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on the development cooperation policies  
of the Community and its Member States**

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## FOREWORD

In its Resolution of 8 November 1976 concerning the coordination and harmonization of development cooperation policies within the Community, the Council of Ministers agreed that the Commission should draw up an annual report on the development cooperation policies of the Community in order to provide wider information of its aid contribution to the Third World.

In April 1977 the Commission published 'The development cooperation policies of the European Community'. This was a pilot exercise covering the entire period 1971-76. It served concurrently for the third appraisal of progress made in the light of the second international development strategy of the UN.

The present report, centred on events and developments in the year 1977, is the first in the regular annual series.

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## Introduction

### THE COMMUNITY AND THE DEVELOPMENT PROCESS

The Community's development report - this is the first in what will from now on be an annual series - is essentially a chronicle of facts and events, of the instruments at work in their various fields of activity. A review therefore of the workings of the complex mechanism that is the Community's evolving contribution towards the third world's development process, and charted in the brief space of an operational year. Such has become the undertaking over a number of years that it requires an annual 'audit' in its own right.

There are two risks in such an exercise. Firstly, that one forgets that behind the data and the sometimes inescapably obscure technicality lie real targets of people and their societies - the underprivileged ones of the planet - with all their aspirations and disappointments, their traditions, their foibles, and above all their enormous variety and individuality. There is neither place nor time here for a discourse on the state of mankind. But one must be on constant guard against becoming engrossed with the mechanisms of the development process thereby losing sight of its ultimate objective of human welfare.

Secondly, one risks forgetting that development is an essentially long-term process. The purpose of this brief introduction is to look beyond the limited time-scale of 1977 and reflect on some of the longer-term trends and problems that condition the job - and the learning of the job - of development.

Only of late is a clearer perspective emerging of the implications for the Community's development cooperation effort of the period of economic recession unleashed upon the world in 1973-74, and of which the oil price rises were but one if important contributory factor. This experience has engendered greater awareness than before of the extent to which development cooperation is not some sort of exotic sideline of public activity with its devoted specialists and protagonists (and detractors) but an integral part of the work of modern government. This has been brought home by the growing evidence of these last few years of the advancing interdependence of the third world and the industrialized countries. Many in the third world greet the

awakening of the industrialized countries to the reality of this notion with scepticism. They are so used to the predominant post-war attitude of the industrialized countries in seeing themselves as the hub of the world economy and the developing countries as an ancillary factor. They suspect that it is no more than an emasculated alternative to their concept of a new international economic order.

The defensiveness of the industrialized countries in reacting to the recession appeared further to justify such scepticism.

The defensiveness rapidly became apparent as budgetary cutbacks throughout the industrialized economy countries inevitably took their toll of their aid effort. At this time too the tailing-off of three decades of trade-led growth exposed the underlying weakness of several key sectors of the industrialized countries' traditional manufacturing activity unleashing strong and persistent protectionist instincts. Only too slowly is the related concept gaining ground that the industrialized countries require a serious effort to reconvert their ailing industries. The problems that the Community experienced in 1977 with textiles are but symptomatic of the real difficulties that can endanger efforts of trade cooperation during a period of recession.

There is now a threat that these difficulties will multiply and snowball into a general protectionism that could eat away at the major springboard for development that is trade. To be able to resist this cooperation arrangements must be equipped with better facilities to enable the partners involved to engage in sectoral consultations when difficulties loom on the horizon but before they become too acute to manage. This implies a more sophisticated contractual relationship in trade whereby partners can identify problems in time, initiate arrangements to maintain levels of imports over an agreed timescale giving the necessary breathing space for reconversion. More than ever before there is the need to develop a systematic coherence between external and internal policies - a policy of coherence which recognizes that developing countries are becoming established and increasingly more sophisticated partners in world trade with a claim on a share of Community markets just the Community wishes a share of theirs. The Community in particular must be the first to recall how the proportion of its total exports to developing countries has grown from 28% a mere 7 years ago to a remarkable 38% by the end of 1977.

There is little room for self-congratulation when one reviews recent trends in relation to the Third-World. There is matter for some apprehension when one looks ahead. Trade remains threatened, resource transfer is sluggish, investment reluctant. The capacity of third world food production to catch up with hunger remains discouraging despite brighter, and hopefully durable features such as India's run of good crops. Increasing bills for imported energy are a further threat looming up on the horizon as an accomplice to growing food bills in further aggravating the payments deficits of a large number of developing countries. Against this background there is a growing risk that

the organized north-south dialogue in international fora will do little more than add growing aggravation to its list of accomplishments.

Meanwhile the factors making for international instability continue to loom large. They include the continued inability of the international Community to find a replacement, more adapted to the times, for the virtually defunct system of international economic order created at Bretton Woods; a new international economic order continues to elude our grasp. They include the political instability constantly threatening in many parts of the third world, an instability that is not solely a product of outside interference or of entrenched racism but which stems from the very condition of underdevelopment. Nor are the prospects for stability helped by the continued refusal of the Eastern European countries to accept that they are a large and determinant part of the world's economy and to take up their share of the burden of international cooperation.

Yet paradoxically there are a number of indices which have given encouragement in these recent difficult years for north-south cooperation. Historians of the Community may in time come to see as remarkable the fact that the Lome Convention came into being at the height of the 1973-74 difficulties when instincts concerning cooperation with the third world threatened to prefer retrenchment.

The coming months, and the negotiations for the new Convention provide an opportunity to consolidate and deepen this special axis of Community development work in which the Community can experiment with patterns of cooperation of a wider reaching and closer nature that may serve as a model for development cooperation in general. The same goes for the other axis of Community work - that towards developing countries outside the Lome Convention and southern Mediterranean frameworks - which gained new impetus during the difficult 1973-74 period. This too must be pressed ahead together with food and emergency aid operations and development of the generalized preferences scheme.

Secondly the GATT Multilateral Trade Negotiations have managed to keep on course despite a climate of defensiveness towards freer trade. And this time round, compared with previous GATT negotiations, the developing countries have established a more forceful presence reflecting their growing power as trade partners.

Thirdly, there are signs that a number of important developing countries are seeking to replace policies directed hitherto to import substitution and protectionism by a more export-oriented approach including the search for trade opportunities with each other.

Fourthly, though regional cooperation among developing countries continues to be bedevilled by troubles - the Community's own history is ample witness of that phenomenon - there are signs in many parts of the third world of genuine and persistent attempts to intensify such cooperation.



Fifthly, there are signs that the industrialised democracies are coming increasingly to recognize the limits of 'locomotive' boosts from their own under-used economies as a contribution towards getting the world economy back onto a durable growth path and, they are becoming more and more aware of the potential role of developing countries' growth in such a process and that there is a major role for the industrialized countries in mobilizing the resources to help bring growth about. This is the very meat of interdependence and the test of whether the international community really is evolving from the obsolete post-war notion of the third world being no more than an ancillary factor in determining the world's fortunes.

The challenge confronting us for the rest of this decade is to put this concept of interdependence into action. It is to this end that the Community must devote its efforts. Success in such a venture will indicate that development cooperation has entered a new period of maturity ridding it for once and all of its persistent image of international philanthropy.

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Part I

THE SCOPE OF COMMUNITY POLICY AND  
ACTION

Developments and events through 1977 provided useful opportunities to bring focus the main axes of Community policy and action for development in the broad international context and in that of the Community's own individual cooperation efforts.

In the first instance, 1977 witnessed the conclusion of the Conference on International Economic Cooperation (CIEC). This important and particular phase of the north-south dialogue had particular implications for the Community. The more systematised and intensive period of the north-south dialogue that the 7th Special Session of the UN General Assembly may be said to have inaugurated, posed a particular challenge to the Community. Contemporaneous as it was with the Community's own wider-reaching development after the completion of the customs union and with enlargement, the new phase of the north-south dialogue was a test of the Community's ability to be present and to act as a single and coherent entity on the international scene, and in that capacity to be an initiator. In the CIEC the Community showed proof of these abilities.

On a second plane, that of its autonomous direct development cooperation effort, the Community was able to mark solid progress. After the necessary gearing-up period prior to and following the entry into force of the Lome Convention with the 46 original African Caribbean and Pacific signatories in April 1976, the year 1977 saw the Convention to be fully operational. The new venture was on schedule. The same year saw the conclusion of a series of new agreements with a range of countries in the southern Mediterranean. It also saw the Community's new capacity for aid to countries other than those in the ACP and southern Mediterranean contexts placed onto a firm footing.

This first part of this report dwells upon these spheres of policy and action and their inter-relationship.

## Chapter 1

### THE COMMUNITY IN NORTH-SOUTH DISCUSSIONS

Nineteen seventy seven witnessed the conclusion of a particular phase in the north-south dialogue, the Conference on International Economic Cooperation (CIEC). Inaugurated in December 1975, the CIEC was a response to the particularly acute phase into which north-south relations had entered in the aftermath of the 1973-74 oil price increases. The CIEC followed also in the wake of the 6th and 7th Special General Assemblies of the United Nations which were important milestones in evolving a global approach to approach to discussion of north-south issues and in putting that discussion onto a more systematic footing.

The CIEC too encompassed a wide range of themes thereby reflecting keener awareness of the growing economic interdependence of the international Community. Among the salient conclusions of the Conference relating particularly to development policies and practice one may note: the agreement reached concerning transfer of resources, particularly official development assistance and the Special Action Programme of USD 1 000 million of which the Community through its Member States provided USD 385 million; the results on commodities, particularly the agreement in principle concerning the establishment of the Common Fund; the conclusions on food and increased assistance to agriculture; agreement on certain aspects of industrialization; the conclusions on infrastructures, notably the launching of a Transport and Communications Decade in Africa.

On a number of other issues the CIEC was unable to reach conclusions, notably on energy, investments and debt although the latter was subsequently to progress in UNCTAD in March 1978 on the basis of joint Community-United States formulae drawn up during the CIEC.

The Community was an important initiator of CIEC conclusions; this this role was made possible by the cohesion displayed by the Community as a single negotiator throughout the Conference.

The conclusion of the CIEC posed the question of the future conduct of the North-South dialogue. Specialized international economic discussions had of course continued in their respective

fora during the CIEC as had wider-reaching north-south debates in such fora as the United Nations General Assembly and Economic and Social Committee and UNCTAD. A new element was introduced to the dialogue with the creation by the 32nd UN General Assembly under Resolution 32/174 of a Committee of the Whole to review and monitor progress in north-south discussions. The Committee held its first substantive meeting in May 1978 with economic interdependence and resource transfer as major discussion items. Work of the resumed session in September was suspended due to conflicting opinions between developed and developing countries as to the scope and nature of the Committee's mandate. This problem was being resolved at the 33rd UNGA.

Nineteen seventy seven saw a heavy programme of work in specialized fields of relations between industrialized and developing countries. The main areas were:

(a) Commodities

The ambitious series of product discussions provided for under the Integrated Programme for Commodities (IPC) at UNCTAD IV in Nairobi developed during the year. Since the end of 1976 there have been about 50 weeks of talks scheduled to prepare for negotiations and covering most of the 18 products in the IPC list. The notable exception has been those products in the IPC list for which international agreements already exist (coffee, cocoa, tin, olive oil) while for sugar a new international agreement was concluded in April 1977. For the other products covered by the IPC, progress has been slow; the reasons are manifold, varying according to the product.

In many cases there are genuine complexities in the nature, production and marketing of the Commodity concerned making for difficulties in reaching consensus as to the appropriate measures to be marshalled; in other cases the magnitude and type of finance that might be required is a serious obstacle; in others, lack of interest of certain major producers or consumers has been apparent; lack of necessary information - but also in some cases a proliferation of studies - has hampered progress at times. For these and other reasons in this complex field the preparatory talks have so far been unable, with the sole and notable exception of rubber, to result in the drawing-up of draft agreements for negotiation. There remains, however, scope, where other products are concerned, for common identification of specific measures. There is furthermore the element of value that for some products the IPC talks have for the first time provided an opportunity for international cooperation the problems besetting them.

Also under the aegis of the IPC, two sessions were held in March and November respectively of the United Nations Negotiating Conference on a Common Fund for commodities. Progress was limited since the basic concepts of the Fund of the developing and industrialized negotiating partners differ considerably from

each other. At the request of the Group of 77 the second session in November was suspended. The Conference resumed work a year later in November 1978.

(b) Agriculture and food

Apart from the discussions on food and agriculture in the CIEC, the major international forum for north-south work in this field in 1977 was the third session of the World Food Council held in Manila in Late June. This meeting, at which the Community was an active participant, adopted a five-point programme to combat hunger and malnutrition. Firstly, food production should be increased through a rise in the level of official development assistance earmarked for food and agriculture so that developing countries's food production could increase by 4% annually. Secondly, food security should be improved including, where needed, the build-up of national grain reserves from recently replenished stocks. Thirdly, food aid should be increased and improved by renewed efforts of traditional and potential donors to reach the objective of 10 million tonnes of cereals while ensuring forward planning of food supplies. Fourthly, the contribution of trade to the solution of food problems should be strengthened. Fifthly, these recommendations should be in tune with other development policies and programmes - particularly with the 0.7% ODA objective.

