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JOINT COMMISSION/EIB COMMUNICATION TO THE COUNCIL
ON THE IMPLEMENTATION OF COMMUNITY AID TO THE ACP
STATES AND OCT/OD AT 21 DECEMBER 1984.

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CONTENTS

In pursuance of Article 25 of the Internal Agreements on the financing and administration of Community aid (fourth and fifth EDF), the Commission and the European Investment Bank report jointly to the Council on how Community aid is implemented and used by the recipient countries.

The present report covers the years 1983 and 1984. Since negotiations for the new Lomé Convention, signed in late 1984, were going on for much of this period, the Commission and Bank have thought best not simply to update the essentially quantitative information contained in previous reports[1] but to undertake a more qualitative assessment, considering inter alia certain fundamental points which arose during those negotiations, including the tax treatment of Community-financed operations and the ACP States' external debt. The same consideration, however, justifies the continued inclusion of a number of sensitive issues whose persistence highlights the practical difficulties in the way of Community aid operations: problems with project implementation and the recovery of loan repayments, and the continuing efforts of the funding bodies to improve contract payment procedures. This report also contains two new items not previously covered: a preliminary estimate of project cost overruns (the main quantitative component) together with suggestions for avoiding their recurrence; and, in response to requests formulated by the Member States when earlier reports were discussed, a consideration of project evaluation, which gives some indication of how Community aid is used - we have here been concerned, however, to avoid going over ground already covered in reports or communications submitted to the Council in other connections.

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[1] COM(80)107, 24 April 1980
COM(81)825, 11 January 1982
COM(83)421, 4 July 1983

I. General problems of implementation

A. Resources administered by the Commission

As the Commission has made clear in previous reports, problems with the implementation of aid arise at all stages of a project from identification to full operational status. Without over-generalizing - for such problems are not necessarily encountered in all ACP countries, or at all stages of a project in a given country - such difficulties are to a great extent the result of local administrative shortcomings. The Community has raised these matters with its partners at meetings of the Article 108 Committee set up by Lomé II. In the present report we will simply be looking at one or two of these characteristic problems in the light of the most recent experience with EEC-ACP financial and technical cooperation. They can be classified under three broad headings: administrative delays, administrative incapacity, and dispersal of responsibilities.

(a) Administrative delays occur at various stages from project identification onwards, and while most indicative programmes were rapidly drawn up, not all ACP States managed to select individual projects within a reasonable time. In Guinea, for instance, three and a half years after Lomé II came into force approved projects had been found for less than a quarter of the indicative programme.

Considerable delays are also encountered in the signing of financing agreements and loan contracts. In reality the problem is not so marked with financing agreements proper, being significant only in the case of certain regional projects requiring the signatures of more than one country; where major delays do often occur is with the financing contracts relating to special loans. A loan contract sent to Trinidad and Tobago in 1980, for instance, was not signed until 1984. Such delays are rarely caused by substantive problems with contract clauses; instead, they reflect the frequent inability of ACP countries to complete the necessary formalities with dispatch, since the approval of numerous administrative or financial bodies may be required.

There are also numerous instances of ACP States having difficulty in carrying out projects properly on schedule. In Lesotho, for example, there are generally delays in the issue of provisional acceptance papers for contract supplies, while countries like Niger, Somalia and Liberia have been dilatory in providing the auxiliary services (e.g. electricity supplies) needed to enable projects to start up in time.

(b) A second source of problems concerns the actual ability of the administration in certain countries to fulfil the duties incumbent on them under the Lomé Convention. In many cases the local administration proves unable to prepare invitation to tender dossiers unaided, even if it has undertaken to do so without the help of a technical assistant. Similarly, in some ACP countries the Commission has had to prepare EDF payment orders, collect the supporting documents and get them signed by the national authorizing officer and the ministries concerned.

(c) The study of specific typical cases of the difficulties encountered in financial and technical cooperation activities has brought to light a problem which can be regarded as lying at the root of a number of the shortcomings detected: the tendency towards fragmentation of responsibility for decision-making. Uganda is typical in this regard. Project identification is delayed because the approval of some fifty officials must be sought before a project request can be finalized. There is, on the other hand, a Central Tender Board which is empowered to award all government contracts and does so quite promptly. There should be a similar centralization of responsibilities at other stages of the project procedure, and other countries might usefully follow the same example, if necessary with the help of technical assistance.

