in motion concerning a road following the route Ouagadougou-Kaya-Dori (Upper Volta, Project No 212.109.01) to serve the North-Eastern region of the Upper Volta and the possible transportation of manganese ore from the Tambao mines. This study came to nothing because the Upper Volta authorities decided to institute new studies for the construction of a railway. It is regrettable that the first study, in the absence of a firm option, was taken as far as the preparation of the technical documents for the launching of the invitation to tender and thus gave rise to the high expenditure figure of 511 372 u.a.

Some contracts relating to the direction and supervision of work also give grounds for comment about the procedures for commitment and the speed and substantiation of the payments.

The contract relating to the supervision of joint work on several road projects in Casamance (Senegal, Project No 15.21.100) was not signed until 11 June 1963 although the mission had actually started work in mid-December 1962. Similarly the codicil concluded at the end of December 1964 extending the scope of the planning office's mission to new projects and raising the contract sum from 141 440 u.a. to 226 855 u.a., concerned work carried out from June 1963 onwards. If the awarding of the contracts was tardy, making of the payments was even more so. Some travel expenses incurred in 1963, claimed in December 1966, were not reimbursed until March 1968. The last accounts covering the revision of prices and the balance of the installation costs, rendered in November 1967 and May 1968, were not paid until May 1971. Default by the national authorities forced the principal authorizing officer of the EDF to serve as a substitute for the local authorizing officer in order to be able to settle a project more than six years after the end of the mission.

When the travel expenses relating to the contract for the supervision of work on the Ituri road (Zaire) were reimbursed, first-class rail fares from Luxembourg to Lisbon and second-class air fares from Lisbon to Matadi were paid, on the basis of vouchers from the planning office.

The checks carried out by the Audit Board have established that these journeys were made respectively by car, then by sea (first class) whereas the contract stipulated the use of tourist class travel (air, sea, rail) and the submission of the supporting vouchers. The contract also stipulated that the expert should take up his post at Kisangani on 1 August 1963 and allowances were granted to him as from that date although he did not arrive at his destination until 10 August and the date of his entry into Zaire has still not been established.

In order to facilitate stricter control over the payment of travel expenses and the duration of missions, the production of the travel documents should be demanded, in accordance with the express provisions in the contracts.

In the case of the study for the "pre-investment" at the port of Lomé (Togo, Project No 212.118.16), the delays found in the payments are the result, according to the replies received from the Directorate of the EDF, of negligence on the part of the planning office which had been late in submitting the quarterly progress reports necessary for payment of the third instalment and whose final study, judged to be inadequate, should have been drawn up and completed to authorize payment of the balance. Under these circumstances it is regrettable that this negligence and these delays did not lead to any reduction in the fee but that on the contrary the delay thus imposed on the final payment caused the EDF to have to pay a surcharge because of the currency fluctuations which had occurred in the meantime.

137. General technical cooperation

Some general studies charged under this heading would seem to involve administrative expenditure by the Commission rather than intervention operations by the Fund.

This is the case with the study commissioned in July 1968 from an organizational planning office for the processing by computer of the statistics of the EDF's contracts. Only the smallness of some of the Commission's budgetary endowments could have caused this operation to be charged to the accounts of the EDF (Project No 213.180.45) in which, moreover, it should have been entered under "Administrative and financial costs" rather than "General technical cooperation".

Under the terms of the contract the study should have been completed by the end of December 1968 but the final report and the programmes were not produced until 2 July 1969. Furthermore, they were not completely satisfactory and the preparation of a programme (No 10005) was not finalized by the time the balance on the account was paid.

A supplementary schedule of regularization, signed on 11 September 1970, raised the amount payable under the contract from 796 200 Bfrs to 983 723 Bfrs to take account of additional costs to the contracting firm occasioned by the transfer of the Computer Centre to Luxembourg, costs which were paid without the backing of supporting documents on the personnel relocations.

It seems that in the case in point the delays inflicted on the implementation of the programme and the unsatisfactory quality of some aspects of the study should have prompted the imposition of a penalty.

A study contract concluded in 1962 on "The formation of prices for public works" was initially taken on charge by the Commission's Budget, the Commission having met the main costs in 1963-64 with the exception of a balance of 9 768 u.a. for the reimbursement of travel expenses. The budgetary appropriations having been cancelled at the end of the financial year 1964 as they had not been used, this balance became the subject in 1965 of a project charged against the Second EDF (Project No 213.180.20). This project was declared closed in April 1967 without any fresh payment having been made, since the financial

departments considered that the request for payment of subsistence allowances and reimbursement of relocation expenses was not sufficiently well substantiated. The project had to be reopened in November 1967 to permit payment, as the departments had finally decided to accept the proffered evidence.

Similarly Project No 213.118.06, a transport study in Togo, was only charged to the Second EDF to cover an addition to a study financed under Chapter 17 of the Commission's Budget for the financial year 1965, namely to pay the travel expenses of experts to Brussels, the reimbursement of which had not been provided for in the contract in any case.

Some general economic or statistical studies are sometimes charged to the EDF under the heading of general technical cooperation or to Chapter 26 of the Commission's Budget without the criteria for charging in this way being always clear.

Some studies on the industrialization of the AASM have been the subject of several successive contracts and codicils (Project Nos 213.180.13 and 213.180.19) which do not always provide for the production of reports and which could be described more as a financial participation in a university centre for the study of the developing countries than an order for specific operational studies.

In the case of the study on the development of tourism in Senegal (Project No 3122.120.15.07) an instalment of 25% of the total fees should have been paid on signature of the contract, at the end of June 1971, and the experts should have arrived in the area at the end of November. As a result of negligence by the national authorizing officer the instalment was not paid over until mid-February 1972 and the mission was delayed accordingly.

Contrary to the clauses of the contract, the successive payments of 25%, 50% and 75% were calculated on the total estimated amount and not on the lump-sum total fee alone (DM 115 605). In this way DM 10 908 was included as reimbursement of travel expenses without the production of supporting evidence. Finally, in the absence of any contractual provision, no reduction was applied to take account of the delay in producing the report.