The implementation of this programme was dealt with at two noteworthy meetings held towards the end of 1977. Firstly, the FAO Conference held in Rome in November decided to set up a special USD 20 million fund for the prevention of agricultural loss. Secondly, the first session of the Governing Council and of the Executive Board of the International Fund for Agricultural Development (IFAD) took place at the end of 1977. This new financial organization has more than USD 1 000 million at its disposal for agricultural and rural investment, of which the Member States of the Community have contributed USD 200 million.

(c) Industry and transfer of technology

Progress in the field of industrial cooperation was made in two areas: the launching of a system of sectoral consultations and the setting up of an industrial development fund within UNIDO. Both projects stem from recommendations of the Second General Conference of UNIDO, endorsed later by the 7th UN Special Session and, especially, by the CIEC where the Community played an active role in overcoming the last obstacles to their definite implementation.

Four sectoral consultations - fertilizers, iron and steel, leather and leather goods, vegetable oils and fats - have been held in 1977 with substantial participation of government, industrial and labour experts from all Community Member States. In close coordination Member States expressed their intention of cooperating actively in these consultations with the aim of achieving results of real operational value for developing countries'

industrial progress.

Pledging for the industrial development fund began only at the end of the year. Few Member States were at that time in a position to announce contributions.

In the field of transfer of technology the salient feature was the preparation of a Code of Conduct by an UNCTAD Intergovernmental Expert Group in which the Community and Member States participated actively. Progress in preparation of a draft Code has been slow, due mainly to the opposed positions of the industrialized countries (and those of Eastern Europe) and the Group of 77 over important features of the code, notably its legal character. At the 32nd session of the UN General Assembly the Community endorsed a decision to convoke a UN Conference by October/November 1978 for the negotiation and establishment of the Code, while declaring that unless the Expert Group made rapid progress in drafting of the Code, insufficient preparation might harm the prospects of the Conference.

(d) Debt

The ministerial meeting of the Trade and Development Board in Geneva in March 1978 represented a positive step forward in the international discussions on the indebtedness of developing countries. The Decision 165 (IX) adopted by the TDB contains two elements:

- a consensus on the adjustment of terms of past bilateral ODA developed donor countries will seek to adopt measures for such an adjustment, or other equivalent measures, so as to bring the terms of past bilateral ODA to poorer developing countries in line with the currently prevailing softer terms. Five Member States have since taken such measures (the face value of total ODA debt involved surpassing USD 4 000 million) while two Member States (Ireland and Luxembourg) already extend all their bilateral aid in grant form;
- on the identification of 'features' which could provide guidance for future operations relating to debt problems, a major difficulty has been overcome with the recognition by the March 1978 TDB of four basic concepts. An expert group has since elaborated a detailed text on such 'features'.

(e) Other areas

Attention under this review of north-south discussions bearing on development policy and practice has concentrated on the salient areas of activity in 1977 in what is becoming an increasingly complex international dialogue in various fora. Among new departures should be recorded the initial meetings of the UNCTAD Committee for Economic Cooperation among Developing Countries, a field in which the Community has demonstrated its willingness to seek how it can actively contribute.

Throughout these various international discussions the Community, with a few exceptions, demonstrated its ability to elaborate and present an identity of views and proposals. The experience of the CIEC proved particularly valuable and constructive in this respect.



## Chapter II

### THE COMMUNITY'S CONTRACTUAL RELATIONS WITH ITS ACP AND SOUTHERN MEDITERRANEAN PARTNERS

A salient feature of the Lome Convention is its mobilization of a panoply of instruments and their programmed application in the ACP countries according to the particular requirements and development priorities of those countries. Prominent among these instruments are the preferential arrangements for ACP access to the Community's market, the European Development Fund provided with 3 444 million EUA<sup>1</sup> for the life of the Convention (1976-1980), the scheme for the stabilization of export receipts (STABEX), the loan capacity of the European Investment Bank, industrial cooperation. In addition come the provisions for food aid, emergency aid, and the trade promotion applicable to both ACP and other developing countries (see Chapter III).

These instruments are complemented by institutional provisions. Among the highlights of the functioning of these instruments in 1977 one may note the ACP-EEC Council of Ministers meeting in Fiji in April which provided a valuable opportunity to monitor and direct the implementation of the aid provided for in the Convention. The Joint ACP-EEC Consultative Assembly convened in Luxembourg in July and in Maseru in November. Luxembourg was also host to a meeting of representatives of economic and social organizations in Community and ACP countries.

In general 1977 may be called the first 'normal' year in the operation of the Lome Convention following on from the major efforts of 1976 devoted in considerable part to getting institutions and procedures into operation and establishing indicative programmes. Financial commitments during 1977 come to 775 million EUA thus bringing the total decided since the Convention started to 1 210 million EUA, or some 35% of the non-Stabex Funds earmarked for financial and technical cooperation during the life of the Convention. Three new states signed accession agreements during the year - Sao Tome and Principe, Cape Verde, Papua New Guinea - and in December the ACP/EEC Council approved the accession of Djibouti which will become the 53rd ACP member of the Convention.

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<sup>1</sup> 1 EUA = USD 1.4112 (1977).

Trade between the Community and its ACP partners in 1977 grew at a faster rate than did the Community's external trade as a whole and with developing countries as a group. Community imports from the ACP grew by 19% over 1976 and exports to the ACP rose by 27% to reach volumes of approximately 12 500 million EUA in each direction. (Community trade with all developing countries, including the ACP, is reviewed in Chapter IV).

Indicative programmes. While 1976 was an intensive formative period during which the Commission, in collaboration with the EIB, set up, in a relatively short time, indicative programmes for a total of 42 ACP countries, programming activity in 1977 attained cruising speed. Indicative programmes were finally adopted for 4 other ACP countries (Nigeria, Equatorial Guinea, Bahamas and Grenada). Programming was carried out for 5 out of the 6 ACP countries that subsequently joined the Convention (Seychelles, Comoros, Sao Tome & Principe, Cape Verde, Papua New Guinea). Six indicative programmes underwent modifications at the request of the countries concerned (Kenya, Gambia, Malawi, Mauritius, Sudan, Tanzania). In total, by the end of 1977, a total of 1 877 million EUA for financing of national schemes and projects had been programmed.

Sectoral distribution within the indicative programmes as a whole reflects the priorities adopted by the ACP countries as a group. Rural development accounts for nearly 36% of programmed aid, while 27% is programmed for economic infrastructure, 15% for social development, 12% for industrialization. The least developed countries get 63% of the total programmed for all ACP countries.

In the field of regional cooperation the programme for a first tranche of resource allocation was adopted in March 1977 for the mobilization of 207.8 million EUA or some 2/3 of the money reserved for this purpose. Transport infrastructures - particularly road-building - are the priority areas in this first tranche; they take up 50% of the total. This is indicative to some degree both of the low level of economic integration among African countries and of ACP needs (particularly where the least developed are concerned) to extend and improve their communications and transport networks.

Implementation of the regional provisions has not been without its difficulties. As of December 31, 1977 financing decisions amounted to 64.6 million EUA or 31% of the total programmed. This reflects the often retarded state of preparation of certain regional investment projects and objective coordination difficulties of an institutional nature stemming from the regional character of the undertaking. A further factor is the large number of projects subject to cofinancing, opportunities for which the Community is actively pursuing but which, by their very nature, do take longer to prepare.

Table 1

Analysis of EDF and EIB operations in 1977

|  | ('000 EUA)    |                  |                 |              |              |                |
|--|---------------|------------------|-----------------|--------------|--------------|----------------|
|  | Grants<br>(1) | Special<br>loans | Risk<br>capital | EDF<br>total | EIB<br>loans | Grand<br>total |
| <u>Development of production</u><br>of which:                | 188 150       | 104 218          | 17 155          | 309 523      | 66 930       | 376 453        |
| - industrialization  | 23 909        | 76 100           | 17 155          | 117 164      | 62 610       | 179 774        |
| - rural production   | 163 460       | 28 118           | -               | 191 578      | -            | 191 578        |
| - tourism  | 781           | -                | -               | 781          | 4 320        | 5 101          |
| <u>Economic infrastructure</u>                               | 113 196       | 19 370           | -               | 132 566      | -            | 132 566        |
| <u>Social Development</u><br>of which:                       | 145 019       | 3 750            | -               | 148 769      | -            | 148 769        |
| - education and training                                     | 90 077        | -                | -               | 90 077       | -            | 90 077         |
| - health   | 15 414        | -                | -               | 15 414       | -            | 15 414         |
| - water engineering, hou-<br>sing, urban infrastruc-<br>ture | 39 528        | 3 750            | -               | 43 278       | -            | 43 278         |
| <u>Trade promotion</u>                                       | 8 915         | 1 000            | -               | 9 915        | -            | 9 915          |
| <u>Exceptional aids</u>                                      | 13 547        | -                | -               | 13 547       | -            | 13 547         |
| <u>Stabex</u>  | -             | -                | -               | 37 174       | -            | 37 174         |
| <u>Other</u>   | 51 216        | -                | -               | 51 216       | -            | 51 216         |
| <u>Blocked appropriations</u>                                | 4 415         | -                | 900             | 5 315        | -            | 5 315          |
| TOTAL  | 524 458       | 123 338          | 18 055          | 708 025      | 66 930       | 774 955        |

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(1) including interest rate subsidies of 11 337 000 EUA

As regards cofinancing in general the Commission has pursued systematic efforts to seek partnership in project financing with other donor agencies with encouraging results. This work is further described in Chapter V of this report.

#### Operations of the EDF, the EIB, and the financial protocols

In 1977 the rate of commitments under the 4th EDF became well established. Commitments during the year from the Fund totalled 708 million EUA so that by year-end some 1 100 million EUA had been committed since inception of operations. In addition came the lending activity of the EIB totalling 67 million EUA in 1977 out of a total 108 million EUA to the year-end.

The breakdown in table 1 illustrates the main areas of concentration of Community financial activity towards the ACP in 1977 in terms of commitments. Development of production is the most prominent and accounts for nearly 49% of total commitments. The emphasis in 1977 remained on rural production with particular concentration of agricultural production in general for both food supplies and export crops. Notable beneficiaries have been plantation development and agricultural projects of an integrated nature. Implementation of micro-projects was actively pursued during the year and procedures for deciding the financing of this type of project simplified as much as possible. Conservation of natural assets (soil fertility) received special attention. Two forestry projects were also financed - operations that have featured but rarely in past EDF activities. Industrialization projects, as the figures show, are commanding considerable attention. Provision of back-up infrastructure for industrial development remains a major area of activity with particular emphasis in 1977 commitments being given to projects mainly involving energy supply. Essentially it is the function of the EIB to finance industrial projects and the Bank committed 63 million EUA in 1977. The EDF too, however, was substantially involved in the financing of manufacturing industry through special loans and provision of risk capital.

Financing of social development (some 21% of commitments) continued, of necessity, to be a major feature of EDF operations with education and training in the forefront of this activity. This area of work is given more detailed attention below. So is industrial and trade promotion which, while accounting for only a relatively modest part of overall EDF commitments by its very nature, is becoming an increasingly active area of work within the Convention.

In the same year, emergency aid to ACP countries in serious difficulties as a result of natural disasters or comparable extraordinary circumstances amounted to approximately 13.5 million EUA donated to seven countries. Since the Lome Convention entered into force, a total of 61 million EUA has been disbursed, benefiting 15 countries. In 1977 aid was provided to countries in difficulty as a result of political events (Botswana, the Comoros, Congo, Zambia) and disasters such as earthquakes (Tonga), floods (Kenya) or drought (Ghana).

In Stabex the second operational year (1976) reveals a marked fall in the overall volume of transfers to 36.3 million EUA from 72.8 million EUA for the year 1975. This phenomenon - inherent in the very nature of the working of the Stabex mechanism - is largely explained by changed marked circumstances.

