

COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT

on the administration during 1991 of the system of
compensation for loss of export earnings for
least-developed countries not signatory to the third
ACP-EEC Convention

I. INTRODUCTION

1. By Regulation (EEC) No 428/87 of 9 February 1987 the Council set up a system of compensation for loss of export earnings for least-developed countries not signatory to the third ACP-EEC Convention.¹ This Regulation was supplemented by Council Regulation No 429/87 laying down detailed rules for the implementation of the system.¹

2. Article 10 Of Regulation No 428/87 stipulates that "the Commission shall report annually to Parliament and the Council on the administration of the system during the pervious year".

3. This report therefore refers to operations under the system in 1991 and covers:

- implementation of the system,
- results of the 1990 application year,
- budgetary aspects and
- the use of new and previous transfers.

II. IMPLEMENTATION OF THE SYSTEM

4. On 21 January 1991, under Council Regulation (EEC No 151/91,² Haiti was struck off the list of recipient countries in Annex II to Regulation No 429/87 following its accession to the fourth ACP-EEC Convention.

5. Uncertainty about Nepal's appropriate use of the resources already transferred led the Commission to suspend payment of 1989 transfers to that country (see point 15 of the 1990 report).³

6. To find out what lay at the root of the problem an on-the-spot audit was conducted in spring 1991. The causes of the delay, it found, were political/ideological disputes about how the funds should be used - investment in existing private firms or the setting-up of new, centralized concerns in the public sector. These disputes were settled at the end of 1990 with the decision to promote the private sector.

1 OJ L 43, 13.2.1987.

2 OJ L 18, 24.1.1991.

3 SEC(91) 78 final.

7. The Nepalese government was asked to make a formal undertaking concerning the recommendations set out in the final report of the audit.

8. To ensure the continuity of the system, the framework Regulation for which was due to expire on 31 December 1991, the Commission sent the Council on 31 May 1991 a proposal for a Council Regulation (EEC) on a system of compensation for export earnings for least-developed Asian and Latin American (ALA) countries.⁴

Parliament made a request for an opinion on the proposal and on 13 December 1991 adopted a report and a resolution on it. It is still being studied by the Council.

III. TRANSFERS FOR THE 1990 APPLICATION YEAR

9. Of the seven countries currently eligible under the system (Haiti being no longer on the list), only two, Bangladesh and Nepal, entered applications for transfers for the 1990 application in good time. The products concerned were:

<u>Applicant state</u>	<u>Product</u>
Bangladesh	Tea Jute Shrimps Hides and skins
Nepal	Hides and skins Lentils

10. Examination of the applications showed that only one of the six requests, namely that of Nepal for lentils, was eligible.

11. The others proved to be inadmissible for the following reasons.

⁴ OJ C 147, 6.6.1991.

<u>Applicant state</u>	<u>Product</u>	<u>Reason for non-</u> <u>admissibility</u>
Bangladesh	Jute)	No loss on exports either to all destinations or to Community
	Shrimps)	
	Skins & hides)	
	Tea	No "all destinations" loss
Nepal	Skins & hides	No "all destinations" loss

12. The amount that Nepal could claim for lentils in the 1990 application year was ECU 64 213.

IV. BUDGETARY ASPECTS

13. Under Article B7-3030 of the 1991 budget there were appropriations of ECU 6 million for commitments and ECU 7 million for payments.

14. These appropriations were thus sufficient to cover not only the 1990 transfer for Nepal in terms of commitments and payments but also the payment of the 1989 transfers to Nepal (ECU 570 592 - see point 5).

15. Since the Commission had not received the Nepalese government's undertaking referred to in point 5 by the end of the 1991 financial year, the two transfers could not be paid from 1991 funds.

V. NEPAL'S PROPOSED USE OF THE 1990 TRANSFER

16. The Nepalese government intends to stimulate the lentils sector by taking the following measures:

- diversification of the product and markets;
- easing of export procedures;
- modernization of infrastructure;
- research into multiplication/improvement of seeds.

VI. USE MADE OF PREVIOUS TRANSFERS

BANGLADESH

17. Transfers to Bangladesh for the application years 1986 to 1989 totalled ECU 19.5 million, or approximately TK 856 million, to which a further TK 39 million has been added through interest accrued on various fixed deposit accounts. Most of these funds have been allocated by the Government of Bangladesh to an agreed indicative list of projects: TK 565 million for 15 in the jute sector and TK 286 million for eight in the tea sector.

Progress in the implementation of these projects was initially slow, largely due to the lack of implementation capacity within the various government agencies concerned. Implementation has accelerated over the past two years, however, and the end of 1991 will see the completion of several projects and a start to implementation of several others. To facilitate this process, in 1991 the Commission appointed an expert, who is currently on his second mission to Bangladesh. A further mission is planned for early 1992. Several problems that were holding up implementation of a number of projects are now close to being resolved by the Commission's Dhaka Delegation with the help of the expert.

This progress has taken place despite the difficult political and economic environment in Bangladesh over the past year, which has resulted in several changes of political and administrative personnel and an uncertainty over policy. This has been particularly true of the jute sector, which has been experiencing accelerating decline and major losses with implications for the viability of the financial sector across the entire economy. Through the ALA Stabex-funded jute manufacturing sector (JUMS) study, the Community has been closely involved in the resolution of these problems, the study's main conclusions already forming the basis of high-level discussions within government on the sector's future.