The Commission has announced that as from April 1973 penalty clauses relating to default in execution are being introduced into the study contracts.

138. Production aid

The projects classed under this heading of the Second EDF comprise two types of intervention, which contribute either to price maintenance or to the structural improvement of crops.

These programmes are divided into annual tranches corresponding to the marketing seasons. Article 16 of Financial Regulation No 64/356 stipulates that the definitive accounts of each tranche must be closed within the three months following the

end of the season on the basis of a detailed, verified and approved report (provided by Article 32 of Protocol No 5 annexed to the Yaoundé Convention).

In its earlier reports the Audit Board has several times noted that the settlement of these interventions is slow and laborious, chiefly owing to the shortcomings of the files transmitted by the local administrations with a view to the payment of the aid.

The 1973 audit gives us cause to reiterate this comment. At the end of the financial year the following operations still remain open: 1964-65 season - Madagascar; 1965-66 season - Madagascar and Togo; 1966-67 season - Madagascar, Togo, Niger and Chad; 1967-68 season - Senegal and Niger; 1968-69 season - Madagascar, Mali, Cameroon and Chad; 1969-70 season - Cameroon; 1970-71 season - Cameroon and Senegal; 1971-72 season - Madagascar.

Active approaches should be made to the local administrations in order to arrive at a more rapid settlement of these programmes.

One of these programmes in particular has attracted the attention of the Audit Board. It concerns the 1965-66 tranche of production aid to Mali (Project No 214.011.17). In June 1966 the amount of finance to be provided was fixed at 407.9 million FM of which 128.5 million FM was to take the form of price support for cotton and groundnuts and 279.4 million FM was to take the form of structural aid. The first part of the programme was not in the end the subject of a commitment.

On the other hand the measures for structural improvement developed beyond the time-limits and amounts provided for. Codicil No. 2 to the convention, signed in June 1967, prolonged its validity until 30 June 1967 to take account of the long delays in preparing the file for invitations to tender for the supply of agricultural equipment, although the draft of the file had been sent to the Commission on 1 September 1966 before even the convention had been signed.

This extension to 30 June 1967 proved insufficient and commitments were entered into up to June 1969 without any new codicil having been made. Payments continued until December 1971 and the project was closed in January 1972 at a total of 480.7 million FM (not including the deficit of 40 million FM on the special account, mentioned in Para. 219 of the 1971 report and still not cleared at the end of 1973). The over-spending arises principally from slowness in the execution of the programme and the effects of currency devaluations.

In March 1974 the Commission reopened this project and charged to it an additional expense of 90 136 u.a. which relates to the regularization of the above-mentioned account. The Commission considered that it would be impossible to recover the sums due by the Mali Government under the head of the exchange guarantee provided for by Convention 415. The cost overrun is increased by this amount.

139. Aid towards the payment of interest

- a) The granting of this type of aid was provided for by the First Yaoundé Convention with a view to facilitating the financing, through loans from the European Investment Bank, of major projects whose profitability would have been compromised by too high a rate of interest. No aid was granted under this heading by the Second EDF.

The Second Yaoundé Convention simplified these procedures by permitting the granting of this aid in a "global" and lump-sum form. By the end of 1973 this type of intervention had been utilized by the Third EDF for twelve projects for a total of 3 773 940 u.a.

- b) The joint intervention of two financial authorities with different motives has given rise to some difficulties recently. Of course the two agencies, which regularly hold coordination meetings, are both seeking to assist the development of the associated countries, but the Bank has to pay more attention to the financial profitability of the operation and the EDF authorities are more concerned with the economic or social consequences.

In a recent case a controversy arose over the division of prerogatives between the Bank, the EDF Committee and the Commission in connexion with the granting of a lump-sum interest subsidy. These differences of opinion related both to the hierarchy of responsibilities and to the extent of the economic and financial supporting evidence to be furnished to the various bodies. It would be desirable for the texts in question to be given a clear interpretation by the Council.

- c) The very fragmentary documentation obtained by the Audit Board on certain projects did not enable it to form an opinion on the economic justification for the intervention of the EDF. In the case of a hotel project in Gabon and some industrial projects in Ivory Coast, it seemed to the Audit Board that the good prospects of profitability and the guarantees and benefits granted by the States involved removed some of the reasons for granting the interest subsidy.

140. Resident and technical supervision

- a) In its previous reports the Audit Board has repeatedly stressed that the charging of the expenditure on resident and technical supervision in the accounts of the EDF, effected through the European Cooperation Association, is not satisfactory.

This remark does not refer to the chronological division, inevitably arbitrary, which has led to the charging of these costs to the First EDF up to 30 June 1966, to the Second EDF up to 31 December 1970 and since that time to the Third EDF. Rather, it is directed towards the accounting methods adopted for both the commitments and the payments.

The accounts of the Third EDF for 1973 do indeed show abnormal amounts of over-spending against appropriations under the heading "Resident and technical supervision". For the **AASM** these overruns amount to 4 357 255 u.a., or 57% of the commitments, and for the OCT-OD to 585 005 u.a., or 96%. This situation results from the fact that the administrative departments of the EDF do not integrate into their accounts the estimated commitments entered into by the **ECA**. The procedures used by the Association and the Commission should be harmonized without further delay.

In the payments sector this heading in the EDF's accounts does not always reflect the real outlay for the financial year, since the debiting of expenditure continues to be effected with a time-lag of one year. It has still not been possible to close this interval although the **ECA** has made real efforts to shorten the time needed for verification of the advances and preparation of the accounts.

Without being able to meet the statutory deadline for the presentation of the accounts (two months after the end of the financial year), the Association nevertheless managed to close them by the end of April. The Audit Board received informal notification to this effect at the beginning of June 1974 but the supporting documents relating to the financial year are still held by the auditor and the financial controller.

The comments which follow are consequently limited to observations prompted on the one hand by an analysis of the balance sheets and management accounts and on the other hand by verifications carried out in the **ECA** departments on certain special points.

- b) The balance sheet shows that the **ECA** departments have devoted themselves to implementing the Audit Board's previous suggestions. Thus the amount of liquid funds under "Banks" and "Imprest accounts" has been noticeably reduced. Similarly the pace of verification of the advances has been improved and, at the end of 1973, the amount awaiting verification represented no more than 7.2% of the total expenditure paid out by the administering corporations.