Table 2

Stabex operations: main indicators

| Operational year     | 1975           | 1976           |
|----------------------|----------------|----------------|
| Transfers            | 26             | 19             |
| Products             | 9              | 16             |
| Recipients           | 18             | 12             |
| Total transfers      | 72 786 065 EUA | 36 287 447 EUA |
| of which             |                |                |
| - loans              | 44%            | 24%            |
| - grants             | 56%            | 76%            |
| Motives for transfer |                |                |
| - cyclical           | 68%            | 21%            |
| - accidental         | 32%            | 79%            |

As the figures in Table 2 illustrate, while a relatively smaller number of transfers have taken place to fewer recipients the product coverage for 1976 operations has been considerably wider. The main changes, however, compared to 1975 concern the grant-loan relationship and the economic circumstances motivating the transfers. Where the grant-loan relationship is concerned it is to be noted that it coincides practically with the proportional distinction between least developed ACP countries and the remainder. The marked change for motivation of transfer expresses more precisely the changed market circumstances reflected in the difference in overall transfers. At 28.8 million EUA in 1976 the volume of 'local accident' transfers is somewhat higher than that for 1975 (23.5 million EUA). Among the factors involved one may note groundnut disease in Niger and lower copra production in Fiji due to cyclone damage; disease and climatic setbacks to Cameroons cocoa production; interruptions to mining operations in Sierra Leone.

The provisions of Protocol No 3 on ACP sugar have operated satisfactorily. Non-deliveries during the 1977-78 marketing year were no more than 1.2% of the total guaranteed ACP quotas of 1 225 500 tonnes. In January 1978 the ACP states and the Community adopted a definition of force majeure in the case of

non-delivery. During the 1977-78 marketing year the minimum guaranteed price for raw sugar from the ACP in terms of the Protocol was 272.5 EUA per tonne; the average world price during that period was 130.6 EUA per tonne.

A sustained effort was pursued in the sphere of industrial cooperation, a notable event in 1977 being the opening of the Centre for Industrial Development (CID).

Several major operations were undertaken in the manufacturing and energy sectors, including a canvas mill in Tanzania, cement works in Kenya and Cameroon, and the railway and social infrastructure needed for the CIMAO regional cement projet (Togo, Ghana). Trade promotion schemes were implemented to help ACP exports and industrial technical assistance schemes were also carried out.

The new features of the Convention include industrial promotion, for which two projects were approved (Mauritius and Senegal), while the Community took part in the organization of the 1978 Investor's Forum at the Dakar International Fair. With regard to industrial information, the Commission continued its work on updating and re-editing the compendium of investment codes or other regulations governing foreign investments in the ACP States.

One of the main industrial innovations of the Lome Convention, both as regards the number of projects and the sums of money involved, is action to help small and medium-sized firms, including setting up the service infrastructure they require and technical and financial assistance (by a line of credit). In 1977 the Commission approved the first financing proposals for special loans by means of which a line of credit was granted to ACP bodies which provide credit to small and medium sized-firms. Whereas certain loans cover only the line of credit intended for the small and medium-sized firms, others are linked with supplementary aid or themselves entail parallel aid through subsidies for infrastructure, technology, promotion and assistance for small and medium-sized firms, or for training.

In the sphere of industrial promotion, 1977 saw the setting up of a new institution under the ACP-EEC Convention, namely the Centre for Industrial Development (CID), which complements the Commission's work.

The CID's work is related to concrete industrial projects and mainly involves information, services, promotion of contacts between ACP and European industrial promoters, and the formulation of measures required to ensure the proper execution and management of projects. The CID is guided and supervised by the Governments of the ACP States and of the Community, by the Commission and by the EIB within the Committee on Industrial Cooperation.

The year 1977 witnessed sustained activity by the Committee on Industrial Cooperation, thereby enabling the CID to start its activities fairly quickly and to undertake in the course of the year the promotion of about a hundred industrial projects, half of which initiated in the ACP States. The CID is made up of three departments responsible respectively for information, projects, technology and training., these being the three main fields of the centre's activity.

Training, an essential factor of development, occupies a special place in the Lome Convention. About forty multiannual training programmes, covering the period 1976-80, have been approved, and about another ten are being prepared, for a total of some 70 million EUA. These programmes provide for schemes which focus in particular on training linked with EDF investments in order to guarantee optimum use, on the country's priority needs and on further training for public officials.

The programmes comprise mainly scholarships and traineeships; some also provide for the sending of instructor-monitors whose training and technical assistance duties include training schemes for nationals of the countries, in order to ensure that they fully master as quickly as possible the work previously carried out by foreign technical assistance. There are also plans to organize seminars and short training sessions for the training of senior administrative staff, a field on which particular emphasis was laid by the EEC-ACP Council of Ministers in Fiji in April 1977.

Some 3 800 senior administrative staff from the ACP States will now benefit from scholarship and traineeship programmes financed by the EDF. About fifty experts/instructors are working in various ACP States to carry out technical assistance schemes supplemented by on-the-job training, various aducational, maintenance or training schemes. Special attention is paid to training of people in their own countries or in other ACP States, training in Europe being reserved for specialization in specific fields. Two-thirds of the EDF scholarship and traineeship holders are therefore getting their instruction in the ACP States and barely one-third of them in the nine countries of the European Community. Training covers mainly the following areas, technological sciences (29%), agriculture (26%), education (12%), health (8%) and sundry training (7%).

Cooperation with the southern Mediterranean countries. With the signing at the beginning of 1977 of cooperation agreements with the Mashreq countries (Egypt, Jordan, Lebanon and Syria) similar to those already signed in 1976 with the Maghreb countries, the Community completed the application of the principles of the global Mediterranean policy. An Additional Protocol and a Financial Protocol to the preferential trade Agreement concluded in 1975 were signed at the same time with Israel. Pending completion of these ratification procedures, the provisions relating to trade were implemented in anticipation and the preparatory work on economic, technical and financial cooperation has started (see page 29).

Statistics available on trade do not yet enable a valid assessment to be made of results stemming from the implementation of the concessions granted by the Community; these concessions applied to the Maghreb countries as from 1 July 1976 and to the Mashreq countries as from 1 July 1977.

In 1977 the Community encountered problems in its relations with three of the countries concerned, namely Egypt, Morocco and Tunisia, as a result of the crisis in the textile industry. On the basis of the provisions in the Agreements authorizing it to do so, the Community had to apply safeguard measures vis-a-vis these countries in respect of some products. Thanks to the spirit of cooperation which prevailed among the partners, it was possible to abolish these measures on 1 January 1978 and replace them, in the case of Egypt, by an agreement concluded under the MFA and, in the case of Morocco and Tunisia, by an undertaking on their part to impose voluntary restraint on exports of the products in question.

Spain's application for membership submitted in 1977, following on the applications from Portugal and Greece, will present problems in the long term for the southern Mediterranean countries. Given the free access of the new Member States' exports to the market of the Nine, the enlargement of the Community will involve some erosion of these countries' shares in the Community market for Mediterranean agricultural products and for certain already sensitive industrial products.

Because of the economic and social difficulties which this may cause for the partners, it will be necessary, as the Commission has already indicated in its Communication of 19 April 1978 on the problems of enlargement, to seek a new balance in order to permit orderly trade and the continued development of these countries with the help of the Community.

As agreed, the preparatory work on the implementation of financial and technical cooperation with the southern Mediterranean countries has been undertaken by the Community and its partners without awaiting completion of ratification procedures. Commission and EIB representatives have jointly visited the various countries to obtain the necessary information for a detailed analysis of their economic and social situations. On the basis of this preparatory work together with officials of the countries concerned, general guidelines for cooperation with the various countries have been drawn up for formal adoption by the cooperation Councils, once these are set up.

As the Community sees it, implementation of these guidelines should dwell on the following lines:

- (1) Community financial aid must be conceived as supportive action for the various cooperation schemes foreseen in the agreements and not as a mere transfer of funds to fill gaps in financing;



(ii) Community financial contributions must be used, as far as possible, as a catalyst to incite other suppliers of funds to provide assistance.

Furthermore, in drawing up general cooperation guidelines the Community was mindful of the need on the one hand to ensure the necessary coherence between the Community's cooperation policy and its sectoral policies, and on the other to coordinate Member States' aid activities with those of the Community in the countries concerned.

In the second phase of preparatory work, Commission and EIB representatives visited the various countries in order to identify projects which could be financed by the Community. Indicative lists of projects were then compiled. These lists are not definitive but already it would appear that, overall, a large part of Community aid will be used for infrastructure projects (over 40%). Just under 40% of the funds will be used for industrial or agricultural projects. In most countries training schemes should play a predominant role in technical cooperation, which would take up the rest of the aid.

Preparatory work in other spheres of cooperation (in particular industrial cooperation, scientific and technological cooperation) is still at a preliminary stage. As regards Israel, however, the EEC-Israel Joint Committee, meeting in the context of the trade Agreement with that country, has already adopted in the course of the year a recommendation concerning the fields which industrial cooperation could cover and a number of concrete schemes which could be carried out.

### Chapter III

#### ASPECTS OF THE COMMUNITY'S WORKING RELATIONSHIPS WITH OTHER DEVELOPING COUNTRIES

Alongside its efforts to set up and mobilize the instruments and institutions of its cooperation with its ACP and southern Mediterranean partners, the Community has actively pursued its working relationships with developing countries elsewhere. Work within the various fora of the north-south dialogue has been examined in Chapter I; developments in the field of trade relationships are dealt with separately in the following chapter. The brief survey that follows dwells upon the salient features of other aspects of Community cooperation with developing countries as a whole, and which are constantly being developed.

Financial and technical assistance to non-associated developing countries is increasing at a rapid rate. Launched as an experiment in 1976 with an initial budgetary appropriation of 20 million EUA, the resources earmarked for Community financial and technical assistance to the countries in question more than doubled in 1977 (45 million EUA). The 1977 programme therefore demonstrated a resolve to increase this form of aid, which falls outside the scope of the Community's contractual relations. This resolve is confirmed by the increase for 1978.

The aid in question, which is intended for the most disadvantaged sections of the population of the poorest developing countries, is used to finance rural projects with priority being given to meeting food requirements. Regional projects are also financed from these resources. In 1977 funds were committed for financing 20 projects and programmes, the breakdown of which was approximately as follows: storage of grains and fertilizers (33%), irrigation (29%), agricultural research (14%), other agricultural projects (10%), studies and technical assistance (7%), and fisheries (7%). The respective proportions of aid going to Asia and Latin America are approximately 78% and 22%. The number of countries directly or indirectly affected by the Community's programme is 22, compared with only 9 in 1976. The Indian sub-continent (India, Bangladesh, Pakistan, Sri Lanka) absorbs more than half of the aid available; India, Bangladesh, Pakistan, Sri Lanka) absorbs more than half of the

aid available; India is the largest beneficiary, receiving more than a quarter of the total. The other countries concerned are Vietnam, Indonesia, Thailand, the Yemen Arab Republic, Afghanistan, Burma, Bolivia and Honduras. The eight regional projects financed for regional organizations such as the Central American Common Market and the Andean Pact, for international agricultural research bodies or through regional development banks account for close on 25% of the programme's resources. Equal proportions of the programme's resources have been spent on operations of the programme's resources have been spent on operations financed by the Community alone and on operations financed jointly with the World Bank, the Asian Development Bank and the Inter-American Development Bank.

Food aid has continued to be of prime importance. During 1977 food aid provided by the Community amounted to 876 603 tonnes of products<sup>1</sup>, worth an estimated total of 188 490 000 EUA at world prices; in terms of internal prices, which reflect the Community's budgetary costs, this works out at 402 970 000 EUA. To these quantities should be added 566 500 tonnes of cereals representing the share contributed by the Member States, which brings the total cereals aid donated by the Community and the Member States to 1 287 000 tonnes. This is the amount laid down in the Food Aid Convention for cereals, which was extended in 1977.

A large part of Community food aid continues to be channelled to recipients via international agencies such as the World Food Programme, UNICEF, the Red Cross and UNRWA. In 1977, these organisations handled 21.5% of all cereals aid, 39.5% of skimmed-milk powder, 43.5% of butteroil and all sugar (UNRWA).

The Community's direct aid went mainly to the poorest countries. Hence, countries with a per capita GNP of USD 300 or less and those contending with emergencies received 95% of the cereals aid, 90% of the skimmed-milk powder and 94% of the butteroil. It should be pointed out here that in 1977, in view of the changing food requirements of the various developing countries, a special effort was made, particularly as regards cereals, to help Middle Eastern countries and certain African countries.

In line with previous practice, Community food aid, which is provided solely in the form of donations to the beneficiary countries and organizations, has to a large extent been sold on the local markets (and to the local food industries), this applying particularly in the case of cereals. In 1977, however, approximately 40% of the skimmed-milk powder provided was in fact distributed free of charge, thus helping to improve the diet of disadvantaged or particularly vulnerable section of the

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<sup>1</sup> i.e. 720 500 tonnes of cereals, 105 000 tonnes of skimmed-milk powder, 45 000 tonnes of butteroil, 6 103 tonnes of sugar.

population. The Community has persisted in its efforts to improve the use of skimmed-milk powder and has continued to provide vitamin-enriched skimmed-milk powder where necessary.