B. Resources administered by the Bank

The Bank lends money not only to ACP governments but also in many cases to state, semi-state or private concerns, whose management structures are generally such as to prevent most of the problems encountered by the Commission.

Nevertheless, because of general economic and financial problems and sometimes also of domestic political considerations or administrative red tape, some ACP States have been late or remiss in fulfilling their duties or have blocked or delayed the release of resources needed to complete or commission theoretically "priority" projects. Thus a number of Bank-financed projects are or have been faced with obstacles for which the main responsibility lies with the ACP State itself, necessitating constant monitoring of the progress of those projects and efforts to find ways of enabling the economic objectives to be fulfilled. Here are some examples of these problems:

- delays in the payment by a country of its share of the financing, budget contributions or administrative bills (Régie du Chemin de Fer Abidjan-Niger (RAN) in Ivory Coast/Burkina Faso; Société Ivoirienne d'engrais (SIVENG) in Ivory Coast; and the Liberia Electricity Corporation (LEC) project);

- late or incomplete coverage of foreign exchange requirements (the LEC project in Liberia, and Morogoro Canvas Mill and Tanganyika Development Finance (TDFL) in Tanzania);

- postponements or major delays in the provision of supporting infrastructure or back-up investments (development of tourist facilities in Mali, Gezira Managil Textile Company (GEMATEX) in Sudan).

These drawbacks often go hand in hand with problems in the way the aid is actually used.

II. Taxation

As regards implementation of Lomé II, which is still under way, the tax and customs treatment of Community-financed contracts is defined in Protocol No 6 to the Convention. Article 1 of that Protocol provides that EDF contracts shall be subject to tax and customs arrangements "no less favourable than those applied vis-à-vis the most favoured State or most favoured international development organization", and Articles 2 to 12 lay down a number of more specific rules.

Like the Community, other donors operate on the principle that no tax should be paid in an ACP State on contracts financed as part of their aid programmes. Member States of the Community and the World Bank confirm that no tax is levied on the external cost component of their aid programmes. Throughout the ACP States the World Bank and at least one EEC Member State's bilateral aid agency have been granted exemption from all taxes.

Enquiries addressed by the Commission in 1983 to its Delegates, however, revealed that in at least 30 ACP States the EDF had not enjoyed most-favoured tax status; in 18 other ACP countries, by contrast, the Community had obtained either most-favoured tax treatment or full exemption from taxes.

The problems which have arisen with the application of Protocol No 6 are due not only to its misinterpretation by some ACP States in the light most advantageous to themselves, but to the outright refusal of some countries to apply it at all, even when its provisions are perfectly clear, and in spite of their obligations under the Lomé Convention (Protocol No 6 forms part of the binding provisions of the Convention).

The Commission estimates that some 100 million ECU or approximately 6% of the indicative programmes of 26 ACP States will be creamed off by those countries' tax systems if the present rules continue to be applied until the Lomé II indicative programmes are complete. Around half of that figure is made up of tax paid on projects already approved; the remainder represents tax which would be payable on future contracts.

A large proportion of the tax levied relates to works contracts, accounting for up to 35% of the value of EDF-financed works contracts.

Without a doubt the levying of such taxes and the uncertainty as to their incidence has prompted tenderers to raise the prices of their bids to cover the tax bill (or the risk of taxation) in ACP States. In addition, the negotiation and signing of EDF contracts have been delayed because of contractors' uncertainty on the question of taxation. The net result of ACP tax problems has been to inflate the cost of EDF contracts and delay and complicate their execution to the direct detriment of the ACP States themselves.

Against such a background the Community proposed to the ACP States that under Lomé III project and programme financing should enjoy freedom from all tax and customs charges. The ACP States refused, however, and the arrangements for the new Convention are similar to those in Protocol No 6. Nevertheless, on the strength of the findings it uncovered in its enquiries to Delegates the Commission is determined that in future the ACP States must comply with their undertakings on this score; this will be a sine qua non for the grant of financing. A rule of "the whole Protocol, though nothing but the Protocol" should lead to full exemption in a substantial number of ACP States.