The overseas inventories have now been set up and kept up to date and the EAC expects, as from 1974, to be able to install a more accurate system for the recording and control of the running expenses of the vehicle fleet, which increased from 189 vehicles in 1971 to 202 in 1972 and 220 in 1973.

The procedure for granting the prior visa for controlling the preparations for payment has been improved, permitting an acceleration of payments to the agents and suppliers to be made. After two years of running in, the operation of the small computer acquired by the **ECA** now seems satisfactory.

- c) The total expenditure borne by the **ECA** in 1973 amounts to 9 694 681 u.a., of which 637 803 u.a. relates to Head Office (6.5%), 7 064 495 u.a. to technical supervision (72.9%) and 1 992 383 u.a. to technical assistance (20.6%).

The increase in the Association's total expenditure is 3.9% over 1972 and 45% over 1969.

The figure for "Sundry debtors" shows a net reduction: 25 943 u.a. as against 37 482 u.a. in 1972 (- 31%). However, certain substantial items call for more rapid settlement:

Goossens	:	5 131.98 u.a.	recovery of salary
Da Camara	:	2 138.57 u.a.	disputed tax (recovery of Belgian tax)
Porschman	:	5 823.45 u.a.	disputed tax
Pirzio-Biroli	:	1 359.45 u.a.	balance due on advances, resident supervisor

Advances approved for the purchase of private cars for use on the department's business continue to be granted and appear in the balance sheet at 15 091.64 u.a. These advances are paid in the form of mileage allowances to the overseas agents. One might ask why the granting of such advances is necessary when the official vehicle fleet is already rather large.

The expenditure awaiting regularization amounted to 94 956 u.a. at the end of 1973 as against 81 601 u.a. at the end of 1972 (+ 18.8%). It relates to debts paid by imprest advances for which the supporting evidence is still awaited and represents 5.3% of the expenditure laid out by the paying agents.

Staff strengths under the administration of the **ECA** during the past three years have changed as follows:

	End 1971	End 1972	End 1973
Head Office	27	30	28
Special contracts (inc. staff concerned with trade fairs, exhibitions and symposia)	33	36	37
Overseas supervision (inc. planning offices)	119	127	131
Technical assistance	77	59	61
	256	252	257
Locally-recruited servants	258	277	293
Total	514	529	550

Payment of the remuneration of this staff has given rise to a sharp increase in accounting operations because of changes in the parities of the various currencies.

The Audit Board has several times criticized the recruitment and administration by the **ECA** of personnel on special contracts, criticism which in fact applies to the administration of D.G. VIII.

The forecasts, repeated many times, of the progressive integration of these servants under the Commission's budgetary item headings are far from becoming a reality. Therefore we once again request that this regularization take place without further delay.

d) In the sector of staff expenditure two specific situations deserve a mention:

- From 1 October 1972 to 31 March 1973 the ECA at the Commission's invitation, covered the employment by the Directorate-General for Social Affairs of a temporary servant by a study contract charged to the EDF: this servant had been working for the Commission since 1 January 1969 and his last contract had expired on 30 June 1972. The EAC contract provided for the payment of fees of 274 548 Bfrs for the six months. The Commission, ignoring the Financial Controller's refusal of approval, subsequently renewed the temporary contract of this servant (who was appointed as a probationary official at grade A/5 a few months later). This appointment was retroactive to 1 July 1972 and the person concerned found himself being paid "arrears" of salary as from that date without any deduction from this back pay in respect of the fees already paid to him. Since then the ECA, which had however indicated the necessity for such a deduction, has been trying to obtain repayment by this official of his debit account, which still stands at 256 599 Bfrs.
- On 1 January 1974 there was recruited as resident supervisor a former senior official of the Communities who had taken advantage of the provisions of Regulation No 2530/72 (shortened service in consideration of a monetary payment) and the provisions of Article 42 of the old ECSC Staff Regulations, which granted him full pay for a period of three years followed by an early pension; this was in addition to his remuneration as resident supervisor. Whatever the legal arguments advanced to justify the formal regularity of this recruitment, which was not made directly by the Communities but through a satellite organization, the fact remains that the simultaneous payment of two salaries out of Community funds is plainly contrary to the spirit of a regulation designed for the purpose of the removal of managerial staff.

On this occasion the Audit Board believes it ought to draw attention to the comments in its previous report concerning, on the one hand, the desirable integration of the resident supervisors into the official staff of the Communities and, on the other hand, a reexamination of the reasons for this dismemberment of Community administration constituted by the ECA.

141. Advances to the stabilization funds

At the end of the financial year 1973 the balance of advances to be recovered was still as high as 2 537 750 u.a. During the financial year the only amount collected was the balance of the advance granted to the Burundi Office of Industrial Crops, at 853 447 u.a.

On the other hand the accounts do not reflect the partial repayment, in the sum of 248 000 u.a., by the Chad cotton prices stabilization fund which the Commission reported in its reply to last year's report of the Audit Board. Similarly, the debt due from the Madagascar sugar fund remains unchanged.

It seems that new efforts are necessary to secure repayments more in conformity with the agreements.

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This Report, drawn up in the French language, was agreed by the Audit Board in Brussels on 1 October 1974.

Mr G. Freddi, President

Mr M. Bernard

Mr R. Burgert

Mr J. French

Mr P. Gaudy

Mr H. Hartig

Mr A.K. Johansen

Mr Ed. Molitor

Mr W. Mulcahy

REPLIES BY THE COMMISSION OF THE EUROPEAN COMMUNITIES
TO THE OBSERVATIONS CONTAINED IN THE REPORT
OF THE AUDIT BOARD ON THE ACCOUNTS
FOR THE FINANCIAL YEAR 1973

- VOLUME II -

C O N T E N T S (1)

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(1) As in the first volume, the references to the numbers of the points and their headings, as well as the page numbering, are those used in the Audit Board's 1973 Report. To facilitate the reading of the replies, it has been thought appropriate to introduce titles for certain points and paragraphs which did not have titles in the Audit Board's Report.