In this context, the Commission has completed a study on the importance of milk products for the economies of the developing countries, the proper role of food aid, and the guidelines to be followed in this area over the next few years.

Emergency aid is provided for both in the general budget of the Communities and in the Lome Convention. In 1977 emergency aid of 1.7 million EUA was drawn from the general budget for three operations which involved providing Cape Verde, India and Romania with indispensable items (medicines) and essential goods needed for restoring economic activity (fertilizers, agricultural equipment, seed, vehicles, fuel) and for carrying out reconstruction work.

In addition the necessary measures have been taken to implement the November 1977 Council Resolution on the coordination of Community and Member States' emergency aid actions. A special unit has been created for this purpose within the Commission's services.

In the emergency aid context, it should be borne in mind that the Community's efforts to help victims of natural disasters or comparable occurrences are backed up by the provision of food aid.

During 1977 the Community has actively pursued its relationships with important groups of developing countries, particularly regional organizations.

The Community has continued efforts to help the regional integration work of the Association of South East Asian Nations (ASEAN)<sup>1</sup> and close cooperation has developed between the Commission and the ASEAN Secretariat in Djakarta. In 1977 the Community organized for the ASEAN countries a series of activities in the context of the Commission-ASEAN Joint Study Group. These covered: an industrial cooperation conference bringing together 500 European and ASEAN industrialists, businessmen and government officials to examine prospects for European investment in the ASEAN region; a seminar for ASEAN businessmen on the management of technology transfer; a training course for managers in medium and small industries; a study on areas of economic complementarity between the Community and ASEAN.

As already recalled (page 28) Community financial technical assistance has been channelled through other regional institutions concerned with development in Asia; one may note the following examples: a million EUA to the International Rice

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<sup>1</sup> Indonesia, Malaysia, Philippines, Singapore, Thailand.

Research Institute in the Philippines for research and training; a million EUA to the International Crops Research Institute for the Semi-Arid Tropics in India for a research programme on leguminous vegetables; 3.3 million EUA to the Asian Development Bank for agriculture and fisheries projects in Afghanistan, Burma and Thailand; direct financing of an irrigation project (2 million EUA) in Indonesia, and of a pig farming project (100 000 EUA) in Thailand.

In April 1977 were held the inaugural meetings of the Joint Commissions set up under the Commercial Cooperation Agreements between the Community and Pakistan and Bangladesh. Joint Commissions under analogous agreements with India and Sri Lanka were already in operation. The principal task of these joint bodies is to investigate and propose means to develop and diversify trade in both directions between the Community and the partner countries. It has been tacitly recognized, however, that, in the early stages at least, emphasis must be in the first place on encouraging increased exports from the partner countries to the Community. In practice therefore the Joint Commissions play a useful development role in promoting export-led growth in the partner countries by coordinating specific trade-promotion activities and the related provision of expertise (see page 32), by identifying potential participants in export-orientated joint ventures and by promoting the transfer of technology which the partner countries require for their economic development.

The Community has kept up efforts to help regional integration in Latin America in the various well-established fora<sup>1</sup> in which it is being pursued among numerous countries of central and south America. Activities of these groups to which the Community has contributed cover regional policy planning, customs matters (operation of customs unions, customs nomenclature, training), exporting techniques, small and medium firms, treatment of legal information, statistics.

The Community's attention to the regional integration and cooperation aspect of Latin American economic affairs is further underscored by the nature of the financing operations that it has mounted to the area under its arrangements for financial and technical aid to non-associates (see page 28). Hence in 1977 out of the 10 million EUA available for projects in Latin America 3.6 million EUA went to the Andean Pact in agricultural

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<sup>1</sup> i.e. ALALC (Latin America Free Trade Association), Andean Group, the Central American Common Market, INTAL (Institute for the Integration of Latin America). Contacts are underway to examine Community assistance to projects of SELA (Latin American Economic System).

assistance and research into food technology; 3.6 million EUA was made available to the Central American Common Market for increasing cereal storage capacity and for research into the agroindustrial sector.

The Euro-Arab Dialogue saw some encouraging progress during 1977. This regional relationship between the Community and the countries of the Arab League was formally launched in 1974. The first meeting of the General Committee was not in fact held until two years later; 1977 marked two important steps forward - the second and third meetings of this Committee held respectively in Tunis (February) and Brussels (October)

These confirmed the first financial commitments of the two sides (USD 15 million from the Arab League countries, USD 3.5 million from the Community). The participants approved a preliminary list of the first eight joint projects (mainly feasibility studies and conferences) to be carried out. They confirmed the attention of the two sides to set up a Euro-Arab Centre for the Transfer of Technology. A wide variety of specific areas for cooperation were discussed by the working committees of the Dialogue (covering industrialization, infrastructure, agriculture, financial cooperation, trade, science and technology, cultural, social and labour questions). These are supported by a number of specialized groups covering subjects as diverse as conditions of contract to desalination, fertilizers to maritime transport.

This regional approach is a valuable complement to bilateral relations between the Member States of the Community and countries of the Arab League. It is to be hoped that the Euro-Arab Dialogue will be able to concentrate mainly on projects in the Arab world of a specifically regional nature.

Trade promotion activity benefitting other countries than ACP, notably in Asia and Latin America, reached a new intensity in 1977. Some 110 stands were constructed for 30 countries in 20 trade fairs whilst 27 10-man trade missions were hosted in Europe, each travelling to four or more Community countries. Fairs and missions made available scores of new products from hundreds of new suppliers, resulting in spot business measured in USD millions and follow-up business of many millions more. Sectors covered included engineering, wooden, construction, decorative, leather, electronic, industrial and food products.

In addition, several marketing seminars were held on products ranging from fashion to leather to handicrafts goods. 'Buying seminars' were also set up in developing countries, where lecturers are also potential buyers of participants' goods; one of these seminars realized spot purchases of USD 11 million. One other type of seminar was co-financed with a German organization to train commercial attaches and, at yet another, a world-wide federation was set up to produce and promote acceptable utility handicrafts.

Three buyers' missions sponsored by the Community also toured groups of countries with varying success. Fifty-five experts were despatched to advise on product adaptation, marketing, packaging, quality control, salesmanship, and subcontracting. As mentioned on page 30 a major symposium was held to promote investment, joint venture, sub-contracting and licensed manufacturing between ASEAN and Community countries in various industrial sectors.

Backing up this varied activity several thousands copies of dozens of product brochures, pamphlets and catalogues were printed in different languages for distribution to interested buyers. The trade promotion programme for non-associates has come to be appreciated both in earnings and in political terms by the beneficiary countries as a factor helping them to earn their own means of development.

Part II

THE INSTRUMENTS OF COMMUNITY  
DEVELOPMENT COOPERATION



Modern development cooperation efforts contain a variety of factors and aspects to meet a variety of problems in a third world which is far from homogeneous. An assessment of such an effort must be undertaken from several angles. This is notably the case in reviewing the wide range of activities, policies and instruments which go to make up the overall development effort of the Community and its Member States.

The first part of this report was devoted mainly to an examination of the operational and geographical scope of Community policy and action towards the third world in various working frameworks and arrangements. Inevitably it contained much description of the instruments of Community cooperation at work.

The second part of the report focusses much more specifically on the instruments by turning to the basic elements of the development cooperation effort, the trade and resource transfer mechanisms on which the Community's development activity is founded. Chapter IV reviews the trends in Community trade with developing countries in the overall context of the Community's external trade, and the functioning of the Community's trade policy instruments towards these countries. Chapter V examines the situation of resource transfers from the Member States bilaterally and multilaterally, including their channelling through Community financial instruments, and compares Community performance with that of other donors. Finally, a major element, Chapter VI presents succinct reviews for each Member State of their individual aid policies and practice, particularly their bilateral programmes, to complete the multi-dimensional picture of the overall aid effort of the European Community.

## Chapter IV

### THE COMMUNITY'S TRADE WITH DEVELOPING COUNTRIES

The Community's external trade in 1977 grew overall by 11.6% over 1976 thereby marking a tailing-off in the resumption of trade growth recorded in 1976 after the previous recession. This deceleration was accounted for by the cutback in the growth of imports which, after a marked rise of 27% in 1976, rose by only 8% to 171 351 million EUA in 1977. This was largely due to the stagnation of oil imports, the Community's deficit with the OPEC countries being cut to 13 million EUA in 1977 compared with 19 billion in 1976. Community exports on the contrary grew by 16% to 164 140 million EUA thus maintaining the rate of recovery experienced in 1976.

While Community imports slackened overall in 1977, table 3 shows that the main growth area was in imports from the non-oil LDCs 17% up on their 1976 level. Though lower than the major jump of 30% recorded in 1976 as trade pulled out of the previous recession, this fact was encouraging in terms of sustained export activity towards the Community of the non-oil LDCs, notably when compared with the 8.5% growth in Community imports from industrialized countries. At the same time it should be noted that Community exports to the non-oil LDCs rose also by 17% compared with a modest growth of 5% in 1976, and that its trade deficit with them was cut by around half to 704 million EUA.

The swings in growth rates in trade have been clearly conditioned by the erratic behaviour of the world economy in adjusting to the 1973-74 oil price rises and the subsequent attempts to return to a more stable growth path. Of particular importance in trying to assess trade patterns are relative market shares.

Table 3

The Community's external trade in 1977

|   | Imports          |                   | Exports           |                   | Balance  |
|---|------------------|-------------------|-------------------|-------------------|----------|
|   | Value<br>000 EUA | Index<br>1976=100 | Value<br>'000 EUA | Index<br>1976=100 |          |
| Intra EEC                                   | 168 059          | 113               | 168 354           | 111               |          |
| Extra EEC                                   | 171 351          | 108               | 164 140           | 116               |          |
| <u>Industrialized<br/>countries</u>         | 82 132           | 108               | 85 596            | 116               | + 3 364  |
| <u>LDCs</u>                                 | 75 172           | 108               | 61 780            | 121               | - 13 392 |
| OPEC  | 42 345           | 101               | 29 657            | 123               | - 12 688 |
| Non-oil                                     | 32 827           | 117               | 32 123            | 117               | - 704    |
| ACP   | 12 464           | 119               | 12 460            | 127               | - 4      |
| South Mediterranean <sup>1</sup>            | 5 836            | 104               | 11 163            | 120               | + 5 327  |
| S & SE Asia                                 | 10 950           | 117               | 8 388             | 118               | - 2 562  |
| - Indian subcontinent                       | 2 292            | 114               | 2 371             | 123               | + 79     |
| - 4 semi-industr.<br>countries <sup>2</sup> | 4 980            | 114               | 3 239             | 118               | - 1 741  |
| - Others                                    | 3 678            | 122               | 2 778             | 115               | - 900    |
| Latin America <sup>3</sup>                  | 10 930           | 116               | 10 598            | 117               | - 332    |
| Gulf States + Libya                         | 34 939           | 100               | 18 292            | 121               | - 16 647 |
| <u>Eastern Europe</u>                       | 13 254           | 107               | 14 530            | 102               | + 1 276  |

<sup>1</sup> Associated countries

<sup>2</sup> Hong Kong, Singapore, Taiwan, South Korea

<sup>3</sup> Including relevant ACP countries, excl. Cuba

Table 4

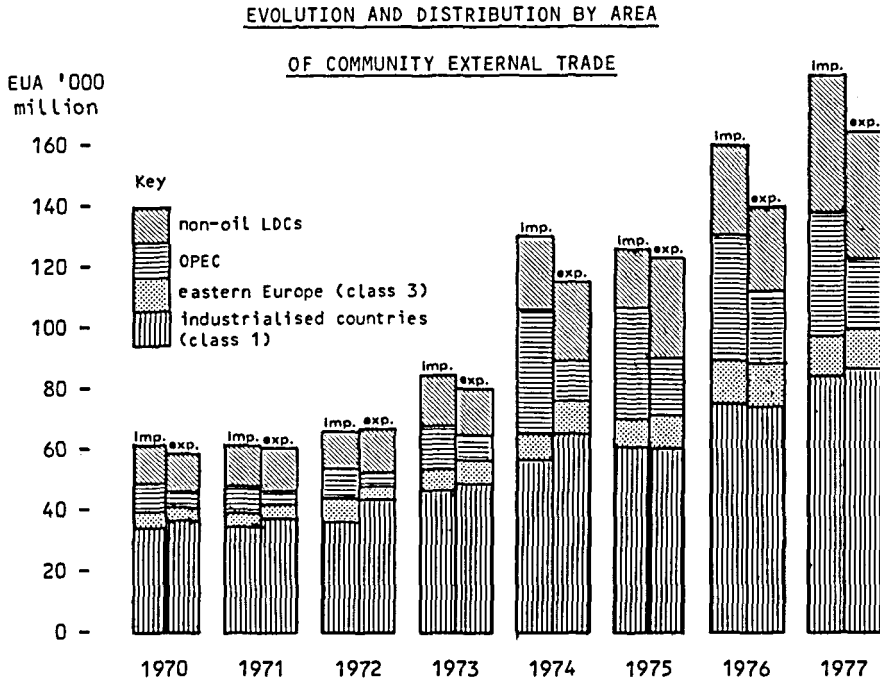
Respective shares in Community trade  
of certain groups of countries (%)

|      | EEC IMPORTS FROM |      |                 | EEC EXPORTS TO |      |                 |
|------|------------------|------|-----------------|----------------|------|-----------------|
|      | ICs<br>1         | OPEC | Non-oil<br>LDCs | ICs<br>1       | OPEC | Non-oil<br>LDCs |
| 1970 | 56               | 15   | 21              | 62             | 7    | 22              |
| 1971 | 55               | 18   | 20              | 62             | 7    | 22              |
| 1972 | 55               | 18   | 19              | 62             | 8    | 21              |
| 1973 | 54               | 18   | 20              | 62             | 8    | 20              |
| 1974 | 46               | 30   | 17              | 58             | 10   | 21              |
| 1975 | 48               | 27   | 17              | 52             | 15   | 21              |
| 1976 | 48               | 26   | 18              | 52             | 17   | 19              |
| 1977 | 48               | 25   | 19              | 52             | 18   | 20              |

¶ Industrialized countries of Class 1.