The Bank for its part accepts the practice of including taxes when a project is drawn up, its costs worked out and the comprehensive financing plan established. It takes care, however, to see that all payment of taxes or other fiscal dues is contractually excluded from the sums it transfers to borrowers for the purchase of goods or services it finances.

III. Improving payment procedures

A. Resources administered by the Commission

In the interests of maintaining the European Development Fund's reputation as a "good payer" the Commission has consistently sought ways to speed up payment procedures, while providing the necessary safeguards for the project supervisory authorities. The 1982 decision to cut down the number of payment instalments for supply contracts was discussed in the preceding report, and since then the Commission has been working on two further changes: first, it has been moving towards an alignment of special loan payment procedures on those for grants, and second, it has been discussing with the interested parties the possibility of easing the rules governing the provision of performance bonds.

(a) Until May 1983 the Commission, like the Bank, transferred credits to the borrower who in turn had to pay the contractors, the aim being to keep clear for firms the distinction between the supervisory authority/borrower and the Commission/lender and to involve the recipient authorities directly in execution of the loans.

In practice this two-step process proved increasingly unsatisfactory, with more and more delays due essentially to failings on the part of the administrations concerned.

In these circumstances it was decided to allow borrowers, if they so wished, to have special loans dealt with in the same way as grants, i.e. the Commission would pay the money direct to the contractor on the borrower's instructions.

However, two conditions attach to the new procedure:

1. it is not automatic; it cannot be used against the wishes of the borrower who prefers to continue with the old arrangements;

2. it is essential to obtain either case-by-case or blanket authorization in advance from the authority responsible for the management of the ACP country's external debt in order to prevent any subsequent dispute about execution of the special loan.

Use of the direct payment system for special loans represents a substantial procedural streamlining which should speed up payments while offering the same safeguards which have already proved their worth with grants.

The Delegates were asked in a circular dated 19 May 1983 to inform their interlocutors in the ACP States of the availability of the new formula.

(b) The Commission had its attention drawn to criticisms made by certain banks of the system whereby contractors are required to lodge a deposit to guarantee the refund of sums paid to them in the event of unsatisfactory performance. The critics alleged that obliging suppliers to put up a bond in respect of the first 60% instalment (payable with the order) which is only redeemable at the time of provisional acceptance imposes a burden on businesses, and that other practices current in international trade such as letters of credit or stand-by arrangements would allow payment in full without the need to lodge a deposit.

The Commission took the point and has been considering this question in liaison with the interested parties, who have provided further details of these arrangements. Talks are still going on (at mid-1985), but the Commission now feels, whatever the subsequent findings, that the suggested new system would offer less protection to the ACP States, since payment would take place simply on presentation of the documents when the goods were shipped and not on their acceptance at the other end in good working order, not to mention the cash problems for the Commission if payment in full through the Community's paying bodies became the rule. The Commission also learned from contractors that the financial burden associated with the deposit system is due to the inflexibility of some Member States' banking systems rather than the guarantee mechanism itself; some banks, for instance, require firms to give a deposit before the guarantee is issued, which clearly removes the whole point of the 60% "advance" paid as the first payment instalment. Thus while the Commission is not ruling out some relaxation of the guarantee system hitherto in use for EDF-financed contracts, it intends to proceed only after mature consideration and with the assurance that the banks concerned have assimilated all the "ins and outs" of the traditional EDF method.

B. Resources administered by the Bank

Given its internal operating procedures and the fact that its loans in many cases account for only a small proportion of a project, the Bank is not in a position to settle directly with contractors working for its borrowers.[1] However, its range of disbursement procedures gives it the flexibility to deal efficiently with the different situations which arise, taking into account the particular circumstances of borrowers as well as ACP States.

The best safeguards are offered by the system of refinancing on the basis of documentary proof of payments effected or work carried out by the borrower, since this allows the Bank to pay out the loan as and when performance progresses, and monitor the rate of commitment of the borrower's own funds and the payments of co-financiers. This is the preferred procedure for both local currency and foreign exchange payments.

However, the Bank also uses more flexible prefinancing methods on a case-by-case basis to cope with the specific problems of some borrowers, particularly in cases where borrowers experience difficulties in getting permission to buy or transfer foreign currencies. The borrower then has to provide regular proof for each tranche of how the money has been used before any new payments are made.