PART TWO: THE EUROPEAN DEVELOPMENT FUNDSI N T R O D U C T I O N122. Closing and transmission of the accounts (p. 2)

- a) It is true that it has not been possible to respect the time limits for the transmission of the balance sheets and management accounts of the Funds to the Audit Board. The difficulties inherent in computerizing the accounts of the operations financed by the EDF on the one hand, and the time necessary for the centralization of the records passed by all the resident paymasters and their paying offices on the other hand, made it impossible to close the balance sheets and management accounts by 31 March.

Nevertheless, for two years, and at the request of the Audit Board, the Commission has been submitting provisional documents before that date.

By proceeding in this way the Commission considered that it would be facilitating the work of the Audit Board. Obviously the Commission would resort to the former procedures if the Audit Board preferred to be supplied with definitive documents.

However, the Audit Board's attention should be drawn to the difficulties experienced by the Commission, for the reasons set out above, in meeting the deadline of 31 March.

This is why, when the financial regulation relating to the operations of the future EDF is drawn up, the Commission, basing its proposal on the provisions of the general financial regulation applicable to the Budget of the Communities, will propose that the date of transmission of the balance sheet and management account should be moved to 1 June.

- b) In examining the accounts relating to the financial years 1971, 1972 and 1973, the Audit Board discovered a number of accounting errors.

For the financial years 1971 and 1972 the Commission proposes to prepare a "corrigendum" as soon as possible.

With regard to the financial year 1973, the Commission made the corrections which were necessary before the definitive adoption, on 18 July 1974, of the balance sheets and management accounts of the three Funds.

The Commission wishes to emphasize the insignificant nature of the errors discovered by the Audit Board, errors which it was a simple matter to correct.

123. Presentation and transmission of the supporting documents (p. 3)

- a) As in its previous report, the Audit Board draws attention to the delays occurring between the acceptance of work or supplies and the making of the final payment. It recognizes, however, that the Commission has made the necessary arrangements for speeding up the liquidation of the operations.

During the previous year instructions were sent to all the resident supervisors asking them:

- to check the extent to which contracts which had been physically completed could be closed financially, and to state, if appropriate, the reasons preventing the definitive closure of these contracts;
- to take all necessary steps to ensure that the contracts in progress were completed within the contractually-agreed time limits.

As the Audit Board notes, these arrangements made it possible to close a number of projects of which the closure had been unjustifiably delayed.

- b) It is true that transmission of files on certain closed projects to the Audit Board was late. To prevent the recurrence of such delays, steps have been taken at the internal level to ensure that the accounting vouchers and supporting documents of the closed projects are transmitted to the Audit Board within a period not exceeding 15 days.

It should be emphasized, however, that the projects quoted by the Audit Board were of very minor importance, amounting to between 4,000 and 6,000 u.a.

- c) The Audit Board desires that a number of documents should be submitted to it systematically so that it can improve the effectiveness of its control. The documents in question are the minutes of the meetings of the EDF Committee, the calculation notes prepared in connexion with fees under service contracts, and the mission reports prepared by the Commission officials.

With regard to the first-named documents, the Commission made inquiries of the members of the EDF Committee as to the possibility of transmitting minutes of their discussions to the Audit Board. Since the work of the Committee is covered by professional secrecy (Article 6, Para. 5, of the Rules of Procedure of the EDF Committee), the members of the Committee felt unable to meet the Audit Board's request.

On the other hand, there is nothing to prevent the transmission to the Audit Board of the calculation notes made in connexion with the fees for service contracts. These notes will in future be systematically annexed to the contracts so that they are included in the supporting documents to be transmitted to the Audit Board at the time of the closure of projects.

Finally, there is nothing to prevent the Audit Board requesting access, case by case, to the reports of overseas missions prepared by the Commission officials when the projects examined in these reports are closed.

At the present time the Audit Board has access to all the correspondence files and its requests in this regard have never been refused by the Commission.

CHAPTER I: THE GENERAL ACCOUNTS OF THE FUNDS (p. 5)2. The Second European Development Fund (p. 7)

126.(p. 7)

Allocation of the credit balance on the account "Miscellaneous proceeds and interest"

It is true that no decision has been taken on the utilization of the credit balance standing to this account.

On 14 April 1972 the Commission submitted to the Council a draft training programme which would have been financed in part by the use of these appropriations.

The aim of this programme was to bring on young university graduates trained in different disciplines to replace the managerial staff in charge of technical supervision and control who are employed by the Community in the associated states, countries and territories. The programme provided for 3 training courses for 30 young trainees; each was to have a training period of 3 years, of which 1 year would have been spent in Europe and 2 years overseas.

The discussions which took place at Council level caused the Commission to make substantial changes to its initial programme, both as regards content and as regards finance. It is likely that an experimental programme (1 course instead of 3) will be adopted, of which only the financing of the European part will be charged against these appropriations.

The available balance remaining on the account "Miscellaneous proceeds and interest" will be allocated to the financing of the construction in Brussels of a building to house the co-ordinating bodies of the Associated States.

An appropriation of 2 million u.s. has already been made against the miscellaneous proceeds and interest of the First and Second EDFs. This appropriation will enable a subsidy to be granted to the Co-ordinating Council of the AAMS to ensure the execution of the project for the construction of the building.

Effects of the currency changes on the operations
financed by the Funds

It is true that no decision has been taken towards remedying the disadvantages arising from the currency changes which have taken place since August 1971.

As the declaration, on 15 August 1971, of the inconvertibility of the US dollar removed the legal basis for the calculation of the parity of the Member States' currencies in relation to the u.a. as laid down by Article 2 of Protocol No. 7 annexed to the Yaoundé Convention, the Commission put forward several proposals with the aim of enabling the accounting records of the European Development Fund to be regularized.

Despite the holding of many meetings at Council level, it has not been possible to take any decision on the method to be adopted for carrying out such regularization.

For lack of a decision a sum of about 9 million u.a. remains owing from the Member States to the Funds. Discussions on this point are continuing at Council level.