Table 4 shows the degree to which LDCs account for an ever more important proportion of Community trade amounting in 1977 to 44% and 38% for imports and exports respectively compared with 36% and 28% in 1970. It is evident that the unit value increase in oil imports is the biggest single element in this development. In the light, however, of the difficult circumstances of the world economy over the last few years, and of the non-oil LDCs in particular, it is important to note that this latter group of countries (with the exception of Latin America) saw its share of the Community market in 1977 practically restored to its 1973 level after the cutback experienced in 1974-75. The only group of countries with a higher share of the Community market in 1977 compared with 1973 is south-east Asia while the share of LDCs in Community exports has been maintained due to exports to the ACP and Mediterranean countries. A general impression of the above mentioned trends from 1970 to 1977 is obtained from the graphic description of the evolution and distribution by area of the Community's external trade in Figure IV.1 below.

Figure IV.1



Sectorally the LDCs' share in the Community's food imports grew from 47% in 1976 to 54% in 1977 after an increase in value terms due notably to higher coffee and cocoa prices. Thus for the first time the LDCs' market share was higher than that of the industrialized countries (41%). The biggest increase was from the ACP (up 49%) which were the main suppliers (18%) after Latin America (23%).

The growth rate of food imports from the southern Mediterranean countries, on the other hand (up 8%), showed a sharp drop in comparison with 1976 and their market share (3.2% in 1977) has tended to decrease since 1973. Community oil and raw material imports from LDCs hardly increased in 1977. Since 1970-73 the LDCs' share in Community raw material imports has been more or less stable and was 31% in 1977. The LDCs' share in Community imports of manufactures slipped to 15.4% (16% in 1976) thus indicating a marked deceleration of growth to only 9% after the 58% upsurge of 1976. In 1977 the main increases in imports of manufactures in value terms were from the ACP (25%), from the Mediterranean countries (34%), and from the Gulf States (32%) although their shares in total Community imports of manufactures remain modest at respectively 0.8%, 1.8% and 0.6%.

Food exports to LDCs (up 28% in 1977) have grown steadily in proportion to total Community food exports since 1970. In 1977 they reached 48% of the total and for the first time surpassed the share of the market economy industrialized countries (46%). Community exports of manufactures to LDCs (up 20%) also grew somewhat faster than towards industrialized countries, particularly towards the ACP (23%), the Indian sub-continent (24%), and the Gulf States and Libya (20%). Apart from the ACP and the Indian sub-continent, Community exports of manufactures towards other groups of LDCs slowed down by comparison with 1976. LDCs as a whole, however, represent a growing share of all Community exports of manufactures, i.e. 39% in 1977 (37.6% in 1976 and 28% in 1973).

Developments in Community trade policy during 1977 with particular reference to the developing countries were marked by growing difficulties in certain important traditional sectors of Community industry exacerbated by the domestic recession. At the same time many of these were sectors in which a number of developing countries are becoming important international competitors. The Community has nonetheless fostered a policy aimed at consolidating the high level of trade already achieved while avoiding the aggravation or appearance of serious market disturbance.

Where textiles are concerned the Community had noted that during the period of application of the first GATT Multifibres Agreement its imports of these products had grown by 42% as against only 8% for the other industrialized countries while its trade in textiles had gone heavily into deficit. This brought the Community, in the second half of 1977, to take up negotiations with some thirty low-cost producing countries with a view to stabilizing its textile imports while allowing a reasonable annual increase. The success of these negotiations, brought about thanks to a high degree of mutual understanding, enabled the Community to accede to the protocol renewing the Multifibre Agreement. It may be said that the situation thus created opens more possibilities to less developed new suppliers who would otherwise come up against the commercial dynamism in this field of the more advanced developing countries, and that it presents more security for all the trading partners concerned.

The Community's Generalized System of Preferences (GSP) scheme underwent several improvements in 1977.

Table 5

| Value of GSP offer                                       | (million EUA) |             | Increase 1977/1976 |
|--|---------------|-------------|--------------------|
|  | <u>1976</u>   | <u>1977</u> |                    |
| Manufactured and semi-manufactured industrial products   | 3 600         | 5 150       | 43%                |
| Manufactured and semi-manufactured agricultural products | 1 000         | 1 240       | 24%                |
| TOTAL  | 4 600         | 6 400       | 39%                |

For industrial products, apart from textiles, the most significant change in the 1977 Scheme was the updating of the reference year used in calculating ceilings and quotas. Thereby the Community honoured the commitment it gave in UNCTAD to relate quotas and ceilings to the overall growth in its trade with third countries. In some cases these adjustments could not be fully applied, especially as regards sensitive or semi-sensitive items. The application of the change in the base year resulted nevertheless in an overall growth in the value of the GSP offer for manufactured goods other than textiles of about 40%. Quotas for sensitive products increased normally from between 15% and 25%, for semi-sensitive products on average by 35% and for non-sensitive products, the great majority of the list, by over 50%. Quotas have, however, been frozen for footwear and certain steel products - industries currently experiencing considerable difficulties.

A measure of particular interest to the poorest developing countries was the Community's offer on tropical products in the Multilateral Trade Negotiations which adds 46 processed agricultural products to the original list of 250, while improving the margin of preference on 70 others. The value of the offer rose to about 1 240 million EUA thus constituting the largest increase in processed agricultural products since the scheme first started.

A further measure in favour of the LLDCs was taken in 1977 by the implementation of the 1978 GSP scheme. LLDCs will no longer face the reestablishment of customs duties in the case of ceilings being exceeded by developing countries in general, and this is also case with sensitive and semi-sensitive products. Put another way, there are no longer any ceilings for these two categories of industrial products from the LLDCs.

Greater emphasis has been placed on improving the use of GSP. An analysis completed in early 1978 shows a near doubling in GSP use from about 1 800 million EUA in 1975 to 3 500 million EUA in 1976, an increase in the rate of use of the Community's offer from 49% to 67%. As a further stimulus to improved utilisation, in 1977 the cumulation of origin permitted for certain regional groupings of developing countries such as ASEAN, the Andean Group and the Central American Common Market was extended to textile products. Seminars on the use of GSP continued to be held during 1977 in various beneficiary countries by the Commission which also published a second edition of its Practical Guide to the GSP.

Community participation in the GATT Multilateral Trade Negotiations (MTN) also features among efforts to ensure better involvement of the LDCs in world trade. The year 1977 witnessed a concentration of work which has enabled most areas requiring solutions to advance so that they can be finalized in 1978. The following fields are of particular interest for the LDCs:

- Community implementation on 1 January 1977 of its offer on tropical products without reciprocity being asked from the LDCs. Besides the improvements in the Community's GSP, this offer contained tariff reductions for about USD 1 200 million worth of trade;
- The seeking of special and differentiated treatment as foreseen in the Tokyo Declaration both in regard to tariffs and in the different non-tariff areas. This treatment should, as far as possible, allow account to be taken of the particular needs of LDCs by benefitting their exports with lower tariffs and a minimum of non-tariff barriers. LDCs will be asked to offer only contributions that are compatible with their development needs and only to assume additional obligations to the extent that their own development so permits.

The Community has received requests from such treatment from numerous LDCs and has held consultations with all those who so wished. The Community has made a point of recalling that an element of such treatment is that account should be taken of the particular situation of those LDCs which enjoy special advantages in its market because of preferential agreements (ACP, Mediterranean countries) and many of which are among the least developed.

In this spirit - differentiation in order grant greater advantages - the Council of Ministers in June 1978 decided on a further substantial improvement in GSP for the LDCs in 1979. For virtually all products, both agricultural and industrial, covered by the GSP, their exports will enter the Community with zero duties and without any quantitative restrictions.

In the legal framework group of the MTN, the Community has made constructive proposals to add to the present GATT text a certain number of exceptions to the most favoured nation principle.



These advantages under these so-called permissive clauses, limited to LDCs on a non discriminatory basis (same level of economic development), would no longer be subject to obtaining a derogation from Article XXV of the GATT.

In the same MTN group a study is being made of a new formulation of non-reciprocity whereby LDCs would not have to grant industrialized countries advantages equivalent to those that they would obtain. While enshrining the notion of 'development needs' which determine the capacity of LDCs to contribute, the idea is to envisage a gradual return to GATT obligations by each LDC in the light of its economic progress.

## Chapter V

### - TRANSFER OF RESOURCES

The financial cooperation of the Member States of the Community passes both through bilateral channels and via multilateral financing bodies, including the Community's financial instruments (EDF, Budget and EIB).

The total volume of public and private financial resources transferred by the Member States to the developing countries in 1977 was USD 22 300 million, marking thus an annual rise of 10.5% since 1975. Since this growth has been more rapid than that of the Member States' combined GNP, it has resulted in a considerable rise in the ratio of total flows to GNP from 1.14% in 1975 to 1.43% in 1977. This means that the Member States have become the chief source of financial flows to the developing countries; they account for 47% of the total provided by the members of the OECD's Development Assistance Committee (DAC)<sup>1</sup> and 35% of total flows from all sources.

In 1977, 31% of these total financial resources were from public sources and 69% of private origin.

Official development assistance (ODA) provides the bulk of flows of public origin from the Member States. In this field the Member States have always been the developing countries' main source of aid with their ODA in 1977 accounting for 43% of the total aid from the DAC countries and 31% of aid from all sources. The volume of Member States' ODA in 1977 was USD 6 300 million in net disbursements, or approximately 9% more than the preceding year. Since the beginning of the decade, disbursements have increased on average by 14% per annum, at a faster pace than the combined GNP of the Member States. This has been reflected in an improvement of the ODA/GNP ratio (from 0.36% in 1970 to 0.40%

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<sup>1</sup> DAC members: Australia, Austria, Belgium, Canada, Commission of the European Communities, Denmark, Finland, France, Germany, Italy, Japan, Netherlands, New Zealand, Norway, Sweden, Switzerland, United Kingdom, United States.

in 1977), which contrasts with the virtual standstill of other DAC countries' efforts. This favourable trend does, however, hide a considerable drop in the relative effort over the last two years. It is to be hoped that this drop will be followed by a new increase in the ODA/GNP ratio in 1978, a year for which the Member States have programmed large extra efforts as a result of the undertaking entered into at the CIEC to increase effectively and substantially their ODA, their efforts being the greater, the lower their relative performance.

These overall figures also conceal large discrepancies among Member States, the effort made by some falling well short of the international target, while others come much closer to achieving it and one Member State has even gone well beyond it.

The terms of the Member States' ODA are particularly favourable. The proportion of actual grants in total ODA far outweighs that of loans (78% of commitments in 1977). As the loans are made on very soft terms (notably as regards interest and duration), ODA as a whole has a very high grant element<sup>1</sup> (93.8%). This figure is well above the target rate laid down by the 1972 DAC Recommendation on the terms and conditions of aid, which each of the Member States has surpassed by a broad margin.

The terms of the Member States' ODA are particularly favourable for the least developed countries (LLDCs), where the average grant element has also surpassed the 90% target laid down by the DAC Recommendation. This is the result of a deliberate policy of differentiating the terms of aid followed by most Member States in favour of certain groups of developing countries - defined in the light of per capita GNP or their belonging to a recognized international category - in order to adapt these terms better to the special circumstances of the recipient countries.

The bulk of ODA is made available to the developing countries through bilateral channels. In 1977 this bilateral ODA amounted to USD 4 600 million in net disbursements. Since 1975 it has increased by 4.2% annually and at an average rate of 12.2% per annum since the beginning of the decade.