The Bank also has special procedures for paying up both equity it acquires direct, using risk capital, on behalf of the Community, and share-holdings subscribed by governments or development finance bodies using funds supplied by the Bank.

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[1] The only exception is for risk capital loans to finance studies or technical assistance, when the borrower - usually a government, but sometimes a development bank - has formally to acknowledge itself debtor for the sums paid direct to the consultant as performance of the contract proceeds.

IV. Overruns

Now that 86% of the money from the fourth EDF has been spent, the Commission is in a position to give an initial assessment of cost overruns on projects financed by that Fund, though it is too early yet to attempt such an exercise for the fifth Fund. The Commission has considered both the incidence of cost overruns and possible means of preventing their occurrence.

A. Incidence of overruns

1. The Commission's investigations revealed a volume of overruns of 57 370 000 ECU on 84 projects to a total value (initial commitments) of 345 328 000 ECU, i.e. an increase of 16.6% overall.

We hasten to say, however, that these figures are strictly marginal in relation to total fourth EDF commitments; the projects concerned account for no more than 4.24% by number and 11.4% by volume of that Fund, and the total overrun accounts for just 1.90% of total commitments. Note also that 68 (or 80%) of the overruns found amount to 15% or less of the initial commitments concerned, below the ceiling within which the EDF's Chief Authorizing Officer is empowered to approve additional commitments (see Article 56 of the Financial Regulation applicable to the fourth EDF), while seven fall within the 15%-50% bracket and eight in the 50%-100% bracket. In only one case did an overrun exceed 100%.

2. Looking at the reason for these overruns, the underlying causes can be divided into three broad categories:

- The need for additional funds to pay for the extension of operations already under way or for extra work and supplies. These causes account for an aggregate overrun of 20.8 million ECU, or 36.3% of the total figure.

- Purely financial factors such as price inflation, exchange rate movements, the under-estimating of costs prior to issue of invitations to tender, or payment by the Community of costs which should have been financed by the recipient country. Those factors underly overruns amounting to 20.5 million ECU, or 35.7% of the total.

- Increases incurred because of difficulties arising with implementation (unforeseen contingencies and changes to the initial contract specifications). Overruns attributable to these causes amount to 16.1 million ECU, 28% of the total.

3. These figures give a preliminary idea of the scale of cost overruns. At this stage no significant trends seem to emerge from a comparison of the countries or sectors concerned. However, the Commission reserves the right to comment in greater detail on this at a later date should more pertinent information come to light in the course of continuing implementation of the fourth and fifth EDF.

B. Suggested remedies

1. While some of the factors mentioned above might seem to be beyond reasonable control, linked as they are to cyclical developments, precautions are nevertheless possible. In particular, initial cost estimates could be made more accurate. The Commission has been testing the approach used by other donors such as the IBRD and the FAC whereby the invitations to tender are issued before the financing decision is adopted, so that at the time the decision is taken, better information is available as to the cost of the contract or project.

Here are the figures for advance invitations to tender as a proportion of all those issued in the years concerned:

- 1982: 18.5% of the total by number and 47.8% of the total by value;
- 1983: 24% of the total by number and 46% of the total by value;
- 1984: 24% of the total by number and 53% of the total by value.

2. That "experimental" procedure has now been enshrined in the new Lomé Convention (Article 223(7)), which states that "in order to cut down the likelihood of overruns to a minimum, the ACP States and the Community shall make every effort to ... issue invitations to tender before taking the financing decision".

As regards Commission-administered resources, the Commission has worked out with the Member States a number of groundrules for use of the new system in the interests of ensuring its transparency and efficiency.