127. (p. 8)

The setting of ceilings to the operations of the Second EDF

When replying to the previous reports of the Audit Board, the Commission expressed its intention of setting ceilings to the projects of the Second EDF during the financial year 1973.

However, the considerable price rises which occurred in all sectors during the second quarter of 1973 and at the beginning of 1974 led the Commission to postpone this operation. This general advance of prices cannot fail to increase the final cost of the projects substantially to an extent which is not always easy to forecast.

For this reason the national authorizing officers have been asked, as a first step, to hold the necessary discussions at the highest political level in order to choose the solution which will be definitively proposed to the Commission:

- either to use, within a project, the maximum appropriations made available but, by so doing, to forego the possibility of absorbing the over-spending on this project or even that on another project;
- or to charge the cost of over-spending against national resources in order to be able to reserve the balance of the available appropriations for commitments relating to new projects provided for in the programme;
- or to request the Commission to cover the over-spending, in the knowledge that such a request will reduce by that much the freedom to request new commitments towards the realization of the programme initially envisaged.

3. The Third European Development Fund (p. 11)

129. (p. 11)

Delays in recording repayments and interest on special loans

It is true that the provisional balance sheet sent to the Audit Board on 31 March 1974 does not reflect the inclusion of the sums received from the borrowers during the second half of 1973.

As the Audit Board itself notes, the revenue for this period was not notified to the Commission by the European Investment Bank until April 1974.

It goes without saying that the definitive balance sheet drawn up by the Commission in July 1974 includes all this revenue relating to 1973.

CHAPTER 2: COMMENTS CONCERNING

VARIOUS PROJECTS (p. 14)**132. Investment projects (p. 14)****a) Institute for Agronomical Studies at Wakombo (Central African Republic) (p. 14)**

This institute, which was set up to provide for the training of management personnel for government and para-government agencies to meet the needs not only of the Central African Republic but also of Gabon, Chad and Congo-Brazzaville, corresponded to the desire of the Heads of State of Equatorial Africa meeting in Fort-Lamy on 11 December 1961, to create an "establishment for higher education in Central Africa". In order to fulfil this programme, the establishment was planned to cater for the training of 215 pupils, all boarders.

By September 1968, within a few months of completion of the construction work, serious uncertainty had developed as to the future use of the buildings.

This arose from the fact that the withdrawal of the Central African Republic from the U.D.E.A.C. did not encourage Gabon and Congo-Brazzaville to send their students to that country. For this reason the number of pupils expected was no more than 75 per year, whereas the Institute was capable of accommodating 215. In addition, the recruitment of European lecturers of the required standard was proving very problematical.

These two problems combined to make the Central African authorities seek a new use for the buildings which had been erected at Wakombo. A solution was not found until February 1969; the Central African Government decided to use the establishment to house the "National Agricultural College" which had originally been intended for Bambari.

These events have naturally affected the conduct of the work, causing delays in the taking of decisions by the Administration.

Although it may be in order, in the field of building construction, for the prime contractor to request certain alterations to the plans during implementation of the work in order to make the work better suited to the specific needs of the user, it is on the other hand very regrettable if this necessitates a substantial modification of the original project. Such fundamental modifications inevitably give rise to considerable additional expense which, even if it does not necessarily constitute a financial loss, nevertheless causes delays and spending in excess of the sums laid down in the financing convention. It is for this reason that the Commission only accepts a modification of work already in hand when there is a risk that this work will be wholly or partly unsuited to the objectives fixed for its final use. For, if this was not done, the investment would be partially or totally lost.

b) Stock-farming school at Bouar (Central African Republic) (p. 15)

It is true that the construction project for the stock-farming school at Bouar has undergone a number of modifications during the course of execution.

This school had been intended to provide management personnel for the stock-farming service, a sector which underwent an expansion of an extent and rapidity which was not foreseen. Originally, this school was intended solely to provide for the training of veterinary surgeons. Subsequently its tasks became more diversified, as it was necessary to give this service a structure that was suited to its rapid expansion.

It was this necessity of adapting the original programme to the new requirements, unforeseeable at the outset, that led the Commission to approve the construction of additional premises and the corresponding fitting-out work. The volume of work entrusted to the holder of the contract was thus increased, without a fresh call for tenders being issued.

There is no doubt that when the need for additions or modifications to work arises during execution, it is the firm holding the contract that is normally the most competitive, not only as regards prices but also in the matter of the time required for completion.

This firm has all the materials and labour available on site and, since the contract was concluded after a call for tenders, certain unit prices stated in the tender can quite simply be used for or adapted to the new work.

c) Construction of 15 general education colleges in Niger (p. 15)

The Commission has carried out a thorough investigation of the present situation with regard to the water supply to the various centres.

This investigation found that, with the exception of one centre, whose water supply is managed by the "Office for Subterranean Water", the installations at the general education colleges in the towns which do not have an urban water supply network are maintained by the instructors. This maintenance is carried out in a satisfactory manner.

It should be stressed, however, that in the case of six centres a water supply is provided, or will be provided in the near future, by urban networks.

Finally, it is true that the water supply to the Tera centre, quoted by the Audit Board, is not always adequately maintained, despite an additional study. This study, which was completed in April 1973, was financed by the French Aid and Co-operation Fund. It recommends exploratory borings to the north-west of the town.

Without waiting for the results of these borings, Taiwan will construct a dam 1.2 km long and with a maximum height of 5 metres to the north-west of the town in 1974 and 1975 with the participation of the local population. The water capacity will be 750,000 m³ and the length of the reservoir 10 km.

For the time being, while the results of the study are being analysed and the work is being executed, the Tera general education college is being supplied with water by pumping from an existing low-yield well. This well has been in use since the beginning of 1972.

d) Nursing school and maternity hospital at Lomé (Togo) (p. 15)

The comments made by the Audit Board call for a number of remarks:

- The boarding college, which comprises 19 rooms with 4 beds each was brought into service in May 1970. It is fully occupied.
- The maternity hospital comprises a total of 148 beds: 88 in the building financed by the EDF and 60 in the old premises. By the end of 1971 it was already operating at the rate of 850 admissions and 650 deliveries per month, which corresponds to an occupancy rate of about 70%.
- The surgical block was brought into service on the following dates: ground floor, 1970; first floor, beginning of 1971; second floor, November 1971.

