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overseas Aid  
Foreign and Commonwealth Office

London SW1A 2AH

3 July 1981

*Dear Mike,*

Reply to Lords European Communities Committee Report on  
Development Aid Policy

I am writing to seek agreement to publication of the Government's reply to the Report on Development Aid Policy by the Lords' European Communities Committee (HL 146).

I enclose a note setting out:-

- / (a) the purpose of the enquiry; and  
/ (b) the Report's recommendations with  
the draft text of the proposed reply.

The Report, published in April, generally endorsed the Government's policy on the various aspects of Community development aid. The proposed reply takes the form of a commentary on each recommendation. It welcomes the majority of them.

There was a lengthy debate on the Report in the House of Lords on 3 June. However, the Report was largely uncontroversial and it is not expected that the proposed reply will be otherwise. The draft reply has been cleared at official level with the Treasury, the Department of Trade and the Ministry of Agriculture, Fisheries and Food. It is proposed to publish the reply as a Command Paper before the end of the present session of Parliament.

I am sending copies of this letter and enclosures to the Press Secretary, 10 Downing Street, and to the Private Secretaries of the Leader of the House of Commons, the Paymaster General, the Government Chief Whips in the Houses of Commons and of Lords, the Chancellor of the Exchequer, the Secretary of State for Trade, the Minister of Agriculture, Fisheries and Food, the Secretary of the Cabinet and the Lord President of the Council.

Subject to any comments by the recipients, I should be grateful for your agreement to publication as proposed, by 8 July if possible.

*yours ever*  
*Rodrick Lyne*

(R M J Lyne)  
Private Secretary

Mike Pattison Esq  
10 Downing Street



NOTE ON THE 21ST REPORT OF THE LORDS' SELECT COMMITTEE ON THE EUROPEAN COMMUNITIES, SESSION 1980-81

DEVELOPMENT AID POLICY

The Purpose of the Enquiry

According to paragraphs 2 and 3 of the Report:

"The European Community has its own development aid policy. Details of the policy are not widely known in the United Kingdom. The Community's programmes are agreed and implemented by the EEC itself and exist alongside the often much larger bilateral efforts of the Member States. The purpose of this report is to examine critically the EEC's role in development assistance. Should the Community, as distinct from Member States, give aid at all? Is the Community's aid policy well administered? Does it match the resources of the EEC and the status claimed for the Community in world affairs? And how does it affect the recipient countries and the interests of the Member States themselves, including the United Kingdom?"

"The report describes in outline the main features of the Community's aid policy. It then discusses the Community's existing programmes in the light of the evidence received by the Committee, and makes recommendations for their modification and improvement. Finally, the report briefly discusses wider issues of development assistance, especially the Community's role in North-South relations and its response to the Brandt Report."

The Recommendations of the Report and Proposed Reply

The Recommendations are summarised on pages xliv to xlvi of the Report. They are set out, together with the text of the Government's proposed reply, at Annex I to this Note.


TWENTY FIRST REPORT FROM THE HOUSE OF LORDS SELECT COMMITTEE ON  
THE EUROPEAN COMMUNITIES, SESSION 1980-81

DEVELOPMENT AID POLICY

The Government warmly welcomes the Report, which was discussed by the House of Lords on 3 June (Official Report Vol 420, no 89), and has the following comments on the main recommendations summarized on pages xliv to xlvi:

(i) The overall shape of the Community's aid programme should be substantially modified over time. Its regionally selective nature, moulded by past historical circumstances, should be converted into a worldwide programme responding to the development needs of the Third World in the 1980s and matching the Community's status in the world. The United Kingdom Government should press for such changes more assertively than in the past.

The Government reaffirms the UK's continuing objective to encourage the emergence of a global Community aid and development policy. The acceptance in 1975 of the first Lome Convention by all those Commonwealth countries eligible under Protocol 22 to the Treaty of Accession, and the subsequent extension of these arrangements to other similar countries, was a considerable achievement. But the Lome pattern is not the only one for the Community. The UK has consistently supported the development of relations between the Community and other countries (for instance through the EC/ASEAN agreement) and the establishment of a substantial programme of aid to other poorer countries together with the improvement of food aid distribution and administration. But the attainment of a development aid programme with better geographical balance is bound to be a matter of compromise and negotiation, a process of evolution rather than revolution; and the extent to which the Government can press for it must depend a good deal on its own policies about the size and use of the whole British aid programme.