The Council's ACP-FIN Working Party has formulated the following operating guidelines:

- the EDF Committee must give prior approval for the issue of each advance invitation to tender;
- the ACP-EEC Courier must have advance notice of the issue of all invitations to tender;
- the key criterion is not the size of a contract but its urgency; a small tender may be just as urgent as a large one, and this, the urgency of the work or supplies, is what counts, e.g.:
  - . works: the need to get road works under way or at least organize the site before the rainy season;
  - . supplies: the need to supply fertilizers in time for sowing so that a whole growing season is not lost;
- the object of the exercise should be borne in mind: the aim is to get a better idea of prices so as to reduce or eliminate the risk of overruns, and thus the advance issue of invitations to tender is called for in times of inflation (whether in Europe or ACP countries) and for complicated projects where no study, however detailed, can produce as accurate an idea of costs as a bid from interested firms;
- equality of the conditions of competition is important: an international invitation to tender can only be issued on the basis of a complete technical and administrative dossier; tender calls in advance of financing decisions must not be authorized at the expense of a proper invitation to tender dossier;
- coordination among financing bodies: many important donors use the advance invitation to tender method; in the interests of coordination, therefore, this approach should be followed for all co-financed projects, whether the co-financing is joint (a single invitation to tender for all funding bodies) or parallel (synchronization of the invitations to tender issued by the different funding bodies);

- the whole operation has to be carefully planned from start to finish; the invitation to tender must be impeccably timed so that (a) the results are available in time to make any necessary adjustments to the cost estimate derived from the preliminary study and (b) the contract can be concluded - following approval by the EDF Committee, adoption of the financing decision and the signing of the financing agreement - within the ninety day period for which tenders are binding; this means invitations to tender must be issued neither too late nor too early;

- invitations to tender must be issued subject to financing being obtained from the Community, i.e. at the recipient country's own risk; this must not preclude publication of the invitation to tender in the Official Journal, arrangements for simultaneous publication with the recipient country, and compliance with the prescribed Community procedures (public opening of bids, presence of the Commission Delegate, and approval by the Commission - Brussels or Delegate - of the results of the invitation to tender).

V. Loan recovery problems

The worsening economic and financial situation of many ACP States, some of which have been forced to seek debt rescheduling agreements with the IMF, Paris Club or London Club, has had direct repercussions on the servicing of Community loans because of:

- the resultant cash flow or budgetary problems experienced by both business and governments;
- balance of payments problems and shortages of foreign exchange, which have meant sometimes lengthy delays for the Community's customers in obtaining transfer authorization from the central banks or monetary authorities of the countries concerned;[1]
- the deteriorating financial position of some borrowers, which may be chiefly due to failure on the part of a government to take necessary action (e.g. postponing permission for price rises despite formal undertakings given to lenders).

Instances of late repayment have increased; but above all, the length of the delays has increased to an alarming extent despite the Bank's having markedly stepped up its appeals and démarches to the borrowers and authorities of the ACP States concerned.

While the outstanding payment situation and the short and medium-term prospects are not yet catastrophic, they are worrying, especially where loans from the Bank's own resources are concerned, since problems of this kind can affect the Bank's general credit standing. The Bank's recovery procedures involve prompt and timely notification to the guarantor ACP State of any significant repayment delays, followed by repeated reminders. Where payment continues to be delayed the Bank advises the country concerned of the consequences of an official calling-up of its guarantee: suspension of all new lending and payment of current loans until the sums owed by the borrower are settled in full.

[1] Despite the ACP States' undertakings in the Conventions (Article 67 of Lomé I and Article 158 of Lomé II).

To date it has almost always proved possible to recover outstanding payments using these procedures; either the monetary authorities of the ACP State concerned have finally put the necessary foreign currency at the borrower's disposal, the government, as guarantor, has provided a failing borrower with an advance or to all intents and purposes settled on behalf of the borrower, or else the Bank has contractually called in the guarantee and the country concerned has fulfilled the obligations incumbent on it.

The only time this procedure failed to work was the LEC-Bushrod loan, when despite repeated démarches by the Bank, backed by the Commission and the Commission Delegate, Liberia, the guarantor, did not honour its obligations with regard to two payments due on 30 April and 31 October 1984 and the Bank had to turn, as a last resort, to the guarantee provided by the Member States.[1]

Where loans on risk capital are concerned the major servicing delays occur with operations in countries suffering from particularly severe financial and economic problems or involving borrowers in deeply troubled sectors. The Bank has kept up repeated pressure and the only payments now long overdue (over six months late) are confined to Liberia, Rwanda and Sudan.