It is true that the sterilizers are not functioning properly, despite the efforts made by the EDF's resident supervisor to normalize the situation.

The supplier's local representative requested the spare parts required for the normal functioning of this equipment in April 1973; in spite of several requests, these parts have still not been delivered by the supplier.

To these already serious difficulties there has been added another: the supplier's local representative decided to close his Lomé agency on 28 February 1974 and no other representative has yet been appointed.

The resident supervisor is devoting special attention to developments in this connexion and hopes to be able to find an acceptable solution in conjunction with the user's supplier.

- Finally, with regard to the lack of qualified staff, it should be mentioned that the Government of Togo, at the time of drawing up the multiannual programme of scholarships, wished to place the emphasis on training at the intermediate level in the agricultural sector and therefore did not present any candidates to the EDF in the medical or para-medical field.

To reply to the Audit Board's final comment, the Commission feels it should emphasize that as a general rule the departments charged with drawing up and administering the programme of scholarships have always been conscious of the importance of co-ordinating the needs created by the implementation of an investment project financed by the EDF and one of the means of training placed at their disposal. Influenced by the unfavourable experiences of the kind mentioned by the Audit Board, they have many times drawn the attention of the responsible African officials to the need to link the investment projects and the training measures. This policy has now gradually entered into practice, in spite of the reservations and difficulties which its implementation encounters.

133. (p. 16)

Investment projects in road-building

a) Asphalting of the Yaoundé-M'Balmayo road (Cameroon) (p. 16)

The study for this road, carried out by the Cameroon Administration, revealed certain weaknesses during the execution of the work.

These weaknesses necessitated, on the one hand, some embankment work (raising of the red line) and drainage work (increasing the number of water channels) and, on the other hand, a modification in the design of the road surface (stabilization with cement).

It is true that the record of final acceptance has never been produced. This acceptance was granted on 30 April 1965 without reservation. Despite repeated representations by the EDF's technical supervisor, the record of this acceptance has not been issued by the Administration.

As the Audit Board stresses, closure of the project did not take place until November 1971. This delay was principally due to the dispute between the firm and the Administration over the repayment of certain duties and taxes. The Commission does not disguise the fact that such delays are difficult to accept. Therefore the Commission took all the necessary steps in 1973 to effect the financial closure of the projects without delay (see Point 123.a above).

b) Cotonou-Hillakondjé road (Dahomey) (p. 16)

All technical studies relating to the execution of road works always contain an important chapter dealing with hydraulic studies which must make it possible:

- to fix the levels of the red line;
- to ensure the evacuation of the run-off waters;
- to determine the dimensions of the watercourses (bridges, culverts and pipes).

The data which make it possible to calculate the probable frequency of spates are provided by the reading of the low water level calculations and by the observations of the meteorological stations. In general these observations are sufficient to establish the levels and volume of spates.

In the case in question the spate recorded was of a wholly exceptional character. The statistics show that the rains which fell during the 1968 rainy season are unlikely to be repeated.

These rains caused substantial damage to the road surface, even on the sections which were not completely submerged. This was because the water which lay for months on the shoulders of the road rose by capillary attraction to the base layer.

The experts commissioned by the Administration to examine the problem have proposed that the cost of resurfacing the sections which do not have to be raised to a higher level should be borne by the firm. The cost of this resurfacing work, which has been properly executed by the firm, can be assessed at 100 million francs CFA.

c) Asphalting of the Kinkala-Boko road (Congo-Brazzaville) (p. 17)

It is true that the study carried out by the Administration proved to be inadequate and gave rise to an increase in the volume of embankment and drainage work during execution. This situation caused the office charged with supervision of the work to modify the plans for execution progressively in accordance with the state of advancement of the work.

It was thus not until after some time had elapsed that it was possible to gain a reasonably accurate view of the situation at the site and to assess the final cost of the work. However, the resident supervisor did not neglect to inform the Commission of the probable over-spending on the cost of the project when preparing his first quarterly report.

It should be realized that the team charged with supervision was not best qualified to deal with the modifications necessitated by the shortcomings of the initial study. In addition, the Commission has had to terminate the contract of the principal agent of the office.

d) The Ituri road (Zaire) (p. 17)

The delay occurring between the abandonment of the project and its financial closure was the result of a dispute between the Administration and the firm over a demand for compensation by the latter. It was not possible to close the project until the dispute had been settled. It should be stressed in this connexion that the sum paid out of EDF resources only formed a part of the compensation paid to the firm, the balance having been paid directly by the Zaire Administration.

It is true that the same firm was entrusted with the execution in the same country of the Lwanga-Mussenga road, the cost of which almost tripled during execution. This increase in the contract sum was the result of a substantial increase in the volume of work caused by the discovery of serious defects in the initial study and by new techniques which had to be used. The second serious crisis to hit Zaire, following the military events in Bukavu in 1967, also had repercussions on the prices (the firm lost 30% of its equipment).

134. (p. 18)

Agricultural investments

The project entitled "Revival of the agricultural economy of the province of Kinshasa" actually included different operations which have had varied success. Out of the six programmes planned, only those involving the development of cocoa growing, the mechanization of cassava growing, and stock-farming have been successfully completed.

In the case of the three other programmes, the lack of marketing organization and the absence of trained and qualified staff following the departure of the technical assistance personnel were the main reasons for the failure which has occurred.

For internal reasons the Government of Zaire is no longer taking an interest in this region: no senior official has visited the completed projects; in addition, a request for credit submitted by the province's agricultural commission for the programme of banana plantations was not transmitted by the national authorities even though the amount requested was available for the project.

In these circumstances the project was closed. The EDF is no longer assisting in this region. The same applies to bilateral aid.

136. Linked technical assistance (p. 18)

a) Loading station in the port of Lomé (Togo) (p. 18)

The expert's report was the subject of a financing proposal with accelerated procedure submitted to the Study Co-ordination Committee on 18 December 1970.