Nearly half (46%) of this aid goes to developing countries in Africa. Africa's large share of the geographical breakdown of bilateral aid is an indication of the large number of poor countries in that continent (further demonstrated by the fact that 18 of the 29 LLDCs are in Africa) and also of the special links existing between certain Member States and the African countries. Asia receives 32%, Latin America 18% and Europe 4%.

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<sup>1</sup> The grant element provides a measure of how favourable the financial terms of aid are. For example, a grant has a grant element of 100% and the grant element of an ODA loan may be between 25% and 100%.

Public and private financial flows to developing countries

- basis: net disbursements -

|                            | 1975          | 1976          | 1977               | 1975        | 1976        | 1977        |
|----------------------------|---------------|---------------|--------------------|-------------|-------------|-------------|
|                            | USD million   |               |                    | % GNP       |             |             |
| Belgium                    | 867           | 1 222         | 913                | 1.36        | 1.83        | 1.13        |
| Denmark                    | 275           | 485           | 451                | 0.78        | 1.27        | 1.07        |
| France                     | 3 942         | 5 316         | 5 212              | 1.16        | 1.53        | 1.37        |
| Germany                    | 4 962         | 5 314         | 5 754              | 1.19        | 1.19        | 1.12        |
| Italy                      | 1 625         | 1 476         | 1 989              | 0.95        | 0.87        | 0.02        |
| Netherlands                | 1 255         | 1 727         | 2 073              | 1.55        | 1.96        | 1.96        |
| United Kingdom             | 2 353         | 2 176         | 5 929 <sup>1</sup> | 1.02        | 0.99        | 2.44        |
| <b>Total Member States</b> | <b>15 279</b> | <b>17 716</b> | <b>22 321</b>      | <b>1.14</b> | <b>1.29</b> | <b>1.43</b> |
| DAC countries              | 40 378        | 40 505        | 49 491             | 1.05        | 0.97        | 1.02        |
| OPEC countries             | 8 163         | 7 955         | (9 000)            | 4.01        | 3.28        | 2.60        |
| Socialist countries        | 840           | 620           | (700)              | 0.05        | 0.04        | n/a         |

<sup>1</sup>

The largest part of the substantial increase in the UK official public and private flows is due to a change in the method of reporting DAC statistics. This relates to bilateral portfolio investments for the UK and Switzerland. In 1977, for the first time, 'Euro-currency' lending has been included under this heading under these two countries' returns. This in turn is reflected in part of the increase in total DAC official public and private flows.

Official development assistance

- basis: net disbursement -

|                            | 1975         | 1976         | 1977         | 1975        | 1976        | 1977        |
|----------------------------|--------------|--------------|--------------|-------------|-------------|-------------|
|                            | USD million  |              |              | % GNP       |             |             |
| Belgium                    | 378          | 340          | 371          | 0.59        | 0.51        | 0.46        |
| Denmark                    | 205          | 214          | 258          | 0.58        | 0.56        | 0.60        |
| France                     | 2 091        | 2 146        | 2 267        | 0.62        | 0.62        | 0.60        |
| Germany                    | 1 689        | 1 384        | 1 386        | 0.40        | 0.31        | 0.27        |
| Italy                      | 182          | 226          | 186          | 0.11        | 0.13        | 0.09        |
| Netherlands                | 604          | 720          | 900          | 0.75        | 0.82        | 0.85        |
| United Kingdom             | 863          | 835          | 914          | 0.37        | 0.38        | 0.38        |
| <b>Total Member States</b> | <b>6 012</b> | <b>5 865</b> | <b>6 282</b> | <b>0.45</b> | <b>0.43</b> | <b>0.40</b> |
| DAC countries              | 13 585       | 13 665       | 14 696       | 0.35        | 0.33        | 0.31        |
| OPEC countries             | 5 512        | 5 607        | (5 580)      | 2.70        | 2.14        | 1.95        |
| Socialist countries        | 750          | 545          | (600)        | 0.05        | 0.03        | n/a         |

Financial terms of official development assistance

- basis: commitments -

(%)

|                     | Grants as a proportion of commitments |      |      | Grant element of total commitments |      |      | Grant element of commitments to LLDCs |       |       |
|---------------------|---------------------------------------|------|------|------------------------------------|------|------|---------------------------------------|-------|-------|
|                     | 1975                                  | 1976 | 1977 | 1975                               | 1976 | 1977 | 1975                                  | 1976  | 1977  |
| Belgium             | 92.2                                  | 91.7 | 90.9 | 98.1                               | 98.2 | 98.3 | 100.0                                 | 99.0  | 98.7  |
| Denmark             | 74.1                                  | 81.0 | 85.6 | 96.0                               | 96.6 | 97.3 | 88.6                                  | 91.5  | 95.0  |
| France              | 83.1                                  | 83.4 | 85.2 | 90.7                               | 90.6 | 93.0 | 97.0                                  | 87.8  | n/a   |
| Germany             | 55.8                                  | 55.9 | 58.9 | 84.8                               | 85.2 | 85.6 | 93.0                                  | 91.1  | 93.6  |
| Italy               | 83.5                                  | 85.4 | 94.2 | 90.5                               | 93.1 | 97.7 | 100.0                                 | 100.0 | 100.0 |
| Netherlands         | 83.9                                  | 70.6 | 77.3 | 93.9                               | 87.0 | 91.1 | 95.0                                  | 93.1  | 97.2  |
| United Kingdom      | 91.1                                  | 94.8 | 94.6 | 96.9                               | 97.6 | 96.8 | 99.0                                  | 99.7  | 93.6  |
| Total Member States | 77.2                                  | 76.0 | 78.3 | 91.0                               | 90.3 | 93.8 | 95.9                                  | 93.1  | n/a   |
| DAC countries       | 69.3                                  | 69.6 | 71.9 | 88.6                               | 88.5 | 89.2 | 95.4                                  | 92.1  | n/a   |
| OPEC countries      | 48.2                                  | 62.9 | n/a  | 72.3                               | 79.3 | n/a  | n/a                                   | n/a   | n/a   |
| Socialist countries | 17                                    | 17   | n/a  | 54.5                               | 45.0 | n/a  | n/a                                   | n/a   | n/a   |

Bilateral official development assistance

- basis: net disbursements -

|                            | 1975         | 1976         | 1977          | 1975           | 1976        | 1977        |
|----------------------------|--------------|--------------|---------------|----------------|-------------|-------------|
|                            | USD million  |              |               | % of total ODA |             |             |
| Belgium                    | 252          | 229          | 262           | 66.7           | 67.4        | 70.6        |
| Denmark                    | 111          | 117          | 147           | 54.1           | 54.6        | 56.9        |
| France                     | 1 789        | 1 846        | 1 917         | 85.5           | 86.0        | 84.6        |
| Germany                    | 1 161        | 1 044        | 1 028         | 68.7           | 75.4        | 71.2        |
| Italy                      | 59           | 78           | 35            | 32.2           | 34.6        | 18.8        |
| Netherlands                | 365          | 496          | 644           | 60.5           | 68.9        | 71.6        |
| United Kingdom             | 566          | 581          | 555           | 65.6           | 69.6        | 60.7        |
| <b>Total Member States</b> | <b>4 303</b> | <b>4 391</b> | <b>4 588</b>  | <b>71.6</b>    | <b>74.9</b> | <b>73.1</b> |
| <b>DAC countries</b>       | <b>9 815</b> | <b>9 495</b> | <b>10 083</b> | <b>72.3</b>    | <b>69.5</b> | <b>68.6</b> |

Geographical breakdown of the EEC Member States' bilateral official development assistance

- basis: gross disbursements, 1974-76 average -

(a) by continent

| (% of total) |         |              |        |
|--------------|---------|--------------|--------|
| Africa       | America | Asia/Oceania | Europe |
| 45,9         | 17.9    | 32.1         | 4.1    |

(b) by group of country

| (% of total)                             |      |      |            |         |         |
|--|------|------|------------|---------|---------|
| <u>Per capita GNP of USD 200 or less</u> | MSA  | LLDC | ACP States | Maghreb | Mashreq |
| 40.9                                     | 40.2 | 15.9 | 30.0       | 7.9     | 3.9     |

In the breakdown by group of country it can be seen that 41% of bilateral ODA goes to countries with a per capita GNP of USD 200 or less with 40% and 16% going to the MSA countries and the LLDCs respectively. The African, Caribbean and Pacific countries' share of bilateral ODA is 30%, that of the Maghreb countries 8% and that of the Mashreq countries 4%.

The breakdown by sector of the Member States' bilateral aid reflects for the most part the priorities defined by the recipient countries. It shows that approximately a quarter of the aid committed in 1976 was for social and economic infrastructure, 22.5% for education and training, 10.5% for agriculture, 8.5% for health and 7% for manufacturing industry, including extractive and construction activities.

Although the proportion of bilateral aid still predominates in the Member States' total ODA, it is tending to decrease in favour of aid channelled via multilateral bodies and the Community's financial instruments. In 1977 this multilateral aid amounted to USD 1 700 million, or 27% of total ODA. Thus, multilateral contributions have increased since the beginning of the decade by an average of 20.6% per annum.



Contributions to multilateral bodies

- basis: net disbursements -

|                     | 1975        | 1976  | 1977  | 1975           | 1976 | 1977 |
|---------------------|-------------|-------|-------|----------------|------|------|
|                     | USD million |       |       | % of total ODA |      |      |
| Belgium             | 126         | 111   | 109   | 33.3           | 32.6 | 29.4 |
| Denmark             | 94          | 97    | 108   | 45.9           | 45.4 | 41.9 |
| France              | 302         | 300   | 350   | 14.5           | 14.0 | 15.4 |
| F.R. of Germany     | 528         | 340   | 358   | 31.3           | 24.6 | 25.8 |
| Italy               | 123         | 148   | 151   | 67.8           | 65.4 | 81.2 |
| Netherlands         | 239         | 224   | 256   | 39.5           | 31.1 | 28.4 |
| United Kingdom      | 297         | 254   | 359   | 34.4           | 30.4 | 39.3 |
| Total Member States | 1 709       | 1 474 | 1 691 | 28.4           | 25.1 | 26.9 |
| DAC countries       | 3 770       | 4 161 | 4 610 | 27.7           | 30.5 | 31.4 |

These multilateral contributions go to practically all the international and regional financial institutions, in which the Member States more often than not play a very significant role. On a world scale, the Member States have made a large contribution (37%) to the fifth replenishment of the resources of the IDA, a contribution of 18% towards selectively increasing the capital of the World Bank and a contribution of 20% towards the endowment of the International Fund for Agricultural Development (IFAD). Besides this, the Community has contributed 38.5% of the CIEC's Special Action programme of USD 1 000 million and is, moreover, the only contributor to have channelled it entirely via a multi-lateral body - the IDA.

On a regional scale, the Member States recently took a 38% participation in increasing the resources of the African Development Fund (ADF) and contributed 57% of the non-regional resources placed at the disposal of the Inter-American Development Bank (IDB) and its special operations fund.

Community expenditure represents an important part of Member States' multilaterally disbursed aid. Resources States transferred via the Community are channelled through:

- (i) aid granted under the Lome Convention from the European Development Fund (EDF) and the European Investment Bank (EIB);
- (ii) aid under the Mediterranean cooperation agreements via the Communities' Budget and the EIB;
- (iii) food and emergency aid,<sup>1</sup> financial and technical assistance to nonassociated developing countries and a number of other non-contractual activities, via the Budget alone.

Total aid commitments by these Community instruments have increased substantially during the past three years, as the previous table illustrates, and reached USD 1 238 million in 1977. The major part of this increase is attributed to the European Development Fund which, under the Lome Convention, has begun to handle a considerably higher volume of financing than under the previous Conventions.

The process of identifying, preparing and implementing projects - many of which will be executed and paid for over a period of years - implies an inevitable time-lag before there is an upturn in payments commensurate with that now being recorded for commitments. Furthermore, the hiatus between the end of the Yaounde Convention and the beginning of operations under the Lome Convention is another factor that contributed to the decline in payments during this particular period between the end of the cycle of activity of the 3rd EDF and the beginning of the cycle of operations under the 4th EDF. Stabex payments in 1977 were some USD 35 million down on 1976 (see page 23), an important factor.

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<sup>1</sup> Also applicable to ACP and Southern Mediterranean countries.

During the period 1974-77 the proportion of Member States' total ODA channelled via multilateral organs has ranged between 27% and 28% (with a slight decrease in 1976). The particular proportion of total ODA channelled via Community instruments as such has remained during this period around 11%.