The only postponement of payment accorded on a contractual basis is still that relating to the Gezira Managil Textile Company (GEMATEX) in Sudan, where commissioning of the mill depends on a satisfactory electricity supply; the Sudanese authorities were to have provided this in 1983, but the earliest possible date is now 1986. The servicing of a risk capital operation and two special loans granted to Chad for two industrial projects (Société Textile du Tchad and Société Nationale Sucrière) was interrupted from 1978 to 1982 because of the civil war but in the end the Chad authorities, the Commission and the Bank between them came to a most satisfactory agreement and nearly all the outstanding payments have now been cleared - the last three repayments on the STT loan are due to be made very shortly.

[1] Following repeated demands and the blocking of all fresh money from the Community (including aid administered by the Commission) Liberia finally paid the two outstanding instalments and the Bank immediately transferred the money back to the Member States.

In the case of Commission special loans the Bank is simply mandated for recovery and arrears of payment persist (some repayments are almost three years overdue) despite repeated approaches to the authorities of the countries concerned, which, however, are only a handful - Mauritania, Sudan and Guinea. The Bank is in close touch with the Commission and Commission Delegates, who are endeavouring to find solutions to these problems. Broadly speaking, the situation appears more or less to have stabilized for the moment, and there is no marked deterioration in special loan repayments.

The Commission and the Bank have been looking at ways of achieving greater solidarity for the purposes of coordinated action to improve the servicing of Community loans in some ACP States,[1] and an experiment involving the use of foreign currency equivalent to local expenditure on EDF-financed projects to pay all Community loans is currently being tried out for the first time in Tanzania by agreement with the government, with some success. Repayments for the second half of 1984 were made without too much delay; the experiment will continue throughout 1985, and it is to be hoped the method can be used elsewhere in future (Article 227).

[1] Currently under consideration by the Council's working party of financial experts.

VI. Utilization of aid

Under Article 25 of the Internal Agreement the Commission and the Bank are required to ascertain how projects financed by Community aid are used by the recipients and examine the extent to which the objectives of financial and technical cooperation have been attained.

A. Resources administered by the Commission

For its part, the Commission believes that the work done over the last few years on ex post evaluation of development projects fulfils the function described above.

Evaluations undertaken to date fall basically into three categories, setting aside "à la carte" evaluation of certain specific points carried out at the request of the department concerned:

1. Sectoral evaluation: evaluations have been carried out for the following sectors:

- health service
- rural and urban water supplies
- integrated agricultural projects
- education and training
- roads
- livestock production.

2. System evaluation: to date the following instruments of development cooperation have been evaluated:

- micro-projects and projects co-financed with NGOs
- Stabex
- food aid
- technical assistance.

3. Comprehensive evaluation of all sectors, development instruments and non-Community aid programmes in a given country or region; the following evaluations have been carried out:

- Cameroon
- Niger
- Rwanda
- Senegal
- Zaire
- Zambia

Discussion papers and summary reports were produced for each of the above evaluation exercises.

In some cases meetings of ACP/EEC experts and representatives from the Member States took place for the purpose of working out certain "basic principles" for a given field. The following such seminars have been held:

. December 1978, Freetown, Sierra Leone: health,
. November 1979, Bamako, Mali: drinking water supplies;
. February 1981, Lomé, Togo: agricultural development;
. March 1982, Addis Ababa, Ethiopia: education and training;
. May-June 1983, Niamey, Niger: roads;
. January 1984, Nairobi, Kenya: livestock production;
. April 1984, Harare, Zimbabwe: technical assistance.

The "basic principles" drawn up at those meetings go to the ACP-EEC Council for approval and are then disseminated widely amongst all interested parties.

The Member States are thus supplied with information at the key stages of the evaluation process; the Commission therefore sees no need to provide details in this report of the way in which recipient countries use Community aid, and would refer Member States to the comprehensive documentation they have already received.

B. Resources administered by the Bank

The Bank's supervisory and follow-up procedures broadly take the same form for operations inside and outside the Community. In addition, the same basic banking criteria are observed - as indeed is the case with project appraisal too - both for loans from the Bank's own resources and operations for which it has received a special mandate. The procedures are designed to enable the Bank to supervise and monitor the execution and subsequent operation of projects it finances. Assessments are based on periodical reports which borrowers are contractually required to furnish (project progress reports, financial statements and other financial information), on-site inspections, and contacts and talks with borrowers, the authorities of the ACP State concerned, and co-financing bodies. The Bank's findings are then set out in in-house reports which examine and analyse the main features of the operations being financed. Where special problems occur, conclusions and recommendations for action are regularly submitted to the Bank's decision-making bodies.