The principal authorizing officer of the EDF approved this financing operation on 26 January 1971. The financing decision was thus taken properly before the departure of the expert. It is true, however, that the contract should have been signed before the contracting party commenced his work.

It was at the request of the Government of the Togo Republic and with the agreement, as an exceptional case, of the Commission, that the expert carried out his mission at Lomé from 12 to 21 February 1971, because of the urgency with which the expert's report was required.

The contract had been prepared and negotiated with the expert before his departure, so that there was no risk of difficulties arising in connexion with the essence of the contract, that is to say, the nature of the services to be supplied and the determination of the fees.

The Commission nevertheless admits that a period of about 3 months was necessary for drawing up the contract in its definitive form and for committing the appropriations. Similarly, a period of 2½ months elapsed between the transmission of the draft contract to the Togolese Administration and its notification to the expert.

The Commission's procedures and the delays which they cause evidently do not make it possible to deal with exceptionally urgent situations. This is the reason why, whilst being aware of the irregularity of the procedure used in the present case, the Commission was nevertheless prompted to take this decision, as a special case, both at the insistence of the Togolese Government and because of the urgency of the expert's report, the results of which affected a whole group of financial decisions which had to be taken both by the Commission, by the European Investment Bank and by the International Bank for Reconstruction and Development.

b) Water supply to the Banfora area (Upper Volta) (p. 19)

The supplementary study on the provision of a water supply to serve Banfora completes the initial study which was the subject of Contract ET/844. The object of this first study was to determine the most economical means of utilizing the water resources of the River Yannon to irrigate the plantations of an agro-industrial sugar complex. Following discussions with the Upper Volta authorities, it became clear that there were other solutions; however, these presented advantages and disadvantages which had to be more accurately determined before a decision on the choice of the most economical variant could be taken. The supplementary comparative study which was the subject of supplementary agreement No. 1 to Contract ET/844 was intended to determine this choice. It was to be entrusted to the Office which had carried out the initial study and the commitment proposal for the relevant appropriations was transmitted to the Commission's financial controller on 23 November 1971.

The withholding of approval by the Financial Controller, notified on 8 December 1971, related to the method of remuneration. For this reason a certain delay occurred in the signing of this **supplementary agreement**.

On the other hand the Commission was faced with the pressing necessity of not holding up the completion of the important ~~agro-industrial~~ sugar complex at Banfora, the starting-up of which was closely linked to the results of the comparative study.

Any delay in the preparation of this study would in fact have delayed the completion of the Banfora agro-industrial sugar complex by one year.

Because of this special situation, the Commission, by letter dated 23 December 1971, confirmed to the study office that it should carry out the supplementary study in question and informed the office of the circumstances relating to the official signing of the **supplementary agreement**.

Parallel to this decision, complementary explanations were of course given to the Financial Controller with a view to reaching an agreement. Thus the Financial Controller granted approval on 20 January 1972.

The Commission is aware of the exceptional character of such a procedure; but it was not possible to act differently in view of the urgency of the decision which had to be taken. On this decision depended the realization of a particularly important project, the financing of which, moreover, was shared between several providers of funds.

c) Preparation of the files for diversification aid (Cameroon) (p. 19)

It is true that the contract and the three supplementary agreements were signed with retroactive effect.

With regard to the contract, the delay was due to the slowness of the Cameroon Administration in preparing and notifying the definitive document.

The Commission considers that it should draw attention in this connexion to the fact that very strict steps have been taken to prevent the recurrence of these procedures for the regularization of contracts and their supplementary agreements.

With regard to the supplementary agreements it is normal that they should be signed a posteriori, for the change in the rate of subsistence allowances is made on the basis of the real increase in the cost of living index in the country where the work is being done.

d) Expert economic and financial report on the Office of the Niger (Mali) (p. 19)

The expense of the additional fees granted to the expert is, in the Commission's opinion, perfectly justified in view of the extent of the work and the services provided.

The Commission agreed to pay for 160 days' work instead of 60 for two reasons:

- the volume of work proved to be greater than could have been foreseen when the contract was drawn up,
- the difficulties encountered in combining valid statistics and accurate information caused the expert to devote more time on this investigation than had been foreseen.

e) Ouagadougou-Dori road (Upper Volta) (p. 20)

It is true that the study relating to this project did not result in the creation of an asset.

As a matter of principle the Commission does not finance studies of this type unless there is already a good probability that such studies will result in a concrete project. It was with this in mind that it was decided to finance the study for the Ouagadougou-Dori road.

However, other public and private agencies convinced the Upper Volta authorities, after delivery of the report on the studies, that they should effect the transportation of manganese from Tambao by rail. Studies are at present under way to this end.

This change of policy by the Upper Volta authorities caused the Commission to cancel the financing of the road link which, quite clearly, would have duplicated the railway.

f) Supervision of road projects in Casamance (Senegal) (p. 20)

The Audit Board's comments concern, firstly, the late signing of the contractual documents and, secondly, the delays in payment.

On the first point, it is true that the services carried out by the Office commenced before the signature of the contractual documents. This situation has its origin in the necessity for setting up the office charged with supervision of the work not later than the beginning of this work.

It should be stated, however, that the delay in the signing of the contract resulted mainly from the necessity for reviewing certain provisions in the draft contract in the light of the observations made by the Office. These observations concerned the part of the contract headed "remuneration", notably the reimbursement of the travel expenses of the families of agents.

On the second point, the delays in the making of certain payments are the result, as the Audit Board itself notes, of the failure of the Senegalese authorities to discharge their duty of authorization, despite repeated representations by the resident supervisor of the EDF.

It was because of this failure that the principal authorizing officer of the EDF was forced to substitute himself for the national authorizing officer in order to settle the balance of remuneration due to the Office.

g) Direction of work on the Ituri road (Zafre) (p. 20)

Contrary to the provisions of the contract, the expert made his journey by sea and not by air. However, this error did not have any adverse financial consequences because the sum invoiced by the Office was the price of the sea fare, 41,062 Frs, which was lower than the cost of the second class air fare, which amounted to 42,350 B.frs at that time.