(ii) In comparison with other Community policies, the present proportion of aid channelled through the EEC is reasonable. Nevertheless, the need for more development aid, efficiently applied, is manifest. As more resources are made available, the first priority should be to restore or increase Member States' bilateral programmes and their contributions to other multilateral agencies.


The Government agrees that the first priority for any resources becoming available for allocation under the aid programme must be bilateral aid.

(iii) The present practice of imputing all EC aid expenditure to the Overseas Development Administration's vote is not justified; greater flexibility should be permitted, especially in connection with food aid.

The Government does not agree with this recommendation. Attribution of the UK share of Community aid expenditure to the Aid Programme enables closer control to be exercised over the total amount of UK resources devoted to aid. The Government recognises that attribution can give rise to certain practical problems in managing the Aid Programme, for example when the Commission proposes to transfer unspent funds from other parts of the Community budget to one of its aid programmes; but possible solutions to these problems are being examined. There is no justification for treating expenditure on EC food aid differently from other forms of Community aid. On the valuation of dairy products for food aid, see Recommendation xi.

(iv) EDF aid to the ACP countries will be unchanged until 1985, when the present Lome Convention expires. Its record would justify its continuation. If more resources became available for Community aid, the Committee would expect some increase in the size of the EDF. But there are no strong grounds for increasing aid to this relatively favoured group of recipients if increments would be at the expense of EEC aid programmes in Asia and Latin America, or at the expense of Member States' bilateral aid or their contributions to other multilateral aid agencies such as the World Bank's IDA.

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The Government agrees that arrangements similar to those under the Lome Convention, which covers a much wider range of policies than aid alone, can be expected to continue after 1985; the ACP group contains many of the poorest developing countries and over half the group are members of the Commonwealth. The total size of any further EDF will then be the subject of negotiation with the ACP countries, and at that stage the Government will have to look very carefully at any proposals in the light of constraints upon public spending and the aid programme in particular. In practice any increase in such aid cannot but be at the expense of other bilateral or multilateral (including EC) aid.

(v) Initial allocations of aid to individual ACP countries appear to be made with some flexibility and inconsistency. Although EDF disbursements do not appear to be generally slower than those of other multilateral aid agencies, delays in disbursements erode the value of aid pledged to ACP countries under the Lome Conventions. To improve the rate of disbursement, greater responsibility should be given to EEC Delegates in recipient countries to approve projects, after shorter consultation with Brussels.

The allocation of EDF funds to individual ACP countries is entirely a matter for the Commission, whose calculations reflect the Community's political commitments and developmental criteria.

In negotiating the present Lome Convention considerable efforts were made to streamline procedures. These will be continuing through a new Committee of the joint ACP-EC Council of Ministers. The idea of devolving spending authority to Commission Delegates is superficially attractive but would entail disadvantages. Large sums of money are involved and the Government has a responsibility to Parliament and taxpayers to ensure effective scrutiny of project proposals. Present procedures provide the necessary safeguards for Member States. Delays in disbursements, as the Committee recognises, reflect not so much factors peculiar to the Community's aid administration as problems inherent in getting aid projects (particularly those relating to rural development) onto the ground.



(vi) The relatively poor performance of the United Kingdom in obtaining contracts under the EDF can only be rectified by firms themselves. However, they deserve the full and enthusiastic support of Government in their efforts, and recent improvements in the Government's services to firms, along with those of the clearing banks, should be maintained.

The Government accepts this recommendation. Improving the British share of EDF contracts is one of the Government's priorities. In the end it is up to firms to decide whether or not to bid for EDF contracts basing their decisions on their own commercial judgement. But the Government has a role to play in increasing their awareness of the opportunities available.

The World Aid Section of the Projects and Export Policy Division of the Departments of Trade and Industry provides guidance and advice on how to pursue opportunities under the EDF, disseminates information to subscribers through the Export Intelligence Service, and makes project dossiers available for inspection. Leaflets about the EDF are made available to visitors or enquirers.

A joint industry/Government Working Group was set up in January 1981 to examine the difficulties which firms face and to reach conclusions about improving their performance. The Working Group report outlines a number of initiatives which have been or are being taken by the Government, by industry and by the European Commission, mainly in the flow of information, system of payments and additional publicity.

(vii) The proportion of British nationals in key positions in Directorate-General VIII (Development) of the Commission is inadequate; the Government should seek to rectify it.

The Government shares the Committee's concern about the inadequate number of British personnel in senior positions in DGVIII; and has raised this problem at a high level with the Commission. The latter fully accepts the need to improve the distribution of posts in Brussels, although it may take time to achieve it. The UK now has, generally speaking, a reasonable share of posts in the Commission Delegations overseas.