To date it has not been the Bank's practice to carry out systematic ex post evaluations of the real impact and full consequences of projects financed either inside or outside the Community. However, its work of analysis allows efficient supervision of the use to which aid is put and a broad assessment of the extent to which its objectives have been or are likely to be attained. This is a question to which the Bank is currently devoting considerable thought.

The conclusions reached by the Bank on the basis of this work over the past two or three years indicate a number of key problems, generally related to the economic and financial difficulties besetting certain ACP States. Here are examples, in no particular order of importance, of the main problems which have affected projects financed by the Bank:[1]

(a) government price freezes or delays in authorizing price rises, or prices set too low - Société Sucrière de la COMOI (SOSUCO, formerly SOSUHV), in Burkina Faso; Moulin du Sud-ouest (MSO) in Ivory Coast; Bamburi Portland Cement and South Nyanza Sugar (SONYSUGAR) in Kenya; National Electric Power Authority (NEPA) in Nigeria;

(b) taxation or inadequate administered prices for local raw materials - Société Textile du Cameroun pour le linge de maison (SOLICAM); Société Minière du Rwanda (SOMIRWA);

(c) reconsideration of or delays in implementing intergovernmental agreements - regional projects: Ciments del'Afrique de l'Ouest (CIMAO), and the RAN project;

(d) particularly severe or persistent political unrest - Société Textile du Tchad (STT); Société Nationale Sucrière du Tchad (SONASUT).

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[1] We have cited projects which represent typical instances of the problems considered and may be commented on in detail when this report is examined.

In addition to the above, the following factors also caused problems:

(e) cyclical factors and worldwide recession occasioning low or falling prices for export commodities - the Dwangwa Sugar Corporation (DSC) project in Malawi; Royal Swaziland Sugar Corporation (RSSC); Générale des Carrières et des Mines (GECAMINES) in Zaire; Zambia Consolidated Copper Mines (ZCCM);

(f) the inadequacy of management structures or technical assistance - the NEPA project in Nigeria, SOMIRWA in Rwanda, and the Société Nationale pour le Développement de la Palmeraie et des Huileries (SONAPH) in Togo;

(g) unfavourable market trends or production capacity failing to reach forecast levels - the Novotel hotel project in Ivory Coast and the "Gaweye" hotel project in Niger; Poura gold mine in Burkina Faso; MSO in Ivory Coast; Industries Chimiques du Sénégal (ICS); SICOR in Ivory Coast;

(h) exceptional or persistent drought conditions, which directly or indirectly affected many of the projects financed by the Bank - agricultural or hydro-electric projects (particularly severely hit was the SONAPH project in Togo);

(i) problems with the supply of local raw materials (the Kenya Furfural Company (KFC) project).

At the same time the depressed level of economic activity in a number of ACP States has directly affected the financial position of many small businesses receiving support from development banks to which the Bank has accorded global loans; the development banks are accordingly experiencing severe problems with payment arrears which in some cases have seriously upset their financial structure: Kenya's Industrial Development Bank (IDB), the TDFL in Tanzania and the Development Bank of Zambia (DBZ).

In liaison with the other co-financing agencies concerned, the Bank is continually engaged with the project promoters and government authorities concerned in endeavours to analyse the causes of problems which have arisen and seek suitable ways of achieving the objectives laid down. Prospects for some of the projects are already looking up, but elsewhere the problems are far from solution and the outlook for some schemes is very bleak (the GEMATEX project in Sudan, CIMAO, the KFC in Kenya and the MSO in Ivory Coast).

VII. External indebtedness of ACP States

The external debt burden is a major problem of Third World countries which has recently been occupying the headlines. While discussion has mainly centred on Latin America, debt problems also affect a number of ACP countries which have been hard hit by falling export earnings due to the slump in commodity prices.