With regard to the remuneration granted to the agent, it should be pointed out that Clause 5 of the contract stated that "parts of a month will be paid for pro rata temporis on the basis of 1/30th of the monthly contract sum per day of presence on the territory of the Republic of the Congo". Although the agent did not take up his duties until 10 August, his arrival on Congolese territory took place on 1 August. His remuneration was therefore paid as from that date.

h) "Pre-investment" at the port of Lomé (p. 21)

As the Commission has already had occasion to explain to the Audit Board, the delays in payment are the result of exigencies connected with the correct implementation of the services which the contracting office was required to perform.

It was only after having judged the services provided by the Office to have been satisfactory that the Administration, with the agreement of the Commission, agreed to authorize the final payments. In proceeding in this way the Togolese Administration and the Commission consider they have executed this contract according to the principles of sound financial management, even though there was an excess charge of 217 u.a. due to an unforeseeable fluctuation in certain currencies.

137. General technical co-operation (p. 21)

a) Statistics on the activities of the EDF (p. 21)

The Commission shares the opinion of the Audit Board that this study should, in principle, have been charged against the Commission's budgetary appropriations. The inadequacy of the endowment of the relevant budgetary item, however, caused the Commission to charge the contract under the heading "General technical co-operation" which corresponded better to the character of this study. This was done in order better to attain the objectives of the Funds in accordance with Article 8, Para. g, of Protocol No.5 annexed to the Convention.

The delay mentioned by the Audit Board is due in large part to the transfer of the Computer Centre of the European Communities from Brussels to Luxembourg as well as to work on perfecting the programmes, which had not originally been provided for but which the Office agreed to carry out during the course of its study at no extra charge.

b) Formation of prices for public works (p. 21)

It is true that the balance on this contract, initially taken on charge by the Commission's Budget, was charged against the appropriations opened within the framework of the Second EDF under the accelerated procedure.

This situation is explained by the fact that the appropriations of the relevant chapter of the Budget, cancelled at the end of the financial year, could not be reopened against the Commission's Budget as the Council had meanwhile decided that the expenditure charged under this chapter should thenceforth be taken charged to the EDF.

c) Transport in Togo (p. 22)

The charging against the Second EDF of the travel expenses relating to the contract for the study of transport in Togo is explained by the cancellation of the relevant appropriations of Chapter 17 of the Budget for 1965, such studies having thereafter to be charged under the heading "General technical co-operation" as provided by Article 9 of Protocol No. 5 annexed to the First Yaoundé Convention.

As the Audit Board notes, these travel expenses were not provided for in the contract. It was at the Commission's initiative that the journeys were made by the experts of the office and therefore reimbursed, because the Commission found it necessary to summon these experts to Brussels in order to examine with them the conclusions of the study which they had submitted.

d) Studies on the industrialization of the AAMS (p. 22)

It is true that these studies have not always required the production of reports. The tasks entrusted to the expert under Project No. 213.180.13 - statistical and documentary investigations, editing of documents on the problems of industrialization of the AAMS - were intended to prepare and start the programme of studies on the industrialization of the AAMS. The results of this work have been integrated into the preparatory documents for this programme and into the later documents dealing with these studies.

e) Development of tourism in Senegal (p. 22)

As indicated by the Audit Board, the delay in the payment of the first instalment was due to the dilatoriness inherent in the functioning of the national administration. The Commission should point out in this connexion that the implementation, since 24 April 1973, of the general clauses for study contracts now makes it possible under certain conditions for payments by way of advances to be authorized by the principal authorizing officer of the EDF. This procedure should make it possible to obviate the recurrence of such delays.

It is true that the successive payments were calculated on the total estimated amount. The travel expenses were also paid by lump-sum instalments on the basis of the estimate made in the contract and fixed according to the charges in force at the time.

138. Production aid (p. 22)

Out of the 50 tranches of production aid financed by the Community, 34 - or 68% of the total - have been closed. A number of tranches will be closed during 1974. In the case of other tranches there are still some delays, caused principally by negligence and dilatoriness on the part of the national administrations. The Commission has made repeated representations to the national authorities to speed up the definitive settlement of these programmes.

With regard to the 1965-1966 tranche of production aid to Mali, the Commission has explained to the Audit Board, in its reply to request for information no. 21/73, the conditions under which this programme has been operating.

Without going into details, the Commission wishes to draw attention to the sometimes difficult conditions under which the production aid operations financed under the Second EDF are being implemented.

With rare exceptions, it has seldom been possible to commit and spend the appropriations opened for each season during the period specified in the financing convention. This situation is explained by the time-lag between the opening of the season and the date when the appropriations are made available by the signing of the financing convention, the latter often being held up by the negligence and dilatoriness of the national authorities.

139. Aid towards the payment of interest (p. 24)

Since the financing of the two projects cited by the Audit Board has given rise to a conflict between the Commission, the European Investment Bank and the EDF Committee, the Commission is not convinced that the provisions of the Financial Regulation governing the granting of aid towards the payment of interest are satisfactory.

The conclusion of a new Association Agreement should cause the Community to reconsider the rules governing the granting of this type of finance.

The Commission, for its part, reserves the right to put forward proposals to this end at the appropriate time.

140. Resident and technical supervision (p. 24)

- a) Steps have been taken to regularize the commitments in respect of resident and technical supervision for the years 1972, 1973 and 1974, without delay.

Measures will be implemented to ensure that in future the commitment of this expenditure is made at the beginning of each year on the basis of the provisional estimate approved by the Administrative Council of the Association.

- c) Representations have been made in order to secure the speediest possible settlement of the 4 debit balances quoted by the Audit Board.

Thus in the case of the first item, the Association's departments have arranged that the debtor will repay the sums due in regular instalments.

In the second case, the debtor lodged a claim against the Belgian tax authorities on 8 April 1974. No decision has been reached for the time being; it appears that it will be necessary to wait 6 to 12 months before the dispute can be settled.

With regard to the third item quoted by the Audit Board, no decision has been taken as the problem of the debtor's tax liability is still under examination by the German tax authorities.

With regard to the last case mentioned by the Audit Board, substantial payments on account have already been made and the balance outstanding has been reduced to about 670 u.a. Repayment of the balance should be possible within a relatively short time.