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(viii) The Mediterranean developing countries do not rank among the poorer developing countries. When the Maghreb and Mashreq financial protocols are renewed later this year, Community aid will have to be maintained, but it should not be increased. More emphasis should be placed on using loan finance, including European Investment Bank loans, to assist development in the Mediterranean developing countries.


*IS this not how agreed in EC?*

The Government agrees with this recommendation. The countries of the Southern Mediterranean are relatively well-off, with the obvious exception of Egypt and Morocco. There are strong political arguments for continuing aid to this region, but the Government agrees that an increase in real terms would be very difficult to justify. In Community discussions the UK has been among those who have consistently argued for a shift away from soft aid towards a greater concentration on EIB lending, and for such soft aid as there is to go chiefly to the poorer countries.

(ix) The Community's food aid programme suffers from inefficiencies in planning, administration and delivery. The suitability for developing countries of some of the programmes (notably dairy foods) is questionable. A management regulation is necessary to encourage multi-annual planning and less haphazard execution and delivery. The United Kingdom Government should press the Council of Ministers to adopt the Commission's draft management regulation.

The Government agrees that there are defects in the administration of EC food aid and has consistently pressed for adoption of the proposed Management Regulation. This will provide for greater control over administration by the Commission and enhance the developmental impact of EC food aid.

The Council of Ministers (Development) has already decided that multi-year food aid commitments should be possible in certain circumstances, and that allocations of EC food aid should be more closely associated where possible with other development aid, both from the Community and from Member States.



The Government recognises the limited value of aid in the form of dairy products, although this has been particularly useful in supporting "Operation Dairy Flood" in India. More generally, since expert views differ the World Food Programme are about to carry out an in-depth evaluation of projects for feeding vulnerable groups. Its outcome should provide valuable evidence on different forms of food aid in various situations.

(x) In the interest of administrative efficiency, the Community should concentrate its food aid on fewer countries, increase its collaboration with other aid agencies, and increase the number of staff in Directorate-General VIII of the Commission devoted to the food aid programme.

The Government broadly accepts these recommendations. The Commission has traditionally allocated food aid very widely and has responded positively to as many food aid requests as seem to meet the Community's agreed criteria. The UK has sought to exclude very small allocations and allocations to the better off developing countries. Since views among the ten Member States vary, and there is (naturally) some expectation among past recipients that they will continue to obtain allocations, a reduction in the number of recipients may not be easily agreed.

EC food aid has always involved collaboration with international agencies. This should be stepped up in future especially in providing food aid to the smaller needy countries. But increased collaboration on projects is more difficult since the World Food Programme, <sup>which</sup> already a substantial recipient of EC food aid, is the only obvious candidate, and the Commission's own staff are stretched. The EC is working with other agencies eg UNHCR, Red Cross and some non-governmental organisations.

The Commission is aware of staffing constraints. The Government has encouraged strengthening the Food Aid Division by transfer of staff from elsewhere in the Commission.

(xi) The size of the food aid programme in dairy products should be reduced. Budgetary savings should be transferred into programmes of financial aid, particularly for non-associated countries. Dairy food aid should no longer be valued at world market prices or imputed to the British aid budget at this price.



The House of Commons Committee on Agriculture concluded last year that there were serious limitations on dairy food aid and that local dairy industries should be encouraged but that there was some scope for an increase. Since present levels were set in 1976, largely to accommodate "Operation Dairy Flood", the UK has consistently opposed any further increases in EC dairy food aid, mainly on cost-effective grounds but also because of increasing doubts about the nutritional value of such aid. It would be difficult to secure a volume reduction since this would need to be fairly widely supported among Member States, but the Government is willing to explore this provided it does not jeopardise past commitments.


There are no procedural obstacles to transferring savings on dairy food aid to other parts of the budget, such as non-associates aid. But the Government would have to consider such a transfer against its policy of placing more emphasis on bilateral aid.

The Government agrees that the valuation of the EC dairy food aid at world prices does not reflect the economic value of such aid. But the financial cost of such aid to the Community Budget is the Community price, which is normally higher than the world price. This cost is divided between Chapter 6 (agricultural support) and Chapter 9 (development aid) with the latter carrying only the world market price, in accordance with agreed international conventions. The workings of the CAP make it difficult to devise any other system for obtaining food aid from surplus stocks. The question of true cost and value is currently under study by the Commission with the help of outside consultants. In the light of their conclusions, Member States would have to consider whether any changes should be made to the present arrangements.