(a) In 1982 ACP public debt totalled $51.4 billion (an increase of nearly ninefold since 1970) or 12.3% of all developing-country debt.[1]

Of that amount, $750 million is owing to Community institutions ($450 million to the EIB and $300 million to the EDF), representing 1.5% of total ACP debt.

(b) If the Community accounts for such a small proportion of the total, it is because aid accorded under the Lomé Conventions is primarily in grant form; the weighted average grant element of all EDF funds is 94% (including the subsidization of interest rates on loans granted by the EIB from its own resources).

The degree of concessionality of aid under Lomé II is also reflected in the breakdown of programmed aid. In the case of the 35 least-developed ACP countries, 89% of the aid was in grant form, compared with 79% for the other ACP States. In addition, when the definitive totals of the Lomé II indicative programmes were settled it was decided that 90 million ECU which was to have been used for special loans under those programmes would be given in grant form instead, the aim being to improve the financial situation of the 14 countries concerned. This is one example of the Community's flexibility and pragmatism towards ACP States suffering severe problems of indebtedness.

[1] A lower figure is obtained for the ACP States by looking at debt servicing costs, which amount to only 9% of the developing-country total, a probable reflection of the generally softer loan terms offered by the Community.

A number of Community aid resources also indirectly help lighten the debt burden of the ACP States. Three are particularly noteworthy:

- the appropriations in the Community's general budget for food aid operations, which constitute a significant help to ACP States' balance of payments;

- the use of a delegated paying agent to deal with local expenditure; this provides an inflow of foreign exchange, as the Commission makes transfers to the ACP States in European currencies to cover these costs, which amount to nearly 47% of EDF spending;

- Community participation in co-financing operations, which often acts as a catalyst for further flows of finance to ACP borrowers on more favourable terms than they could otherwise have obtained. This is explained by the Community's own credit standing and the fact that it often agrees to take responsibility for the financing of start-up operations, supplying grants or special loans to finance infrastructure or the non-profit-making components of a project.

(c) The pressing nature of the debt problem and the magnitude of the difficulties it causes were kept in mind during the negotiations for Lomé III, which contains a number of provisions directly concerned with ACP indebtedness:

- a general clause provides that at the ACP States' request the Community shall lend technical assistance in studying and finding practical solutions to their debt, debt-servicing and balance of payments problems (Article 198);

- there are also more specific provisions dealing with the problem of debt-servicing; one of the criteria for deciding the method of financing where the Bank's own resources are concerned is that "account shall be taken of factors guaranteeing the service of repayable aid" (Article 197(4)); similarly, another new clause, Article 229(5), provides that "in order to contribute towards the servicing of the debt resulting from Community loans from the Bank's own resources, special loans and risk capital, the ACP States may, in accordance with arrangements to be made on a case-by-case basis with the Commission, use the available foreign currency [in the accounts of the paying agents] as and when debt repayments fall due and up to the amounts required for payments in national currency".

(d) However, these evidences of concern about ACP indebtedness must not be seen as tending towards one conceivable radical solution: an across-the-board measure to relieve the burden of ACP debts to the Community by outright cancellation or consolidation.

Such a step would be inappropriate, given that these debts make up only a small proportion of ACP States' total indebtness (see above).

In any case, a general relief measure would not necessarily operate to the advantage of ACP States, either:

- directly, since it would harm the creditworthiness of those with access to capital markets, or:

- indirectly, since it would also diminish the EIB's creditworthiness on those markets (and hence the terms on which it can borrow or lend), for the simple reason that the Bank's credit depends partly on the value of its current loans. The same arguments would apply to a measure directed solely at special loans. A debt relief measure confined to special loans would in any case be of minimal benefit to the ACP States in terms of their immediate or future balance of payments situation.

Nor would across-the-board debt relief benefit all ACP States equally; in many cases the beneficiaries would be those who are already better off.

Finally, such a measure could amount in some cases to the provision of assistance to the irresponsible rather than the truly needy. That would be most unfortunate, since there is little prospect that debt relief would be granted in addition to normal Community aid.

Accordingly, the Community does not intend to embark on a course whose attractions are more apparent than real, and which would teach the countries concerned the wrong development lessons. The institutions concerned prefer the sensible use of the instruments available to them in the new Convention as a means of making a more constructive contribution to helping their ACP partners with their debts.