Equally fairly constant is the pattern of geographical distribution of the total Community aid effort over the past few years. As the preceding table shows, almost exactly two thirds of that part of total ODA transferred through Community instruments goes to the ACP and the southern Mediterranean countries, and one third to other LDCs, thus reflecting the particular nature of the Community's specific contractual relations. The bulk of Member States' other multilaterally channelled aid (illustrated in the above table by IDA which accounts for the biggest single element of that aid and for which geographical distribution can be readily identified) benefit LDCs other than the ACP and the southern Mediterranean countries; the former (as indicated on page 52) also account for over half the total bilateral transfers of the Member States.

While continuing to foster close cooperation between Community and Member States' aid instruments, the Commission is also actively seeking opportunities to collaborate with sources of finance from outside the Community. The aims here are to exchange information, gain a reciprocal understanding of different approaches, and to set up joint or complementary operations.

An international level, the Commission represents the Community as an observer on the Governing Council of the UNDP, and high-level contacts have established guidelines for on-the-spot operational cooperation in the field. Long standing contacts and cooperation with the IBRD, USAID, Canada's CIDA and the African Development Bank have continued and been strengthened. The growing mutual desire for collaboration between the Community and the various Arab funds in particularly neteworthy. Contacts have also been established with the ASEAN financial bodies and the Asian Development Bank. Meetings have been held for the first time with the Norwegian and Swedish development finance agencies.

With regard to cofinancing proper, 1977 again saw tangible results in a variety of sectors, covering a number of projects. Taking the twenty-five major cofinanced projects put in hand in 1977 for a total of 2 000 millions EUA Community funds accounted for 21%, bilateral aid from Member States accounted for 17%, Arab funds 19% and the IBRD 20%.

Activity of the Community instruments

(USD '000 000)

| Source  | Disbursements (net) |       |       | Commitments |       |        |
|---|---------------------|-------|-------|-------------|-------|--------|
|   | 1975                | 1976  | 1977  | 1975        | 1976  | 1977   |
| General Community budget of which:              | 421.1               | 169.8 | 244.3 | 326.9       | 303.2 | 282.0  |
| - aid to countries outside special arrangements | -                   | -     | 7.0   | -           | 22.7  | 50.4   |
| - non governmental organizations                | -                   | 0.9   | 2.2   | -           | 2.8   | 4.6    |
| - food aid                                      | 214.8               | 132.2 | 209.3 | 205.5       | 247.1 | 198.6  |
| European Development Fund                       | 276.9               | 261.5 | 232.7 | 121.8       | 437.1 | 729.1  |
| TOTAL (excl. EIB)                               | 698.0               | 431.3 | 477.0 | 448.7       | 740.3 | 1011.1 |
| Funds managed by EIB <sup>1</sup>               | 37.1                | 128.0 | 120.9 | 99.9        | 209.4 | 227.0  |
| TOTAL (incl. EIB)                               | 735.1               | 559.3 | 597.9 | 548.6       | 949.7 | 1238.1 |

<sup>1</sup> 1975 figures relate to the EIB's own resources; those for 1976-77 relate to all funds managed by the EIB

Destination of Community Member States' Aid

(gross disbursements)

|  | ACP         |    | Southern Mediterranean |    | Other LDCs  |    | Total       |     |
|--|-------------|----|------------------------|----|-------------|----|-------------|-----|
|  | USD million | %  | USD million            | %  | USD million | %  | USD million | %   |
| <u>1. Member States bilateral ODA</u>                        |             |    |                        |    |             |    |             |     |
| ∅ 1973-75  | 1 137       | 29 | 487                    | 13 | 2 274       | 58 | 3 898       | 100 |
| 1976   | 1 357       | 30 | 657                    | 15 | 2 508       | 55 | 4 522       | 100 |
| <u>2. Community ODA</u>                                      |             |    |                        |    |             |    |             |     |
| ∅ 1973-75  | 299         | 61 | 31                     | 6  | 161         | 33 | 491         | 100 |
| 1976   | 301         | 64 | 16                     | 3  | 157         | 33 | 474         | 100 |
| <u>3. ODA via the International Development Agency (IDA)</u> |             |    |                        |    |             |    |             |     |
| ∅ 1973-75  | 58          | 18 | 18                     | 5  | 257         | 77 | 334         | 100 |
| 1976   | 108         | 22 | 27                     | 6  | 342         | 72 | 477         | 100 |

## Chapter VI

### BILATERAL COOPERATION OPERATIONS OF THE COMMUNITY'S MEMBER STATES

#### BELGIUM

Belgium's development cooperation policy stresses the complementarity between technical and financial assistance to LDCs and the adaptation of international economic and trade structures. Thus Belgium seeks to make an active contribution to negotiations for the elaboration of a new international economic order while pursuing and developing her aid programme.

The government's statement of June 1977 reaffirmed the special place of links with Zaire, Burundi and Rwanda. In the course of the year Belgium launched a cooperation effort with Vietnam. 1978 will witness a renewed cooperation effort with Algeria and Indonesia. With these countries and with the Ivory Coast Belgium will finalize a cost sharing formula for technical assistants which will enable their numbers to be increased. Also in 1978 will be established a Development Cooperation Fund as a financial instrument to facilitate the management of aid programme. The Belgian government is fostering activity through non-governmental organizations by means of a co-financing system enabling it to put up 75% of project costs. In the European context Belgium has stressed the need for coordination of bilateral aid between European Community partners and promoted a resolution in this sense at the Development Council of November 1977.

Total net flows dropped from 1.83% of GNP in 1976 to 1.13% in 1977. Belgium's ODA increased over the same period from USD 340 million to USD 371 million, respectively 0.51% and 0.46% of GNP. The distribution of this ODA as between bilaterally and multilaterally channelled aid showed no substantial change with the proportion of bilateral aid marginally up at 71% in 1977. The grant element in total ODA was fractionally lower at 90.9% (91.7% in 1976). 98.3% of all ODA was untied, practically the same level as in 1976. Eighty per cent of all Belgium's bilateral aid was channelled to Africa with Zaire, Rwanda and Burundi the major recipients with 58%; Asia received 15%.

The largest sectoral attribution of bilateral aid was for education and training (39%) activities of various kinds, technical and academic. A further 14% of the total was devoted to rural development.

As for the impact on internal structural policies of LDC's economic activity, the Vandeputte Commission of university professors set up in late 1975 produced an interim report on the effects of the international division of labour in February 1977. It favoured increased trade with LDCs saying that 'with an active industrial policy which also allows re-absorption of redundant labour, one must also particularly insist on the advantages of increased trade with LDCs for the Belgian economy and for the level of welfare'. In July 1978, the Central Economic Council examined this report and in its opinion on it underlined the serious problems posed by competitive imports from LDCs for certain branches of production: 'The difficulties stemming from growing LDC industrialization can sometimes be aggravated by the fact that Belgian firms subject to competition from these countries are highly concentrated regionally and, in certain cases, employ women above all with ensuing specific reconversion problems.'

#### DENMARK

Disbursements under Denmark's official development assistance programme amounted to DKR 1 528,8 million. (USD 254.6 million) in 1977 equal to 0,60% of GNP at current prices (preliminary estimate). In 1978 disbursements are expected to reach to DKR 1 783 million (USD 297 million) equal to 0,67% of GNP. Under present legislation Denmark's official development assistance is planned within the framework of 'rolling five year plans'. The latest of these foresees that 0,7% target will be reached in 1979.

As for the guidelines determining Denmark's development cooperation, the basic principle is that assistance should be extended to these countries which need it most. A country's income level is therefore the major factor deciding geographical distribution. Danish aid policy is also geared to take account of developments in negotiations in a number of international fora where major economic questions relating to the situation of developing countries are treated.

The Danish aid policy aims at maintaining an even balance between bilateral and multilateral contributions; in 1977 the proportions were respectively 57% and 43% of the total aid effort. United Nations agencies, above all the UNDP, are the main recipients (70%) of Danish multilateral aid. Bilateral aid is divided in to roughly equal proportions between grants (57%) and development loans on concessional terms.

The terms of development loans have recently been changed as a consequence of the 9th special session of the UNCTAD Board in March, 1978. Hence the grant element of loans to the LLDCs was raised from 86% to 90% and it was decided to take into consideration the LLDCs' individual debt relief requirements.

The flow of private capital to developing countries is encouraged in three ways: by export credit guarantees (the Danish Export Finance Corporation), by investment guarantees, and through direct participation via the non-profit making Industrialization Fund for Developing Countries (IFU). The flow of private capital from Denmark to developing countries varies considerably from year to year. Guaranteed export credits in 1977 amounted to USD 94.3 million while direct private investments in 1976 (latest figures available) amounted to USD 30 million.

Danish bilateral project assistance is concentrated on a limited number of countries. A major reason for this is that close administrative relations and knowledge of the other party's needs and capacity helps to improve the quality of the projects. India, Bangladesh, Tanzania and Kenya receive the bulk of Danish project assistance under a pluriannual planning procedure. Among other countries receiving substantial grants under this heading are Vietnam, Botswana, Malawi, Mozambique, Angola, Guinea-Bissau.

Denmark has allocated increasing amounts of funds to assist developing countries in the field of trade promotion. In 1977 approximately USD 500 000 was allocated for this purpose. The bulk of this assistance has been channelled through the International Trade Centre (ITC). A new departure in this area was the opening in 1977 of an import promotion office opened by the Danish Chamber of Commerce. This office which is financed by the Danish government works in close cooperation with the ITC and with the Community, but also assists developing countries on a bilateral basis.

#### FEDERAL REPUBLIC OF GERMANY

There were no fundamental changes in the development policy of the Federal Republic of Germany in 1977. For 1978, a 24% increase in the budget appropriation should lead to correspondingly higher disbursements. Where policy on aid terms is concerned, there has been an appreciable improvement in terms for the LLDCs in 1978.

The decisions of the Special Conference of the UNCTAD Board on debt are being put into practice.

In 1977 the net official transfers of the Federal Republic of Germany totalled DM 3 218 million. This corresponds to 0.27% of GNP and is thus lower than the corresponding figure for the previous year (0.31%). Any comparison with the previous year's figures has to be qualified, however, as a new method of accounting has been partially introduced. One of the reasons for the low level of public transfers is the payment procedures



agreed on with the International Development Association (IDA), and the Asian and Inter-American Development Banks, whereby these institutions are provided with promissory notes which show up in the figures as a payment only when they are drawn on. In 1977 the IDA drew no funds for payment, whereas in 1975 the German contributions to this organization amounted to DM 423 million. Multilateral cooperation accounted for 25.7% of net official payments. In bilateral ODA grants occupied first position with DM 1 400 million, while loans at DM 1 000 million were down on the previous year. These loans are mainly untied.

Terms depend on relative need. From this year on, it is intended to provide funds for the LLDCs only in grant form. In this way a further increase in the allocation of funds to the LLDCs is being supplemented by an appreciable improvement in the terms for those countries.

Loan terms have remained the same: MSA countries continue to receive financial cooperation funds in the form of loans with an interest rate of 0.75%, a 50-year loan period and a 10-year grace period; the terms for other groups of countries are 2% interest, 30-year loan period with a 10-year grace period, with the exception of the countries that are relatively advanced economically for which the terms are 4.5% interest, 20-year loan period with a 5-year grace period.

There have been no major changes in the sectoral and geographical distribution of resources. Main beneficiary sectors are public utilities, industry, mining, construction, and development banks. In technical cooperation the greatest importance was again attached to agriculture and forestries, fisheries and the fields of education, training and science. In 1977, 46.1% of financial cooperation funds went to Asia, 39,9% to Africa, followed by Latin America and Europe with some 7% each. In 1976 Africa accounted for almost 50% of these funds. In 1977 the contribution from industry amounted to DM 9 500 million - some DM 200 million higher than the previous year. These funds together with official payments account for 1.12% of GNP. In the case of bilateral payments - amounting to DM 7 400 million - the first place is occupied by investments and private bilateral capital movements - DM 6 900 million - while guaranteed export credits amounted to only DM 401 million (DM 2 100 million in 1976). Investments and private bilateral capital movements broke down into direct investments DM 1 900 million, portfolio investments DM 1 200 million, credit from firms and land purchases DM 130 million, credits from domestic banks DM 3 700 million. Thus the private economy continued in 1977 to make a considerable contribution to the transfer of resources to the third world. The transfer of private resources to developing countries is supported by the Federal Government through a wide range of instruments to promote private investment and exports.

The Federal Government will make further efforts to keep the German market open to goods from developing countries.

## FRANCE

In the field of development cooperation the conclusion of the work of Conference on International Economic Cooperation was the major element of 1977. At this Convergence undertakings were made concerning official development assistance. In the view of the French Government priority must now be given to implementing these undertakings. The 'basic needs' approach certainly needs consideration as does the task of attaining a global conception of development cooperation. The first preoccupation must, however, be with official development assistance, a substantial increase of which would contribute decisively towards resolving the persistent balance of payments difficulties of the poor countries.