18. Jute Sector Projects

Of the total of TK 571 million (including accrued interest of TK 69 million), TK 565 million has been tentatively allocated by the government to 15 projects. Implementation of these projects varies widely. Three projects (Seeds, Gunny Bags, and Rangpur Pulp and Paper) have practically been completed, although the benefits have

yet to be felt. Work on four others (Geojute, Tea Packaging, Retting, and JUMS - originally two separate projects) is generally proceeding well. The same applies to a fifth (Decorative Fabrics) after some initial delays. The remaining seven projects are still in the early stages, although two (Sylhet Pulp and Paper Mill and Audit) are nearly ready to go out to tender. The design of the other five projects (IJPAMP, BJMC Training, BJRI, Marketing, and the Planning and Strategy Unit) has yet to be prepared and approved in a final form. Although some progress has been made in their design over recent months, their final character is to a considerable extent dependent on the outcome of the JUMS report, which looks set to alter radically the structure of the sector and the government's strategy towards its future development.

Major achievements in 1991 include the JUMS project, which began in April and is likely to be completed in early 1992, and the Retting project which, besides demonstrations and the preparation of promotional materials and media releases on the improved retting techniques, has also sent a study team to India and China (with significant benefits also expected for several other projects) and should substantially complete its extensive ditch and pond excavation programme over the next couple of months. Equipment procurement and commissioning has also largely been completed on the Decorative Fabrics project, pointing to good prospects for product development through 1992. The Geojute project has seen significant expansion in capacity through the allocation by BJMC of additional looms following successful sales to the US and Europe, among others, and within Bangladesh (as a result the mill is one of the few profitable units operating in the sector); the appointment of a marketing consultant shortly should substantially enhance this performance this year. Prospects are also bright in the local cement and fertiliser markets for the improved gunny bags developed over the past year with assistance from ALA Stabex funds.

19. Tea Projects

Indicative allocations covering the total TK 275 million (including accrued interest) in transfers for the tea sector have been made by the Government to 8 projects. Implementation has begun on four projects (Roads and Bridges, Health, the Implementation and Monitoring Unit, and Irrigation) and should be further enhanced over the coming months

following recent agreement on various outstanding issues. A further project to which the EEC has given its agreement in principle (Trade Promotion and Marketing) is awaiting ministerial approval, which is expected shortly. The basis of the audit project (similar to that for the jute sector) has largely been laid. The remaining two projects (Education and Telecommunications) are still under discussion, the BIB having to decide on the scope of the proposals (a report on the Education proposal is expected in the next month).

Achievements in 1991 include physical progress on the Roads and Bridges project as well as the substantial resolution of administrative problems that were standing in the way of further implementation. This will allow considerable progress to be made over the next few months in the dry season. In addition, all components of the Preventive Health project other than the recruitment of additional medical staff for inoculation and training have commenced and will be completed over the same period. Initial agreement on the Monitoring and Implementation Unit was reached in August and procurement and recruitment is now under way. Two study tours to Indonesia were completed under the Irrigation project, equipment procurement is out to tender, sites for earthworks have been surveyed and contracts are soon to be tendered. Finally ministerial agreement on the composition of the Trade Promotion and Marketing teams is expected shortly, and this will allow implementation in the near future.

20. Conclusion

Although the pace of implementation has been slow in the past, it can be seen from the above that it has picked up fairly well in 1991. Following the JUMS recommendations, the jute sector is, in a sense, at a crossroads and we can expect, as a result of the decisions now impending, the implementation of ALA Stabex projects to receive a fresh impetus in the near future, with a change in both pace and direction. A similar improvement can also be expected in the tea sector, the initial phases of many projects having been completed and obstacles in the paths of others removed.

NEPAL

21. Transfers for the 1986 application year were incurred by skins and hides. Almost all the funds have been used to import machines and equipment from Europe, carry out training and set up a revolving fund to help finance imports of spare parts and accessories (utilization rate 88.4%).

Utilization can be described as follows:

Machines to improve the quality and value of the leather	eight private tanneries
Machines for small leather products	craft business for lepers
Equipment and material for training	technical school
Purchase of accessories for producers of leather products	leather promotion bodies
Start-up expenses	Trade Promotion Centre/ Stabex office

22. Funds transferred for the 1987 application year were partly used to top up the revolving fund referred to above and start up the TPC-Stabex Office.

23. Funds transferred for the 1988 application (at the end of 1989) were incurred by skins and hides, and lentils (total amount - ECU 961 965).

24. In February 1990 the Commission sent the Nepalese authorities a study setting out proposals for projects in the two sectors concerned, the aim being to make best use of funds (balance of 1987 and 1988 transfers for skins and hides and 1988 transfers for skins and hides and lentils). Unfortunately, these proposals were not followed up, one of the reasons being the political developments that started to disrupt the country. The Commission was forced to suspend disbursement of transfers for the 1989 application year (total amount: ECU 670 592).

YEMEN

25. The transfer of ECU 379 013 (Yr I 5 216 537.65) to Yemen for the 1986 application year was transferred on 16 July 1991 to the "Food Aid Counterpart Fund and Stabex" account to be used for the Mahwit Road Rehabilitation Project as planned. The Mahwit project is currently under way and will be of particular benefit to the coffee and fruit sectors. Payments will be made from this account shortly.

HAITI

26. Following the events in Haiti at the end of September 1991, the Commission decided on 3 October 1991 to suspend all Community economic aid to this country.

This decision also covers Stabex transfer operations for 1987 and 1988.