

COMMISSION OF THE EUROPEAN COMMUNITIES

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FINANCIAL AND TECHNICAL AID TO NON-ASSOCIATED DEVELOPING COUNTRIES:

Communication on use of 1976 Community Budget
appropriation of 20 million u.a.

(Communication from the Commission to the Council)

COM(76) 89

1. Introduction

- 1.1. The 1976 General Community Budget includes an appropriation of 20 million u.a. for financial and technical aid to non-associated developing countries.

The Commission proposes that it should use this money to finance cooperation schemes in non-associated Asian and Latin American developing countries. It plans to do so in accordance with the principles already set out in its two earlier communications on development aid.¹

- 1.2. However, as the principles there enunciated were based on a much greater amount of aid than has finally been provided for in the Budget,² it is clearly necessary in respect of 1976 to adjust them in certain respects to the new situation.

This is the purpose of this communication; in addition the communication indicates the Commission's view on the procedure whereby Community Member States might be consulted on individual projects to be undertaken with funds from this source in non-associated developing countries.

2. Beneficiary countries and channels of distribution

- 2.1. In its communication of 5 March 1975 the Commission proposed to the Council that Community aid should be concentrated initially on the poorest of the non-associated developing countries, indicated in the "fresco" as potential beneficiaries of Community financial and technical aid. At the same time, it suggested that most of this aid should be expended in the form of direct operations, though part might be channelled through regional organizations.

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¹Fresco of Future Community Action (COM(74) 1728 final, 5 November 1974);

Community Financial and Technical Aid to Non-Associated Developing Countries, 1976-1980 (COM(75) 95 final, 3 March 1975).

²The Commission's proposal in its communication of 5 March 1975 was for a 1976 appropriation of 100 million u.a.

The Commission feels this is still the right line to follow. The amount available being so small, however, it considers that direct operations in 1976 will have to be concentrated on a limited number of countries; the other non-associated developing countries could be covered via appropriate regional organizations or associations, though this would not mean that all of them would necessarily be given Community aid in the first year.

A selective approach of this kind is obviously necessary if the Community wants its aid to produce the maximum economic (and political, impact. At the same time it would meet the need to keep the overheads involved in laying out the 20 million u.a. to the absolute minimum, and last but not least the need to assign the funds to concrete projects as quickly as possible.

As regards more specifically direct operations, the Commission intends to undertake these with respect to the few economic and political heavyweights among the developing countries indicated in the Fresco, with the possible exception of those that could suitably be covered via a regional organization or association. Operations via regional organizations or associations would therefore relate in particular to small countries where direct operations could not be efficiently conducted with the amount of aid available in 1976.

This indirect aid will of course have to be provided in accordance with arrangements allowing due observance of the specific guidelines the Community adopts concerning the geographical and sectoral apportionment of its aid. The Commission accordingly proposes that it should contact the Asian Development Bank to see whether such arrangements can be devised, e.g. Community contribution to the Bank's Special Technical Assistance Fund. This Fund, to which most of the Community Member States, and also some Asian developing countries, are already contributing,¹ has not very much money at its disposal,¹ so even a comparatively quite small amount of aid would be a worthwhile Community contribution.

In addition, the Commission plans to examine whether part of the Budget appropriation available could be used to finance Community participation in joint operations being undertaken by some groups of States in Asia and Latin America for the benefit of developing countries which might receive aid from the Community.

- 2.3. The determination of the amounts to go to each beneficiary country should be mainly based, the Commission considers, on three criteria - degree of poverty in terms of per capita GNP, size of population and aid received per head.

As concerns funds to be supplied to regional organizations or associations, account should also be taken of how much money of their own they have, and consideration should be given to whether Community aid should be furnished in the form of technical assistance or of capital.

Generally speaking, the Commission feels it would be well, for the sake of efficiency, in the case of direct operations not to go below a certain minimum level of aid per country, the actual amount for each beneficiary being in any event only decided following examination of the projects or programmes submitted for Community financing.

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¹Total contributions at 31 December 1974 amounted to approximately \$16 million, of which 7 million had already been expended.

3. Spheres, terms and practical details of aid

- 3.1. The Commission strongly feels that the priority objectives proposed in its earlier communications for financial and technical aid to non-associated developing countries still hold good, namely - aside from the promotion of trade relations, for which there is a specific Budget appropriation - to contribute to schemes for expanding the developing countries' food production rural development requirements generally, to promote regional integration and cooperation among them, and to build up a reserve for disaster relief.

Given the modest funds available, the Commission considers that Community action in the non-associated developing countries should, in view in particular of the ever-growing scale of the food problem, be concentrated on the first of the objectives, bearing in mind, however, that aid might be provided in certain specific cases in favour of regional integration and countries suffering specially grave disasters.

- 3.2. By the guidelines proposed in the communication of 5 March 1975, action in this sphere should take the form either of aid to projects or of aid to programmes, as preferred, the likelihood being that the latter will be more to the fore this year than later. Aid to programmes is in a number of cases a form of aid appropriate to the developing countries' needs, and has moreover the advantage of being much more quickly implemented than aid to projects - a particularly important consideration this year given the time required to implement the Budget appropriation.

- 3.3. As to the selection of the projects and programmes to be aided in pursuit of the priority objective proposed, the Commission intends to base itself on two main principles.

Firstly, it considers Community action in each beneficiary country should be concentrated on a limited number of schemes instead of embarking on a whole array of small-scale projects and programmes whose economic impact would be unduly dispersed and whose implementation would be extremely costly in time and overheads.

Secondly, it plans to give definite preference to operations conducted jointly with Member States or supplementary to operations of theirs. In this way not only would Community aid have the benefit of the experience already gained by most Member States in non-associated developing countries, but its impact on the economic and social development of the countries concerned would be enhanced, and moreover a nucleus of operational coordination would be established alongside the Association set-ups.

- 3.4. As to the terms and practical details of Community aid, the Commission considers that in view of the poverty of the countries to receive it the aid should at any rate to start with be entirely in the form of outright gifts, with the possibility of a soft loans component at a later stage under an expanded programme.

Where the projects to be aided were sufficiently cost-effective for loans to be suitable, arrangements would be made for the recipient Government to channel the funds provided it in the form of loans to the end beneficiary, where this was not the Government itself. The per contra funds from such a transaction could then be used to finance the local expenses of other Community projects.

Tendering for works and supply contracts in connection with Community-financed operations should be open not only to the Community Member States but also to the beneficiary country and, in principle, the developing countries of the same region.¹ Thus the Community aid

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¹A specific arrangement would if necessary have to be devised for possible contribution to the Technical Assistance Fund of the Asian Development Bank.

would at the same time help to promote intra-regional trade between developing countries.

Lastly, the Commission feels it should be possible to use Community aid to finance both the cost in foreign exchange and the cost in local currency of the operations. Where per contra funds from Community food aid or from the two-stage procedure referred to above were available, however, it would be reasonable to confine Community participation in the projects and programmes as far as possible to covering the foreign exchange cost, and use the per contra funds to cover local expenses.

4. Procedure for consultation with the Member States

In the draft EDF Committee rules of procedure it has forwarded to the Council the Commission proposes that the Committee should be able to sit as an ad hoc committee in order to "issue an opinion on all other Community aid to developing countries under financial and technical cooperation agreements or unilateral Community decisions" (Article 8).

The Commission confirms that this is its view, and intends to make use of this procedure in consulting Member States concerning individual operations to be financed from the appropriation in question.