(xii) Contracts for transporting food aid should cease to be tied to contracts for supplying the food.

The Government agrees with this recommendation. The EC Commission is bound by regulation to supply that part of its food aid which is sent to ports of unloading under single contracts, but would prefer contracts for transport to be a separate issue from procurement of commodities. A formal proposal to change the food aid shipment regulation is expected

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after approval of the food aid Management Regulation. One idea is to explore the possibility of appointing a single agent to handle all EC food aid shipment past the procurement stage. Every effort will be made to secure equal opportunities for UK shippers. There can however be administrative advantages in retaining single freight inclusive contracts for deliveries to land-locked countries.

(xiii) Financial aid to non-associated developing countries in Asia and Latin America should be expanded. Savings on reduced dairy food aid should be transferred to the non-associates programme. The administration of the programme should be improved by strengthening the staff devoted to it in the Commission and by greater collaboration with Member States' posts and aid divisions in non-associated countries.

More progress has been made in the non-associates programme than the Report suggests. Including 1981, 533.5 mecu (£330m) have been committed. The programme concentrates on slow-spending kinds of rural aid, but disbursements in 1980 picked up significantly to nearly 40 mecu (£25m) - more than in 1976 to 1979 put together. The Government will wish to see that it remains substantial, but a quicker expansion of the non-associates programme by transferring any savings from dairy food aid, although procedurally possible, would be inconsistent with the Government's aim of placing more emphasis on bilateral aid.

The Government will continue to urge that more Commission staff should be moved to this work now that there is a Management Regulation to set the programme on a permanent footing. The Council agreed in 1976 that Community and bilateral aid should be coordinated and the Government will do what it can, so far as British aid is concerned, whenever this is possible. But most project preparation must fall to the Commission and the recipient country.

(xiv) Co-financing with other donors should continue; to increase the rate of disbursement, the Community should relax its procedures for appraising and approving individual projects itself.




*Management*

The ~~framework~~ Regulation requires co-financing for a substantial part of the programme, but it has to operate within guidelines agreed by the Council of Ministers, and in accordance with the legal requirements of EC financial regulations. Potential co-financing partners often have other priorities and rules. The Government will encourage a good working relationship between the Commission and co-financing partners so that the Commission can rely to the extent practicable upon project appraisal by the latter, without in effect simply providing an addition to their funds over which the Community exercises no controls.

(xv) Non-associated countries should be enabled to use EEC aid to raise and service loans from other sources for development projects, thus increasing the total amount of resources available to them. The Community should establish the necessary machinery to put together agreed financial packages in conjunction with the recipient country and the potential lender. Contracts for projects financed with such loans should be open to international competitive bidding. If this new scheme for increasing the value of Community aid was successful in non-associated countries, it could be extended to a larger part of the Community's aid programme.

The Government has noted the ideas in paragraphs 121-126 of the Report. Its assessment is that, in the absence of new EC money, the sacrificing of annual grants to finance once for all loans would increase the recipients' indebtedness while at the same time removing a source of servicing it. This in turn would make the country less attractive to potential commercial creditors. There could also be the serious administrative and negotiating difficulties in operating the scheme which are common to many co-financing arrangements.

(xvi) NGOs operating small-scale development projects achieve a valuable form of development assistance among the poorest sections of the population in Third World countries. They should be able to plan their co-financing operations with the Community over a longer period; commitment appropriations in the EEC budget should therefore be allocated to individual NGOs with suitable programmes, who should then be able to draw payment appropriations over an agreed number of years. Suitable indigenous NGOs in developing countries should be given access to Community funds for co-financing.




The Government shares the Committee's appreciation of NGOs' work among the poorest. In principle commitment appropriations could already be allocated to an NGO for disbursement over several years on agreed projects; but there may be practical difficulties stemming from present Council guidelines for the programme. The Government will take up the problem of financial uncertainty when discussing new draft conditions this autumn. But to fund the NGOs of recipient countries directly would be likely to pose problems<sup>of</sup> financial and political accountability which would place disproportionate demands on the small section of the Commission which administers the scheme.

(xvii) The Community should increase efforts within its existing aid programmes to work with OPEC countries to recycle surpluses to developing countries through co-financing and by attracting extra loan finance for developing countries.