French official development assistance in 1977 is estimated at FF 11 600 million. The increase over the previous year is 13%. As a proportion of GNP it is equivalent to 0.62%. This proportion could be somewhat over 0.63% in 1978.

Multilateral aid amounted to FF 1 700 million in 1977, or 0.09% of GNP. It should grow by more than 20% in 1978.

The terms under which French aid is granted respond very largely to the DAC recommendations. The overall grant element surpassed, as in previous years, the 90% mark.

The share of grants is slightly over 85% of the total and ODA loans contain an average grant element of over 45%.

Technical assistance accounts for nearly 50% of French aid. It is considered as a priority need by the French-speaking States which directly receive more than one third of French aid. It is estimated that about 15% of the total, somewhat less than 0.10% of GNP, of French aid, whether disbursed directly or through multilateral channels, goes to the agricultural sector in the broadest sense.

The French Government attaches particular interest, in the geographical distribution of aid, to the least developed countries. The 29 countries - and notably those of the Sahel - receive bilateral net flows in excess of FF 1 000 million, or 0.06% of GNP.

In the field of industrial cooperation France pays particular attention to the problems of transfer of technology and is an active participant in the current negotiations for an international code of conduct. The cooperation agreements concluded by France usually contain an important industrial element which is implemented by the Agency for Technical, Industrial and Economic Cooperation (ACTIM) which brings together public and private partners.

The French Government considers that real progress towards concluding international commodity agreements and for the

establishment of a Common Fund for commodities would bring a significant change to the factors which determine trade relations with developing countries.

A process of informing public opinion as to the real implications for the French economy of the emergence of competitive industrial capacities in the third world is underway. A study relating the this issue, carried out by the Commissariat General au Plan, was made public in the spring of 1978.

## IRELAND

Ireland's Official Development Assistance for 1977 amounted to IRL 6.273 million or 0.12% of GNP. Of this total, aid provisions arising from membership of the European Community accounted for IRL 2.45 million or 39%; other multinationally channelled aid amounted to IRL 2.859 million or 46%; Ireland's bilateral aid programme represented IRL 964 000 or 15% of the total.

Ireland's ODA provision for 1978 is IRL 9 638 million while the total sum available, including unexpended commitments carried over from 1977, is IRL 10 564 million or 0.17% of GNP. This represents an increase of 68% over 1977 expenditure. Of the total allocation, IRL 3 018 million or 29% of total ODA is earmarked for bilateral aid, which illustrates the increasing proportion of available resources being devoted to the involving comprehensive bilateral aid programme first established in 1974.

The primary aim of the bilateral programme is to assist the poorest developing countries and the poorest populations in them largely by means of technical assistance and training accompanied where necessary, by capital grants to cover the cost of equipment and other essential requirements. All assistance is in grant form while capital grants are untied. The emphasis on technical assistance in the programme arises largely from Ireland's own recent economic development and the belief that much of the skills and expertise employed in that development could be of particular relevance and value to certain developing countries. Four priority countries feature in the programme viz. Lesotho (41%), Tanzania (12%), Sudan (9%) and Zambia (7%), though small amounts of assistance are also channelled to other countries in Africa, Asia and Latin America. Drawing for its implementation on all areas of Irish life, the programme concentrates on projects in industrial development, agriculture and rural development and the education and training sectors. In 1977 approximately 21% of projects aid was devoted to industrial development, 18% to agriculture and food production, 18% to education, 17% to infrastructure, 10% to health, 4% to training in management and 2% to tourism. The remaining 10% was channelled through NGO's and financed projects mainly in the field of rural health and agriculture.

## ITALY

No basic changes occurred in Italian development cooperation policy and practice in 1977 although operations during the year were marked by exceptional difficulties in the execution of bilateral official development aid. Over and beyond short-term difficulties preparations are in hand to put Italian aid programming onto a more systematic basis through the creation of a single structure for the management of all aspects of public development assistance. A draft bill to this effect is currently before parliament.

Total public and private flows from Italy to developing countries reached an estimated USD 1 989 million in 1977, an increase of 26% over 1976 (USD 1 477 million) and representing 0.9% of GNP. This marks a considerable recovery after the overall decline registered in 1976 over 1975 of 10% thereby permitting the proportion of GNP in real terms to be increased.

The bulk of total flows continues to be accounted for by private transfers, including those of para-statal bodies and enterprises, which amounted to USD 1 483 million.

Official development assistance registered an overall decline to USD 186 million in 1977 or 25% down on 1976 performance. Of this total, multilaterally channelled development assistance, which has always represented the larger part of Italy's public flows to developing countries, registered a 3% increase in net payments to reach USD 151 million.

The overall decline has therefore been due to a marked drop in bilateral ODA totalling only USD 35 million in 1977 compared to USD 79 million in 1976 in terms of net payments. However, total engagements for 1976 of USD 1 355 million (of which ODA totalled USD 215 million - USD 64 million bilateral and USD 151 million multilateral - grew to USD 1 690 million in 1977 of which ODA was USD 305 million (USD 78 million bilateral and USD 227 million multilateral).

Italy's particular domestic economic problems, in the context of those generally faced by the industrialized countries, resulting in serious unemployment and inflation, have had a major negative impact on Italy's capacity to oncrease further its development aid, all the more so as the necessary restrictions on public expenditure, in the context of internationally assisted action to cut the payments deficit, have exerted further pressure towards a reduction of the government's budget.

## LUXEMBOURG

Three elements are of note in the development cooperation contribution of the Grand Duchy in 1977 compared to 1976. Firstly, a marked increase in bilateral aid expenditure from LFR 46.7

million to LFR 62.1 million (and a budgetary provision of LFR 74.5 million in 1978). Secondly, from 1977 there is a new budgetary item covering technical assistance for LDCs. Thirdly, expanded possibilities of traineeships for trainees from developing countries notably in the public health and local government fields.

Bilateral aid is concentrated on two sectors: specific projects to improve public health facilities, and subsidies to private organizations active in a wide variety of fields (e.g. the Rural Family Movement, Follereau, Pire Foundations, SOS Interfonds). Main beneficiary countries have been Rwanda, Senegal, Togo, Tunisia and Zaire with actions planned for Burundi and the Congo in 1978.

Multilateral aid contributions continue, however, to account for the bulk of Luxemburg's aid allocations (over 60% of the LFR 166 million total voted for 1977 and of the LFR 212 million voted for 1978). About one tenth of this multilaterally disbursed aid accrues to the European Development Fund with the remainder being distributed via the UNDP, UNICEF, and food aid operations for the most part.

#### NETHERLANDS

While not excluding minor changes in emphasis and presentation, the new Netherlands government will adhere to the basis elements of its predecessor's development cooperation policy, namely, strengthening of LDCs' economic independence so that they can develop in their own way and by their own strength; and the improvement, as far and as much as possible, of the situation of the poorest people in the LDCs. Few new developments and orientations in aid efforts and policies have taken place in the year under review, although four initiatives taken in 1977 deserve mention. Firstly, the creation of an Operations Review Unit to maximize the quality of Dutch bilateral ODA with on the on-the-spot field investigations enabling recommendations to be made for formulation and execution of policy. Secondly, the appointment of a coordinator for matters relating to international women's affairs. Thirdly, a series of initiatives contributing to preparation of a new UN Development Strategy for the 1980s with emphasis on participation of groups and individuals outside the UN system. Fourthly, the adoption of a new law governing the operations of the Finance Corporation for Developing Countries (FCO) in which the government becomes the majority shareholder, projects financed need no longer to be of substantial interest to Dutch industry, wider project scope is made possible (notably for technical assistance), and more tailoring of loans enabled.

Total flows from the Netherlands to LDCs in 1977 totalled an estimated USD 2 061 million equivalent to 1.95% of GNP or practically the same as in 1976 (1.96%). Official development

assistance amounted to USD 899.6 million or 0.85% of GNP compared with USD 720 million and 0.82% in 1976. Of this total bilateral ODA at USD 644 million or 72% represented a marginally higher share than in 1976 (70%). ODA forecasts for 1978 have been set at HFL 2 450 million or 0.87% of GNP. The overall grant element in 1977 was 91.2% (in 1976, 87%) of commitments.

Of 1977 commitments nearly 2/3 of the total is destined for countries in Asia and nearly a third for Africa in terms of the 17 'concentration' countries which receive the bulk of Netherlands aid with over 80% of the total destined for LLDC and MSA countries. Sectorally agriculture remains the major beneficiary of bilateral ODA commitments in 1977 allocable by sector with about a quarter of the total while development of public utilities at about the same proportion has increased significantly in importance in recent years.

During 1977 the Centre for the Promotion of Imports from developing countries has pursued its various activities of marked opportunity information, intermediary activity between suppliers and potential buyers, and other related activities designed to increase imports from developing countries.

#### UNITED KINGDOM

United Kingdom aid strategy remains as described in 1975 White Paper 'More Help for the Poorest' putting increased emphasis in the aid programme in favour of the poorest people in the poorest countries. There are dangers in too narrow an approach in helping the poor and, partly in recognition of this, the definition of rural development for aid programme purposes was reviewed in 1977. This review produced a revised definition which re-affirms the critical link between rural development and economic growth and the primary goal of benefitting the poor, while noting that rural development may include large projects as well as small, social as well as economic, and may encompass inputs at two or three removes from poor beneficiaries as well as benefitting them immediately and directly. Further studies initiated in 1977 sought to explore ways to relieve urban poverty and to take better account of the needs and role of women in development.

The UK bilateral aid programme is planned to grow at an annual average rate of 6% in real terms beyond 1978 to 1979 and as such is presently one of the fastest growing public sector programmes in the UK. Net ODA in 1977 totalled USD 937 million compared with USD 835 million in 1976, the percentage of GNP remaining stable at 0.38% for both years. The planned level for the next financial year is around USD 1 250 million net. The UK has generally in recent years maintained its performance in the light of the 0.7% target for official development assistance which it has accepted in principle but without commitment as to the date by which it may be reached; this is governed by the pace of its economic recovery and by other calls on UK resources.

The weighted average grant element of ODA loan commitments in 1977 was 67.08%. Commitments to the poorest countries were normally on grant terms.

Disbursements through multilateral aid channels were 35% of gross UK ODA in 1977, an increase over previous years due to a number of special factors rather than to a policy change. About one half of gross multilateral ODA in 1977 went to the World Bank Group. The UK intends to contribute USD 115 million towards the USD 385 million European Community contribution to the Special Action Programme agreed at the CIEC. The decision at the UNCTAD TDB to seek to adopt retrospective terms adjustment is regarded by the UK as an aid policy measure.

The UK is the world's second largest overseas investor and about 20% of its overseas assets are located in developing countries. The UK offers a number of measures to encourage private investment in developing countries, including investment promotion and protection agreements, a pre-investment study scheme, investment insurance, double taxation agreements, and export credits. In this context features the Commonwealth Development Corporation (CDC) which in 1977 made commitments and investments totalling USD 585 million. Encouraging progress has been made in directing the greater part of the CDC's new commitments towards poorer countries and the field of renewable natural resources.

In the trade promotion and industrial cooperation field features the Developing Countries Import Opportunity Office offering practical help to LDC exporters to Britain. This is funded from the aid programme as are a number of projects aimed at assisting the production of goods for export from LDCs. UK support for suitable industrial projects and concern to foster the creation of new employment opportunities in developing countries has led to the support of small-and-medium-scale industries, using appropriate technologies, of usually less capital intensive nature.

Requests for assistance are considered on a case-by-case basis. Industrial cooperation projects, it is felt, are best pursued on an industry-to-industry basis. The UK is signatory to a small number of bilateral government agreements with developing countries which establish machinery designed to encourage the participation of industry (both publicly and privately owned) in industrial cooperation ventures and to review the progress of such cooperation. Under technical cooperation agreements 953 students and trainees in 1977 were studying engineering and mining, while around 750 attachments were arranged to provide practical industrial experience for trainees from developing countries coming to Britain.

European Communities – Commission

**Annual report on the development cooperation policies of the Community and its Member States – 1977-1978**

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The 'Annual report on the development cooperation policies of the Community and its Member States, 1977-1978', is the first in the regular annual series prescribed in the November 1976 Council Resolution on the harmonization and coordination of aid policies.

A brief introduction highlights some of the major concerns of the latter part of the nineteen seventies in relations between developed and developing countries in general, the dangers of protectionism, the problems of increasing resource transfers.

Part I of the report examines the scope of Community policy and action in the North-South Dialogue, in contractual relations with ACP southern Mediterranean partners, and in working relations with other developing countries.

Part II turns to instruments of Community development cooperation, in particular the principal instruments that regulate and promote trade with the developing countries, and the development of the instruments of resource transfer compared with other donor countries. Finally the report contains succinct presentations of the Member States' bilateral development cooperation work.