The Government supports continuing efforts by the Community to welcome OPEC countries and development institutions as co-financing partners for projects in ACP, Mediterranean and non-associated developing countries. Between 1976 and 1979 OPEC funds contributed 19 per cent, over £350m, to the cost of projects co-financed under the last Lome Convention, whose total value<sup>was</sup> nearly £200m; the EC contribution to these projects was 32 per cent and 12 per cent came from the World Bank. OPEC funds also provided over £100m over the same period to projects co-financed with the European Investment Bank. The Government fully expects such cooperation to continue and expand under the second Lome Convention. The Community is continuing discussions with the OPEC countries and related institutions on the possibilities for cooperation, but inevitably differing priorities set a limit on its extent.

(xviii) The positions of Member States in international gatherings on development issues during 1981, and in the UN Global Negotiations, must be coordinated. Member States should act together to accelerate acceptance of a more urgent approach to the problem of global development and the expansion of world trade.



The Government will seek to coordinate the positions of Member States, so far as practicable, as the Committee recommend. Like all EC member governments, the Government is conscious of the need to accelerate the pace of global economic recovery, and to take account of the special problems affecting the poorer developing countries. We are consulting closely with our Community partners as ~~the~~<sup>the</sup> best means of achieving these objectives. The Community's North/South High-level Group meets regularly to review this range of subjects. In the first five months of 1981 Baron von Wechmar, the German President of the General Assembly, has, with the support of the UK and other Member States of the Community, held extensive consultations in an effort to agree acceptable procedures to launch the Global Negotiations. But the US Administration has said that its review of North/South policy will not be completed until after the Ottawa and Mexico Summits. In view of the vital role of the United States in the Global Negotiations, there would be little value in continuing preliminary consultations without them. We hope that the Mexico Summit will have a constructive influence on perceptions of major international economic issues. We will participate actively, and, as President of the Community during the second half of 1981, will be willing to take account of any views expressed by Community partners who will not be present.

(xix) If no significant progress is made in international meetings and negotiations in which Member States are involved during 1981, the Community itself should take an initiative to negotiate agreements which would stimulate the large-scale recycling of OPEC surpluses to the poorer developing countries.

The principal capital markets can be expected to continue to play a major role in recycling the oil surpluses, but for the poorest countries there will still be a need for significant official aid flows. EC Member States, including the UK, have actively encouraged OPEC involvement. The Government has supported an enlarged role for the IMF and has agreed that its funds will need to be augmented correspondingly. Arrangements are being made for Saudi Arabia to make available up to an additional SDR 8 billion to the Fund over the next two years, and negotiations are continuing with certain other OPEC countries. Virtually all the IMF's recent lending has been channelled towards developing countries. Discussion of these matters will continue in relevant international bodies.



23 JUL 1981

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28 July 1971

Thank you for your letter of 23 July,  
about the revised timing of the publication  
as a Command Paper of the Reply to Lords  
European Communities Committee Report on  
Development Aid Policy.

We have no objection to what is proposed.

MAP

Miss N. Andrew,  
Overseas Development Administration.

*GE*



MAP

OVERSEAS DEVELOPMENT ADMINISTRATION  
ELAND HOUSE  
STAG PLACE LONDON SW1E 5DH

Telephone 01-213 5409

From the Minister

23 July 1981

*Dear Mike*

REPLY TO LORDS EUROPEAN COMMUNITIES COMMITTEE REPORT  
ON DEVELOPMENT AID POLICY

May I refer to Willie Rickett's letter of 10 July in which it was agreed that the above reply could be published as a Command Paper before the present session of Parliament. This, I'm afraid, has not proved possible and publication date will now be Thursday 6 August. I should be grateful if you could let me know if this is acceptable to you.

I am copying this letter to the Press Secretary, 10 Downing Street, and to the Private Secretaries of the Leader of the House of Commons, the Lord Privy Seal, the Paymaster General, the Government Chief Whips in the House of Commons and of Lords, the Chancellor of the Exchequer, the Secretary of State for Trade, the Minister of Agriculture, Fisheries and Food, the Secretary of the Cabinet and the Lord President of the Council.

*Yours sincerely*

*Nan Andrew*

(Miss N Andrew)  
Parliamentary Clerk

M Pattison Esq  
10 Downing Street





23 JUL 1981



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10 DOWNING STREET

From the Private Secretary

10 July 1981

Thank you for your letter of 3 July to Mike Pattison, about the reply to the Lords European Communities Committee Report on Development Aid Policy.

I confirm that we have no objections to the publication arrangements you propose.

I am sending copies of this letter to David Heyhoe (Chancellor of the Duchy of Lancaster's Office), Murdo Maclean (Chief Whip's Office) and Michael Pownall (Chief Whip's Office, Lords).

**W. F. S. RICKETT**

Roderic Lyne, Esq.,  
Foreign and Commonwealth Office.